Discussion: The Interest of Being Eligible

Mesonnier, O'Donnell and Toutain (2017)

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Disclaimer: The views expressed do not necessarily reflect those of the ECB

The Paper

- **The paper's starting points**
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- $\Rightarrow$ **Relevant question, very interesting paper**

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- **What is the effect on the "control" loans?**
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- **Confounding effects**: Is part of the effect attributed to LTRO?
  - LTRO might have a different effect for the low than the high borrower types
  - If so, you are over/under-estimating the effect of the ACC

Comments #2: Compare to traditional liquidity (1/2)

Framework

One relevant question that this paper could touch upon:
Should the regulator increase traditional liquidity or collateral liquidity?

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- **Traditional liquidity**: Ability to quickly sell (or buy) at "fundamental price"
  - *e.g. When selling*: You get cash + You are no longer exposed to asset's risk
- **Collateral liquidity**: Ability to quickly get (provide) cash at "fundamental rate"
  - *e.g. When selling*: You get cash but you are still exposed to the asset's risk

⇒ **Collateral liquidity is a substitute: Both types of liquidity allow to get cash**
⇒ **Collateral liquidity is an innovation: Allows to separate cash from risk**

Comments #2: Compare to traditional liquidity (2/2)

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2. **Test the extent in which collateral liquidity is an innovation**
    - Prediction: Riskier asset $\Rightarrow$ Larger post-ACC change

If you're lucky, securitization volume is not fully determined by risk

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    - Make sure you do not capture LTRO

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1. **Strengthen current results**: Look into the magnitude of the effects
    - How the pie is shared
    - How the effect goes beyond the newly eligible loans
    - Make sure you do not capture LTRO
2. **Generate new results**: Test substitutability and innovation of collateral liquidity