2019 Banking and Financial Stability Meeting

Conference Schedule

Venue
College of Business and Economics, Australian National University
Lecture Theatre 1, Ground Floor, Building 26C Kingsley Street
Canberra ACT 2601

Tuesday 16 July

11:30pm-12:30pm	Welcome and lunch
12:30pm-2:15pm	Session 1
2:15pm-2:45pm	Afternoon tea
2:45pm-4:15pm	Session 2
4:15pm-4:30pm	Coffee break
4:30m-5:30pm	Session 3
6:00pm	Drinks and dinner @ QT Lounge, QT Hotel 15th Floor, 1 London Circuit, Canberra ACT 2601

Wednesday 17 July

9:00am-10:30am	Session 4
10:30am-11:00am	Morning tea
11:00am-12:30pm	Session 5
12:30pm-2:00pm	Lunch and farewell @ Allan Barton Forum College of Business and Economics, Australian National University Level 2, Building 26C Kingsley Street Canberra ACT 2601

Conference Program

Tuesday 16 July

11:30am-12:30pm	Welcome and lunch
Session 1	**Chair:** Phong Ngo, Australian National University
12:30pm-1:30pm	**Key Note Address:** Professor Manju Puri, Duke University **Title:** On the rise of FinTechs - Credit Scoring using Digital Footprints
1:30pm-2:15pm	**Title:** Money, Systemic Risk, and Financial Stability **Presenter:** Timothy Kam, Australian National University **Discussant:** Hassan Naqvi, Monash University
2:15pm-2:45pm	Afternoon tea break
Session 2	**Chair:** Zhongyan Zhu, Monash University
2:45pm-3:30pm	**Title:** Financial Sophistication and Conflicts of Interest: Evidence from the Investment Menus Offered in 401(k) Plans **Presenter:** Mike Mao, Deakin University **Discussant:** Joachim Inkmann, University of Melbourne
3:30pm-4:15pm	**Title:** The Lender Effects on M&A Gains **Presenter:** Nadia Massoud, Melbourne Business School **Discussant:** Xiaoyang Li, Deakin University
4:15pm-4:30pm	Coffee break
Session 3	**Chair:** Stanislava (Stas) Nikolova, University of Nebraska
4:30pm-5:30pm	**Key Note Address:** Professor Christopher James, University of Florida **Title:** A Priority Puzzle
6:00pm	Drinks and dinner @ QT Lounge, QT Hotel 15th Floor, 1 London Circuit, Canberra ACT 2601

Wednesday 17 July

Session 4 **Chair:** Le Zhang, Australian National University

9:00am-9:45am **Title:** Interbank Network and Liquidity Risk Management
Presenter: Seungho Choi, Queensland University of Technology
Discussant: Jean Helwege, UC Riverside

9:45am-10:30am **Title:** The Unintended Consequences of Credit Check Bans For Labor Markets
Presenter: Kristle Cortes, University of New South Wales
Discussant: Keke Song, Melbourne Business School

10:30am-11:00am Morning tea break

Session 5 **Chair:** Ed Lin, Deakin University

11:00am-11:45pm **Title:** Quality versus Quantity: The Case of U.S. Bank Capital Buffers
Presenter: Barry Williams, Monash University
Discussant: Isaac Pan, University of Sydney

11:45pm-12:30pm **Title:** Betting Against Bank Profitability
Presenter: Angel Zhong, Royal Melbourne Institute of Technology
Discussant: Mike Mao, Deakin University

12:30pm-2:00pm Lunch and farewell @ Allan Barton Forum
College of Business and Economics, Australian National University
Level 2, Building 26C Kingsley Street
Canberra ACT 2601

Abstracts

Money, Systemic Risk, and Financial Stability

Kentaro Asai and Timothy Kam

We re-examine the spill-over effect of monetary policy on the banking sector. Unlike previous studies that focus on a central bank's short-term interest rate policy, we develop the stylized general equilibrium model that focuses on the interaction of money, systemic risk, and a bank's risk-taking in order to analyze inflation targeting and money supply commitments, which are more relevant under the zero lower bound. Our model finds raising inflation targets has an equivalent effect as lowering policy rates in the absence of systemic risk, which suggests inflation targeting can control a bank's risk-taking behaviour as a substitute to macroprudential regulation. However, we find monetary policy cannot pin down unique outcomes in the presence of systemic risk and possibility of stagflation, making it hard for a central bank to control a bank's risk-taking behaviour through monetary policy. Overall, our analysis suggests even if monetary policy is exclusively used for the improvement of financial stability, it may need to accompany capital regulation as a commitment device in order to determine the direction of its effect.

Financial Sophistication and Conflicts of Interest: Evidence from the Investment Menus Offered in 401(k) Plans

Aleksander Andonov and Mike Mao

We analyze the investment menus offered within 401(k) pension plans to the employees of the largest finance and non-finance firms. Finance firm employees allocate less to sponsor stock and options affiliated with the trustee as compared to employees of other firms. In addition, the selection of mutual funds by pension plans sponsored by a finance firm with an independent trustee is more sensitive to past performance and less biased towards funds affiliated with the trustee. These findings suggest that financial literacy among the plan participants and sponsoring company can mitigate inefficiencies in 401(k) menus. However, financial literacy alone is not sufficient to eliminate inefficient options from the menu, because the higher performance sensitivity and reduced favoritism appear only among pension plans of finance firms governed by an independent external trustee.

The Lender Effects on M&A Gains

Nadia Massoud, Keke Song and Nam Tran

This paper employs a new approach to identify and examine the effects of lenders on acquirers' gains from M&A transactions. We find that acquirer gains are significantly higher in M&A deals financed with syndicated loans than in other deals. Utilizing an instrumental variable approach, we provide evidence that the higher acquirer gains associated with syndicated loan financing can be attributed to lender-side factors. We then establish two channels through which lenders may affect acquirer gains: first, we use the adoption of FAS166/167 as a quasi-natural experiment and show that the lender effects on M&A gains can be attributed to lenders' ability in choosing good quality M&A deals to finance; second, acquirer gains are also higher when the lender has a prior lending relationship with the M&A target, suggesting that lenders' decision to finance an M&A deal could resolve the uncertainty associated with the M&A deal quality. Finally, we find that variation in lender ability, measured as average acquirer announcement returns of historical M&A deals financed by the lender, can explain variation in acquirer gains from loan-financed M&As and that lender ability is persistent over time.

Interbank Network and Liquidity Risk Management

Seungho Choi, Yong Kyu, Jonho Parl and Hojong Shin

This study investigates the relation between banks' accessibility to interbank networks and the banks' liquidity risk management. As a proxy for banks' network accessibility, we turn to interbank relationships formed through banks' syndicated loan arrangements. If a bank is involved in interbank networks, the bank tends to loosen its liquidity risk controls, reducing liquidity holdings while expanding credit supplies. In addition, adverse market-wide shocks across the banking system disproportionately hit banks that are part of the networks, generating serious liquidity problems for them. The findings suggest that the banks may rely on the interbank networks to satisfy their liquidity needs.

The Unintended Consequences of Credit Check Bans For Labor Markets

Kristle Cortes, Andrew Glover and Murat Tasci

Over the last decade, 11 states have restricted employers' access to the credit reports of job applicants. We document a significant decline in county-level vacancies after these laws were enacted: Job postings fall by 5.5 percent in affected occupations relative to exempt occupations in the same county and the same occupation nationwide. Cross-sectional heterogeneity in the estimated effects suggests that employers use credit reports as signals: Vacancies fall more in counties with a large share of subprime residents, while they fall less in occupations with other commonly available signals.

Quality versus Quantity: The Case of U.S. Bank Capital Buffers

Kiefer de Silva, Shrimal Perera and Barry Williams

We find that larger US bank holding companies (BHCs) hold lower quality capital buffers than their smaller peers. US BHCs' capital buffer quality is found to be a function of their operational complexity, risk-weighted assets and profitability. We, however, find no evidence that large US BHCs trade–off capital buffer quality with their liquid asset investments. On average, US BHCs narrow the gap between their actual and target buffer quality by 49.5 per cent per quarter. This (buffer quality) adjustment speed, however, is substantially faster than that observed in pre-GFC US studies of buffer size. The well capitalised US BHCs (top 20 percent) adjust their buffer quality 8 percent faster than poorly capitalised ones. The latter seem to face impediments in raising new capital due to higher reputation costs. The costs of adjusting buffers also seem an important explanation for holding higher quality buffers. Our results shed more light on the trade-offs associated with banks holding higher quality capital buffers.

Betting Against Bank Profitability

Md Akhtaruzzaman, Mardy Chiah, Paul Docherty and Angel Zhong

There is ongoing debate about the economic implications of excessive bank risk-taking and profitability. We examine this issue from the perspective of bank shareholders. Contrary to evidence for non-financial stocks, we show that banks' operating profitability is negatively related to risk-adjusted stock returns. This negative relationship can be attributed to the nature of banking business, where profit and risk are intrinsically linked, and the previously documented 'betting against beta' anomaly. More profitable banks are riskier and therefore have greater demand from leverage constrained investors resulted in higher valuations and lower than expected subsequent returns. The negative relationship between profitability and risk-adjusted returns is increasing in bank scale, as government guarantees and the use of market-based activities accentuate the link between profit and systematic risk in large banks.