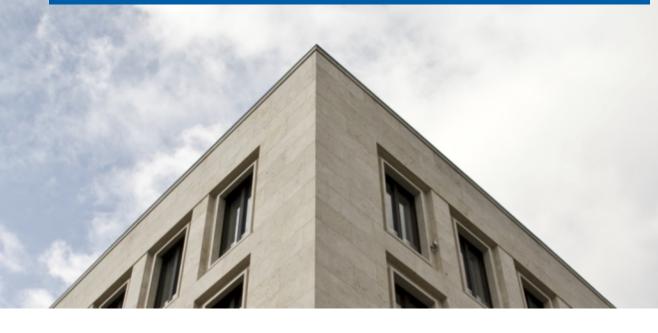
Discussion of "What are banks' actual capital targets?" (by C. Couaillier)

Florian Heider (SAFE)





Banks announce targets for regulatory capital ratio



Unique dataset

"Better" than estimating targets from observed ratios

Targets exist, are bank specific, pro-cyclical (signalling)

No distinction: TSCR (main) vs. CBR (buffer)

Fast adjustment if below target

Mostly through more equity (how?), some less risky lending

Covid 19: banks with high gap (below) lend less

Regulation alone does not drive bank capital



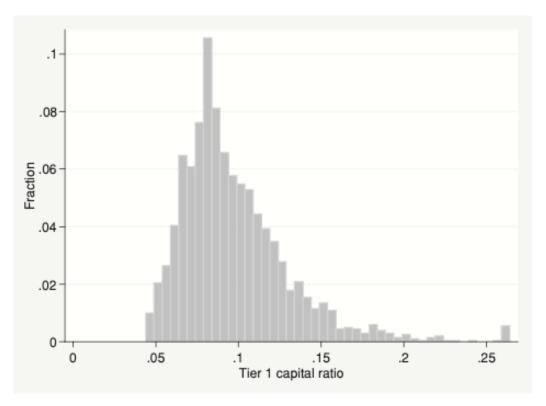


Figure 3. Distribution of Tier 1 capital ratios

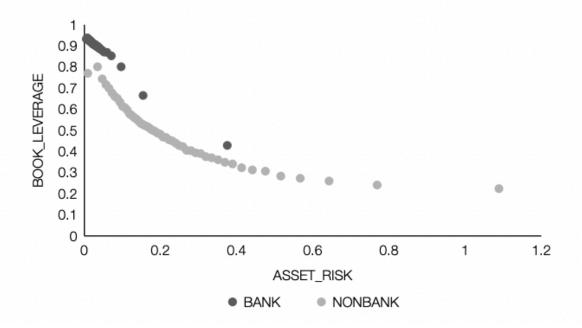
The figure shows the distribution of banks' regulatory Tier 1 capital ratio (equity over risk weighted assets as defined in the Basle I regulatory framework) for 2007 bank-year observations in our sample of the 200 largest publicly traded banks in the U.S. and the EU from the Bankscope database from 1991 to 2004.

I do not see a proxy for bank risk ...



FIGURE 1 Risk and Leverage for Banks and Nonbanks

Figure 1 illustrates asset risk on the x-axis and book leverage on the y-axis for banks and nonbanks. For both the bank and nonbank samples, the firm-year observations are sorted into 50 asset risk quantiles each. Each dot represents the mean values of asset risk and book leverage in the given quantile. Variable definitions are provided in Table 1.



What is the role of economic capital ratio?



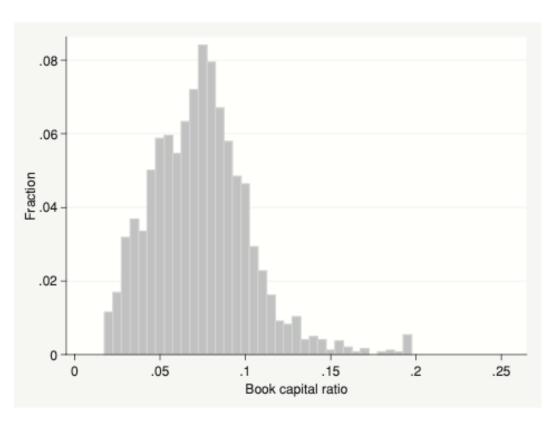


Figure 1. Distribution of book capital ratios

The figure shows the distribution of banks' book capital ratio (book equity divided by book assets) for the 2,415 bank-year observations in our sample of the 200 largest publicly traded banks in the U.S. and the EU from the Bankscope database from 1991 to 2004.

Gropp & Heider (2010)

Am not a big fan of targets, speed of adjustment, etc



Deviation from target vs. target deviating

Dynamic panel models are tricky to estimate

Perceived main point of paper: reduce measurement error...

Why do banks communicate targets for their regulatory capital ratio?



What is difference between announced target and actual target?

Different drivers?

Permanent vs. transitory differences?

Timing?

Revisions?

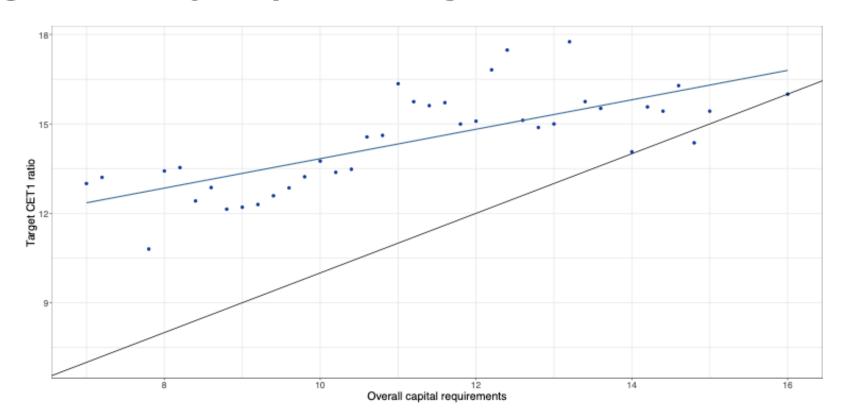
Announce equity, risk, or both?

Nexus of banks, supervisors, and markets (communication tool?)

Banks with lower actual ratios announce higher target ratios



Figure 4: Overall Capital Requirements vs. Targets



Covid Exercise



$$\Delta Y_{i,j} = \alpha_i + \delta(\text{Announced}_{j,pre} - \text{Actual}_{j,post}) + \dots$$

Treated if large gap between

Announced target (pre-Covid?)

Actual target (including SSM reaction to Covid)

Treated if bank receives a lot of regulatory relief?

Summary



Great new data

Adjustment models do not do it justice

Would like to know more about why banks choose to use these announcements