Do banks have an internal market for equity?
Implications for cross-border spillover of policy measures

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Question, Method, Findings

- Does the imposition of capital buffers on parent banks spill over to the lending activity of their foreign subsidiaries ?

- Examine the introduction of capital surcharges for OSII in the eurozone during 2015-2017 using ECB supervisory data
  - How is lending by bank subsidiaries in the eurozone affected ?

- Subsidiaries of banks subject to OSII surcharge adjust their credit activity towards less risky lending
  - More household credit, less corporate lending,
  - (partly) lower risk weights

Contribution ?

- Prudential capital regulation affects bank lending

  (Gropp et al. RFS 2018, Cappelletti et al. 2019)

- International spillovers of regulation to bank lending

  (Buch & Goldberg, IJCB 2017)

- .. parent banks from the same origin country are typically subject to homogenous regulation
  - identification of spillovers through different countries of origin / business models of foreign banks within a given host country

- OSII: parent banks from the same origin country are subject to different changes in capital regulation

What I would expect to see in the paper

- Similar banks from the same origin country are partly subject to OSII … and partly not
    - ‘Treated’ and ‘control’ banks have similar lending activities in other (eurozone) countries

- After OSII announcement foreign subsidiaries of treated banks display different credit activity than control banks

- Changes in foreign subsidiary lending by treated banks can be plausibly related to the «repatriation» of capital

Are similar banks from the same origin country partly subject to OSII and partly not ?

- Looking beyond the OSII threshold score…
- In 2015, 7 of the largest 10 banks in Austria were OSII

Assets in billion EUR

1	Erste Group Bank	199,74
2	Unicredit Bank Austria[2]	193,64
3	Raiffeisen Zentralbank Österreich	138,43
4	Raiffeisen Bank International AG	114,43
5	Raiffeisenlandesbank Oberösterreich	37,3
6	BAWAG P.S.K. Group	35,52
7	Österreichische Kontrollbank	28,78
8	Raiffeisenlandesbank Niederösterreich-Wien	27,74
9	Oberbank	18,24
10	Hypo NOE Gruppe	15,9

Do treated and control banks have similar cross-border lending activities ?

- BAWAG has 2 retail subsidiaries in Germany
  - Südwestbank
  - start:Bausparkasse
- Oesterreichsche Kontrollbank has no foreign subsidiaries
  - offers cross-border loans through parent /domestic subs
- Oberbank has no foreign subsidiaries
  - has retail branch network in Germany and Slovak Republic (as well as Czech Republic and Hungary)

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Foreign subsidiaries of treated banks display different changes in credit activity than control banks

Average effect on affiliated banks' lending

	Households		Non-financial corporations		Non-financial private sector	
Δ(%) Credit Growth	(1)	(2)	(1)	(2)	(1)	(2)
Dummy O-SII	-0.023	-0.018	0.091*	0.099**	0.036*	0.041**
	(0.033)	(0.028)	(0.046)	(0.039)	(0.019)	(0.018)
Dummy Post	-0.147*	-0.087	0.039	0.066	-0.042	-0.004
	(0.085)	(0.055)	(0.057)	(0.043)	(0.058)	(0.040)
Dummy O-SIIs & Post	0.080**	0.073**	-0.077	-0.091**	-0.017	-0.027
	(0.039)	(0.035)	(0.048)	(0.044)	(0.024)	(0.022)
Country-Time fixed-effects	Interacted	Solo	Interacted	Solo	Interacted	Solo
Observations	619		757		754	
R-Squared	0.320	0.101	0.247	0.079	0.258	0.086

Is quarterly change in credit growth (in pp) the metric we would want to study?

Relate changes in foreign subsidiary lending to the ‘repatriation’ of capital

- There is no discussion of how much capital could be freed up within a banking group due to change in foreign subsidiary lending

- There is no (descriptive) analysis of how freed up capital is reallocted from subsidiaries to the parent bank
  - reduction of paid in equity by parent banks in their foreign subsidiaries
  - dividend payouts to parent banks from retained earnings of subsidiaries

Further comments

- Add a time line
  - clarify pre/post treatment phase
  - time-frame over which OSII surcharges are phased in

- Parallel trends analysis for DiD ?
- Staggered DiD?
  - clarify timing of treatment within sample
  - do effects vary for early / late ‘adopters’ ?

- Extension of analysis with BIS statistics?
  - foreign branch lending / cross-border loans
  - non-eurozone host countries