European Banking Authority

INTEREST RATE HIKES, COLLATERAL DETERIORATION AND SEARCH FOR YIELD: EVIDENCE FROM SHADOW BANKING

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The paper

- Thank you for presenting your paper, which introduces a research area still relatively uncharted for what concerns EU structured finance (ABCP constituting a fraction of securitisation instruments)
- The findings support robustly the collateral quality deterioration mechanism resulting from the ABCP's search-for-yield strategy
- The paper rightly points out the financial stability implications of instruments that are off-shore, off-balance sheet **and yet** deeply interlinked with the banking system

The role of the banking system: ABCP versus securitisation

- A comparison with securitisation instruments comes naturally. To this extend, I would like to point out the crucial role of the **sponsoring bank** in ABCP conduits, since it needs to act as liquidity guarantor to overcome possible shortfalls in cash flows that are intrinsic in the maturity mismatch and collateral rolling nature of the business model
- This results in an all but effective **risk transfer** from shadow banking to the traditional banking sector, which in my opinion is worth analysing more closely.

The role of the banking system: ABCP versus securitisation

- In view of this, I particularly appreciated the evidence from the analysis of **sponsors' borrowing** from the FED's TAF programme.
- I think that a shortcoming of the analysis is the fact that only **depository institutions** are under the lens. This results in a few subsample of the conduits being captured, which can also pose problems of selection bias in case the other sponsors' (baking most of conduits) have peculiar characteristics
- In econometric terms, this is a more general issue in that the main set of regressions does not seem to account for **sponsor-specific fixed effects** (the 'j' in the equation), which may not be well captured by conduits specific ones (I could think, for example, of banks' soundness, liquidity profile, business model and so on)

Conclusions

- I understand that the analysis on **contagion** is inevitably limited to depository institutions only
- Still, the introduction of sponsors'-specific fixed effect may highlight patterns that are currently endogenous in the econometric setting
- To conclude, it would also be interesting to expand the analysis to more recent times, to capture other unprecedented monetary policy operations, and ultimately assess the **evolution of the ABCP conduits sector** after the 'stigma' that followed the GFC

Thank you!

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