Capturing macroprudential regulation effectiveness: A DSGE approach with shadow intermediaries

Discussion

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General Remarks

Paper is very nice to read!

Securitization regulation is a very interesting idea!

Two main comments:

- Institutional setup
- Role of regulation

Big, overarching question: **What's the trade-off for the regulator in the model?**

Institutional Setup - Core Functions of Shadow Banks

What are the **social** functions of shadow banks?

1. Provision of money-like claims to outside investors (Gennaioli et al. (2013), Moreira and Savov (2017))
2. Regulatory arbitrage (Bad: Plantin (2015), Good: Ordoñez (2018))
3. Specialization advantages (Gertler et al. (2016))

Here: 1. (household portfolio choice), 2. (no regulation of shadow banks) and 3. (only shadow banks can finance large firms) play a role!

What to focus on? 1. and 2.

Institutional Setup - Shadow Banks as Liquidity Providers

Provision of claims that are money-like most of the time, but subject to rare runs

Money-like means **safe, liquid, short-term**

Here: shadow banks issue fully state-contingent, risky debt

- would carry a risk-premium and a liquidity premium in a non-linear world
- not money-like!
- preference for shadow bank funding assumed

Discuss the role of liquidity provision for the welfare results more!

Institutional Setup - Shadow Banks as Regulatory Arbitrageurs

Plantin (2015): Shadow banking as an unintended side effect of otherwise desirable regulation

Ordoñez (2018): Shadow banking allows banks to circumvent inefficient regulation

Desirability of regulatory arbitrage depends on trade-off between social benefit and social cost of bank capital

Here: More **of any** regulation is **always** welfare improving, despite bank capital being costly to accumulate

Discuss the private and social costs of bank capital more!

The Role of Regulation

Macroprudential regulation addresses externalities that arise in general equilibrium, e.g. due to:

- Incomplete markets (Lorenzoni (2008))
- Price-sensitive borrowing constraints (Bianchi (2011))
- Multiple equilibria (Gertler and Kiyotaki (2015))
- Moral hazard (Di Tella (2016))

Here: Key **micro** inefficiency: Moral hazard problem of commercial banks

- Micro or macroprudential regulation?
- Does it lead to a macro inefficiency?

Key **macro** inefficiency: Financial accelerator

- What about systemic run risk?

Which inefficiencies exist? Which ones are quantitatively important?

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