

State of New York versus Ten Investment Banks

Abstract

Purpose – To test and compare how the value of ten major investment banking firms was affected by the announcement in April 2002 of an investigation by the New York State Attorney General's office and by the announcement of a settlement between the Attorney-General office and the indicted firms in December 2002.

Design/methodology/approach – Presents a hypothesis that the defendant firms would experience greater negative returns on the announcement day than on the settlement days, describes method of data collection and analysis, and draws conclusions from the results.

Findings – Announcement of the anti-fraud investigation was more value-depleting than announcement of the punitive settlement. The decline in the defendant banks' share prices over the following year was correlated with the amounts of their punitive settlements.

Originality/value – While primarily a corporate finance study comparing the effects of the announcement of the investigation and of the final settlement on the securities firms' share prices, also shows how the alleged infractions affected the firms' shareholders' values.

Keywords – Financial management, Corporate finances, Banks, and United States of America

Paper genre – clinical study