Women in Finance Conference 2018

“Stressed Banks”

1:30 pm -2:15 pm

Presenter: Diane Pierret, Assistant Professor of Finance, HEC – University of Lausanne

Discussant: Vasso Ioannidou, Professor of Finance, Lancaster University

Stressed Banks

Dianne Pierret & Roberto Steri

Discussion
Vasso Ioannidou
Lancaster University & CEPR

The paper

- The paper studies the impact of the annual regulatory stress tests in the US (since 2011) on banks’ risk-taking incentives.
  - Lending to riskier borrowers
    - Syndicated loan market

- Challenge: stress tested banks face higher regulatory capital requirements and more supervisory scrutiny. Paper tries to distinguish btwn the two

- Key insights: Higher capital requirements (regulation) not a substitute for supervisory scrutiny (supervision). The *correction* in regulatory capital chargers originating from stress tests reduces risky lending.

Comments

- Relevant research question and potential to contribute.
  - Understanding the impact stress tests on banks' risk-taking and lending policies—over and above existing regulations and supervisory practices— is important.
    - Room to learn, given state of extant literature
- I learned a lot about stress tests. Papers stimulates a lot of additional thoughts and questions… so all these is good…
- Having said that, I do think the is scope of reduce both the length (86 pages) as well as the complexity of the paper. Sharpen message and driver of results.
- Two sets of comments: conceptual & analysis.

Comments

Supervision vs. Regulation

- I am confused by the distinction btwn supervision and regulation here.
- Why do you want to separate these two? Seems forced/artificial.
- Aren't the higher capital requirements of stressed banks due to the extra supervisory scrutiny during stress tests?
  - "The increase is a "surprise component" of the capital requirement since… the increase in the capital requirement from regulatory stress test is determined by the Federal Reserve using its own confidential model, and revealed at the disclosure of the stress tests results"
- Not a control but a key part of the story. Attempt to distinguish complicates analysis
- "Correction" of capital requirements most interesting part of the paper. Should come earlier and feature more prominently.

Comments

- Supervision through stress tests
  - How is this different from annual on-side examinations?
    - Disclosure! CAMELs and Formal Actions.
    - What else? Information production. Not convincing.
  - How to think of this “stress test supervision relative to existing regulations and supervision practices. Currently missing from the paper.

Comments

- Draws from syndicated loan market → selects on large loans/firms
    - Complementary to Cortes et al. (2018) on loans to small businesses.
        - Discuss/compare
- Analysis relies on within-facility variation: amount that each bank in the syndicate lends to the same firm in a given quarter.
    - Info missing for 75% of loans.
        - Selection. Provide descriptives relative to the entire sample.
        - Provide less saturated specs using entire sample
- Who are the treated and control "banks"? How do they compare?
    - Are treated banks mostly the lead arrangers and control banks syndicate participants? Who are the participants. You mention 48,113 unique lending companies. "Shadow banks"?
    - Treated: differentially affected by the financial crisis. More to convince on this.

Comments

- Table 1 is great. Shows very clear the impact stress test have in raising banks regulatory capital requirements.

- I do not understand key Tables 3 & 4. Is a function of the dependent variable an explanatory variable?

- Simpler specs.
  - Correction component
  - Qualitative supervisory failures