Discussion

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Macro-prudential toolkit

- “Lean against the wind” versus “Mop up”
- Regulation by form:
  - Focused (typically) on large banks
  - Countercyclical capital buffer requirement
- Regulation by function:
  - Focused on systemically important asset classes
  - Mortgage-specific (LTV, DTI) solvency requirement
- Considerations: arbitrage (within-institution / financial sector), target inefficiency (TBTF)

Basten, Briukhova, Pelli

- Globally first activation of Basel III CCyB by the Swiss National Bank in 2013
  - Applied sectorally to residential mortgage lending
- Examine the impact on real estate prices
- A nice departure from typical focus
  - Usually examine the impact on loan growth
- General equilibrium effects operate (also) through asset prices
  - Unclear asset prices are the primary objective

Most salient finding

- Real estate price effects are heterogeneous
  - Depend on the *size of treatment*
    - By canton (composition of mortgage suppliers)
    - By house type (single-home versus condominiums)
- Authors suggest that the CCyB requirements could be calibrated taking into account the presence of heterogeneous developments of of real estate prices across regions
    - Seems too complicated!
    - Are the effects entirely unintended or undesirable?

Arbitrage, Stability, Spillovers

- Arbitrage
  - Larry White's "waterfall theorem of risk transfer"
  - *Risk travels to that balance-sheet which has the lowest regulatory capital requirement for it!*
- Stability
  - Risk shifts from the concentrated to the diversified
  - Intended? Desirable?
- Spillovers
  - "Hot" asset markets cool down, others heat up
  - Intended? Desirable?

Suggestions

- Consider a theoretical setup in which there is intermediary, asset and regional heterogeneity
- Assume and identify in terms of model primitives the stated objective of CCyB
- Study and relate to findings the within-model impact on
  - Behavior of different intermediaries
  - Behavior of different asset classes
  - Behavior of differentially “treated” regions
  - Examine if objective met (arbitrage, stability, spillovers)
- <u>Examine *jointly* the model implications for quantities (mortgages, others) and prices (loan terms, housing prices)</u>
  - At present, mortgage lending outcomes receive little attention
  - Are lending effects understated in part due to price effects?

Favara, Ivanov and Rezende

- Focus on GSIB capital surcharges
- Exploit
  - Variation in capital surcharges
  - Supervisory stress-tests data on corporate loans (terms and firm balance-sheets) in the US
- Interesting results
  - Loan commitments to firms by "treated" lenders decrease
    - Extensive as well as intensive margin, economically significant
  - Risk assessments of firms by "treated" lenders is safer!
  - No real effect (borrowing, investment)!!
- Could suggest potential within-lender and within-sector arbitrage

Results

- Possible interpretations and further findings
  - Loan commitments by "treated" lenders decrease
    - Expected result
  - Risk assessments by "treated" lenders is safer
    - Relate to the ex-post performance of the firm
    - Is this arbitrage/manipulation or effect of lower leverage? (NY Fed paper, within-firm cross-bank effect)
    - Authors find risk assessments improve due to higher collateral, guarantees and longer loan maturity
  - There is a real effect: Borrowing / fixed assets increase!
    - Firms switch to "control" group of lenders – better matching?
    - No casualties at extensive margin?
    - Information-sensitive borrowers such as SME loans?
    - Riskier firms with coincident liquidity or solvency problems?

If the results are correct…

- Are the harmful effects of GSIB capital surcharges highly over-stated?
- Within-sector risk shuffling efficient?
- Depends…
  - What is the systemic footprint of control group of lenders? Shadow banks? We have been here!
  - What is the leverage over time of control group of lenders (given size is the classifying criterion)?
  - Is systemic risk additive OR breaking up risk across balance-sheets reduces systemic risk?

Overall

- Both papers raise interesting novel issues
- Bank capital surcharges and macro-prudential regulation impacts must be understood at an aggregate system-wide level
- Interpreting heterogeneous and within-sector risk transfer outcomes as desirable or unintended consequences is tricky!