

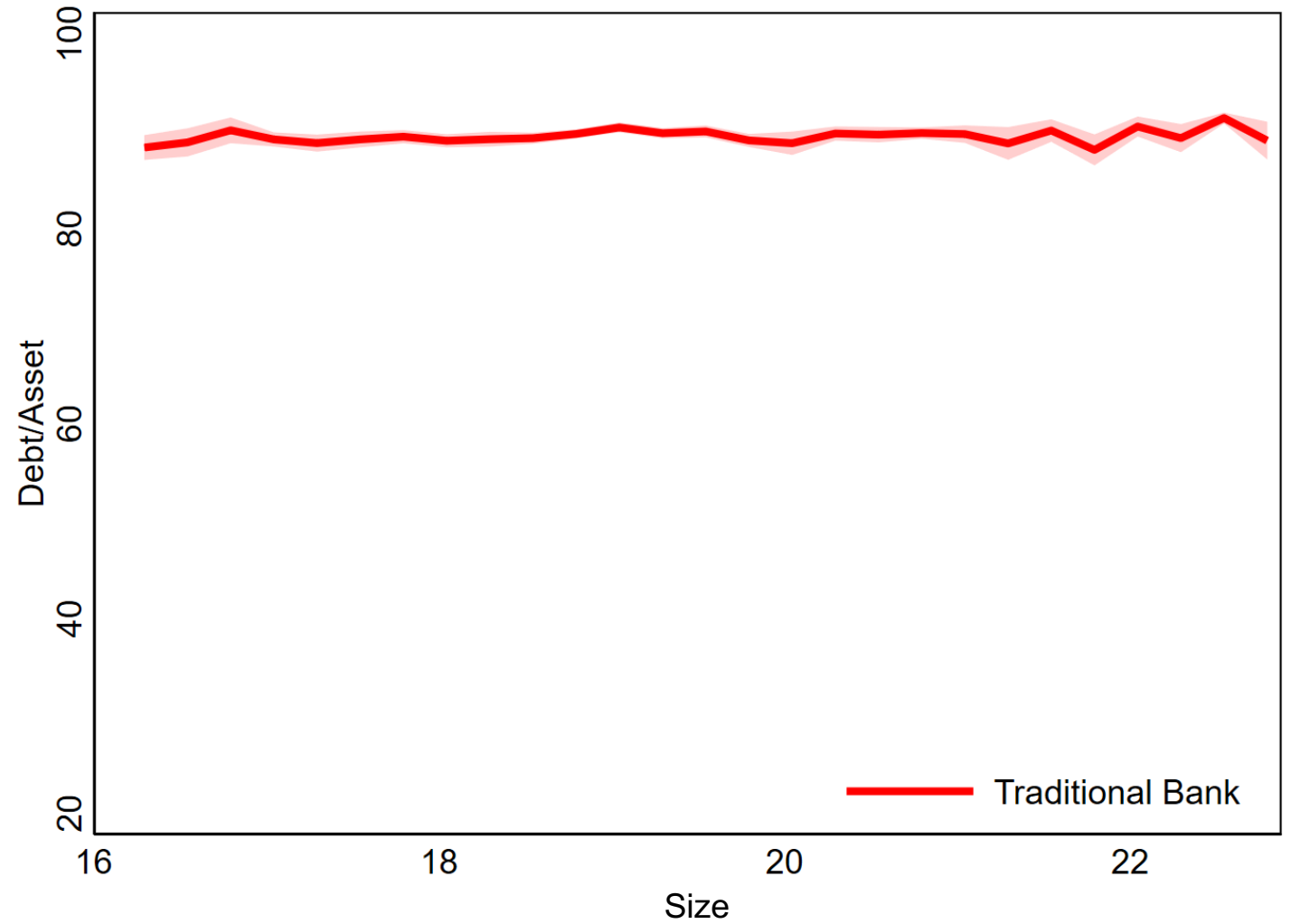
Too Many Rules & Too Much Discretion? Simplifying Financial Regulation

Amit Seru
Stanford and Hoover Institution

Getting the Monetary Policy on Track

May 3, 2024

Highly Leveraged Banks



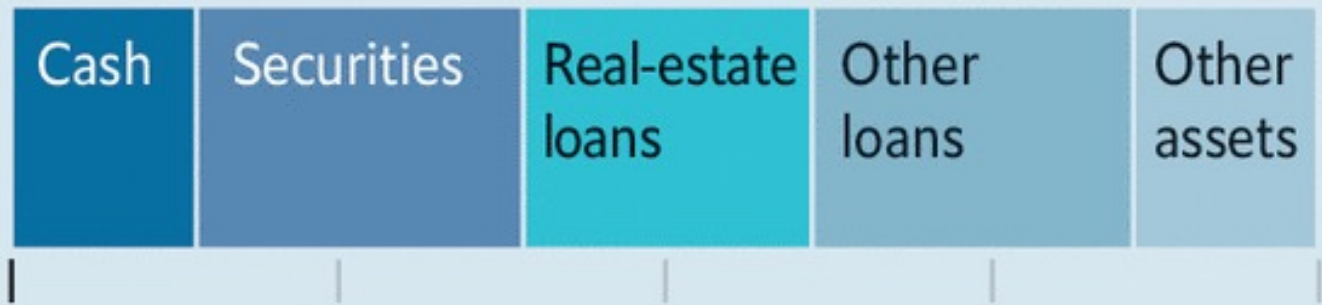
Source: Jiang, Matvos, Piskorski, Seru (2020): "Banking without Deposits"...

Banking System

Between the balance-sheets

US banks, aggregate balance-sheet, Q1 2022, \$trn

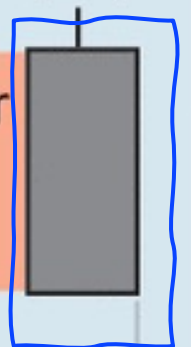
Total assets



Total liabilities



Total equity



Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses"...

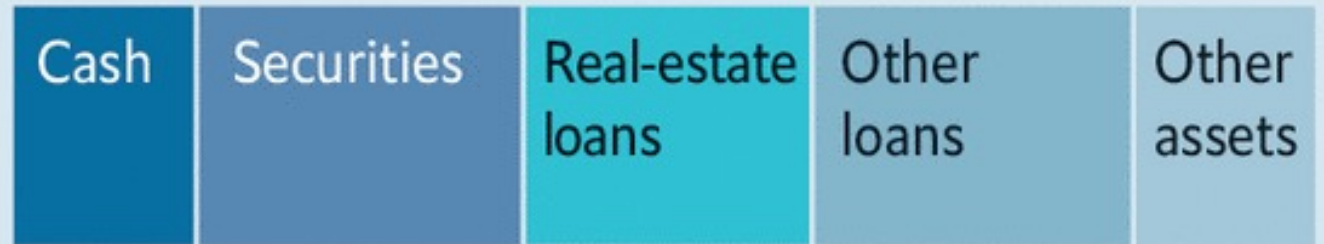
“Turbulence”: Unrealized Mark to Market Losses

2Trillion+

Between the balance-sheets

US banks, aggregate balance-sheet, Q1 2022, \$trn

Total assets



Total liabilities



Total equity

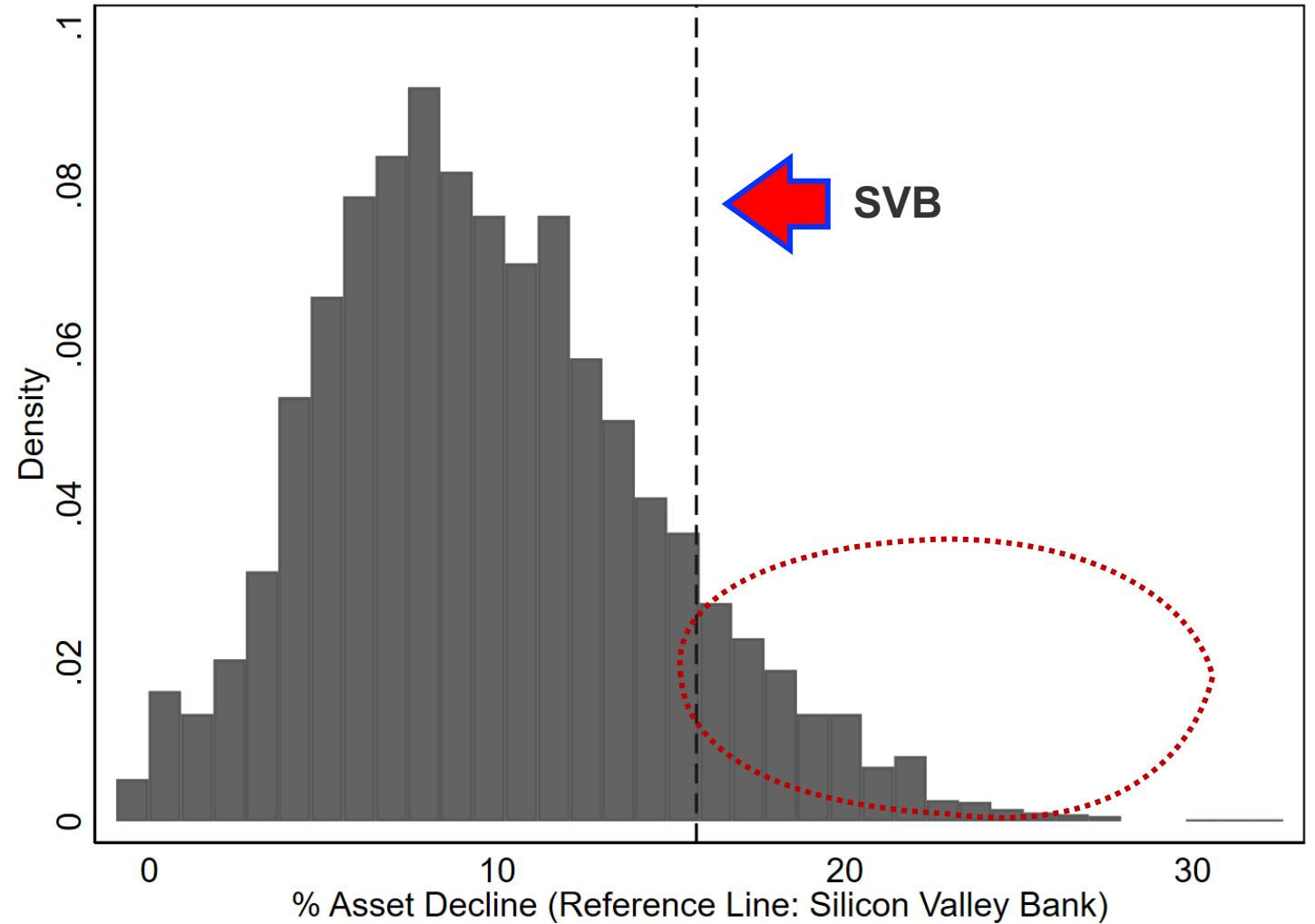
0 6 12 18 24

Source: Jiang, Matvos, Piskorski, Seru (2023): “Monetary Tightening, MTM losses”...

“Turbulence”:
Unrealized
Mark to Market
Losses

~60% in **“liquid”** securities

“Turbulence”: Unrealized Mark to Market Losses



Source: Jiang, Matvos, Piskorski, Seru (2023): “Monetary Tightening, MTM losses”...

“Flight Risk”: Uninsured Leverage

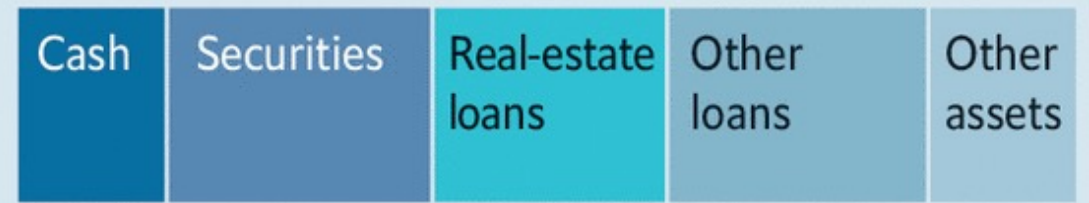
Assets	Liabilities
Loans = 100	Uninsured Deposits = 90 Insured Deposits = 5 Equity = 5

$$\text{Uninsured Leverage} = 90/100 = 90\%$$

Between the balance-sheets

US banks, aggregate balance-sheet, Q1 2022, \$trn

Total assets



Total liabilities



Total equity

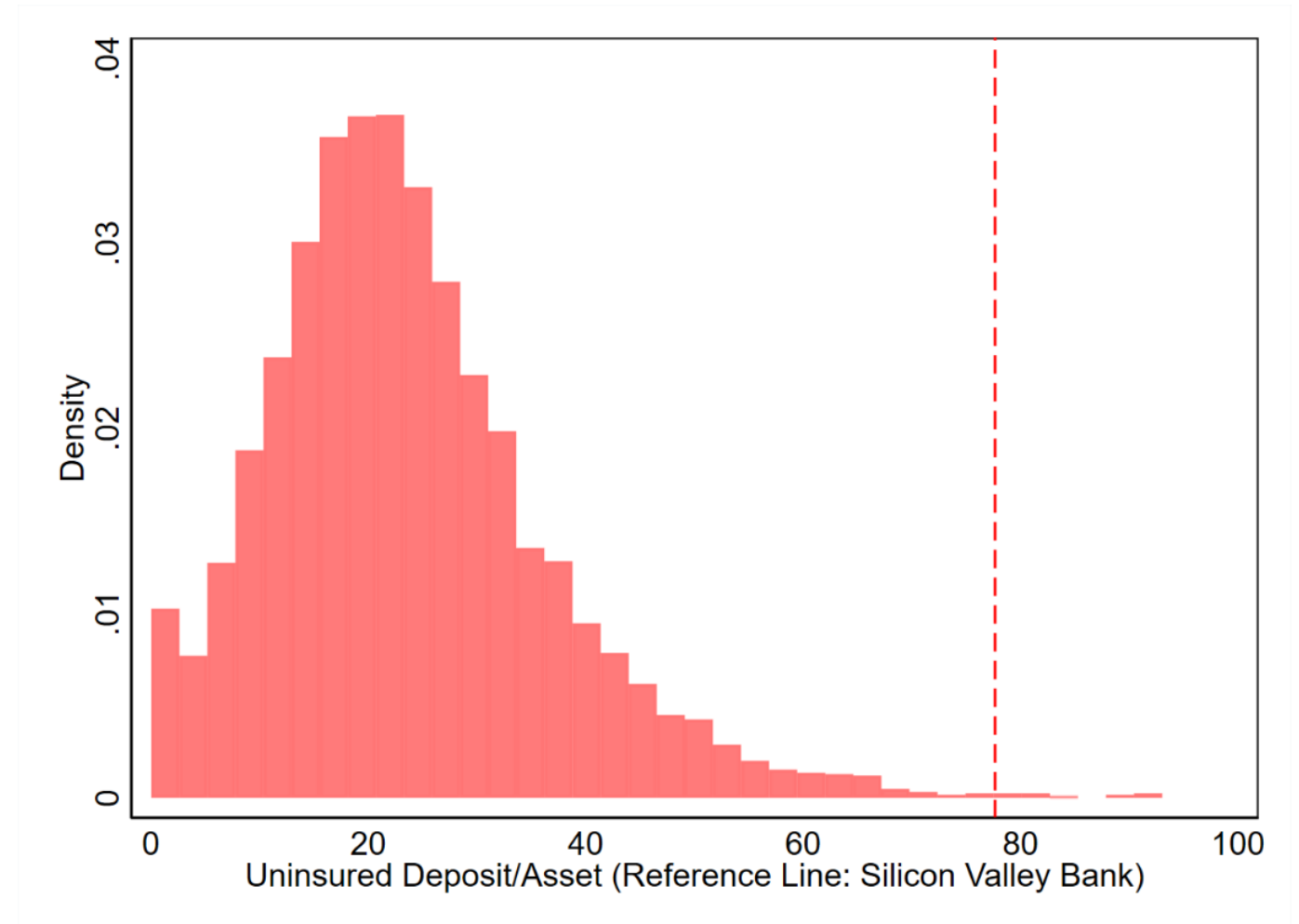


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“Flight Risk”: Uninsured Leverage

Assets	Liabilities
Loans = 100	Uninsured Deposits = 90
	Insured Deposits = 5
	Equity = 5

$$\text{Uninsured Leverage} = 90/100 = 90\%$$



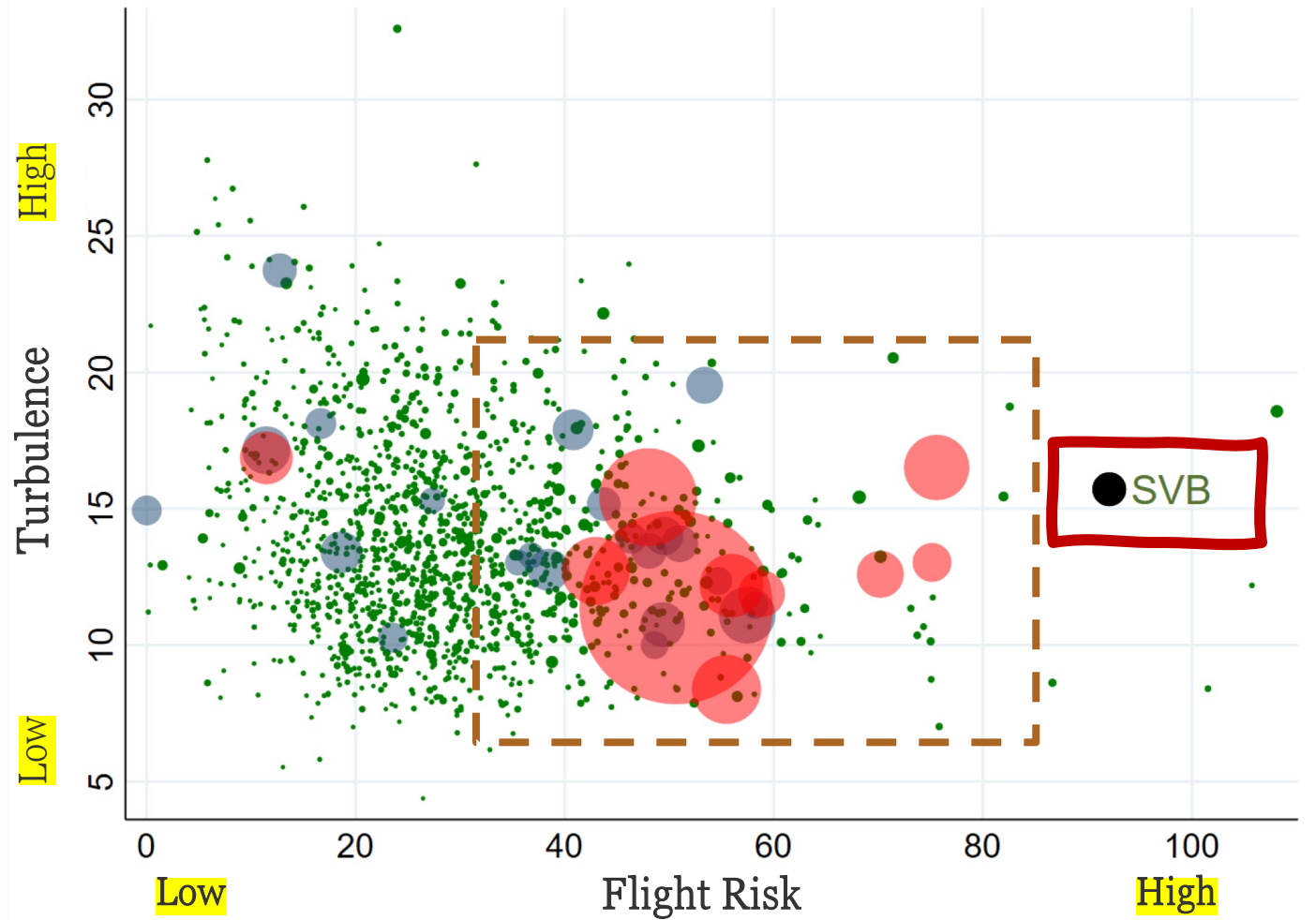
Source: Jiang, Matvos, Piskorski, Seru (2023): “Monetary Tightening, MTM losses”...

Flight Risk VS Turbulence

- $r \uparrow$
- Equity \downarrow
- Uninsured Depositors \uparrow

“Solvency Run” Equilibrium

Flight Risk VS Turbulence



Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses"...

Financial Regulation?

- Liquidity injections ...yet banks continue to fail
 - First Republic
 - ...
 - Republic First
 - ...

“Liquidity Run”

Too Much Discretion?

C: Capital Adequacy (1-5)

A: Asset Quality (1-5)

M: Management Quality (1-5)

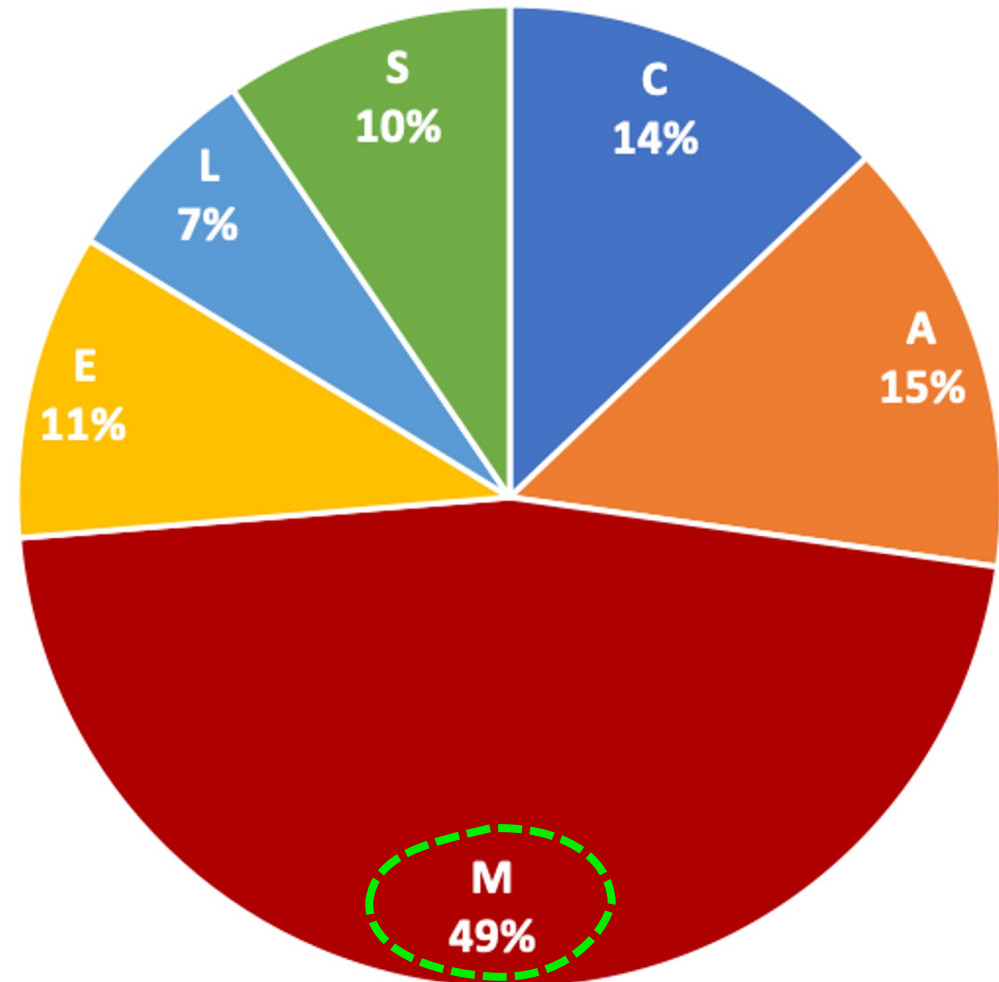
E: Earnings Quality (1-5)

L: Liquidity (1-5)

S: Sensitivity to Risk (1-5)

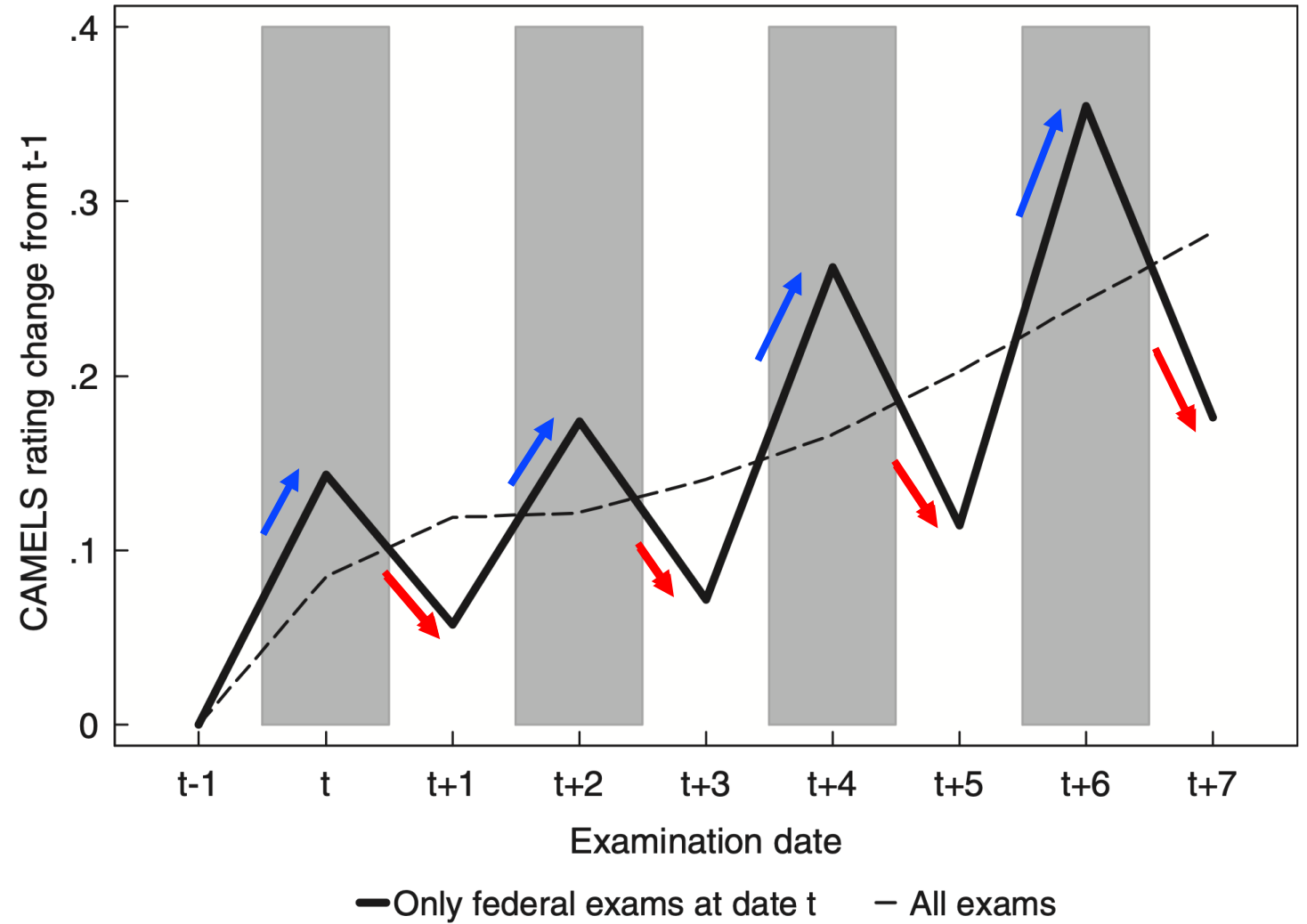
Too Much
Discretion?

Composite CAMELS Score: (1-5)



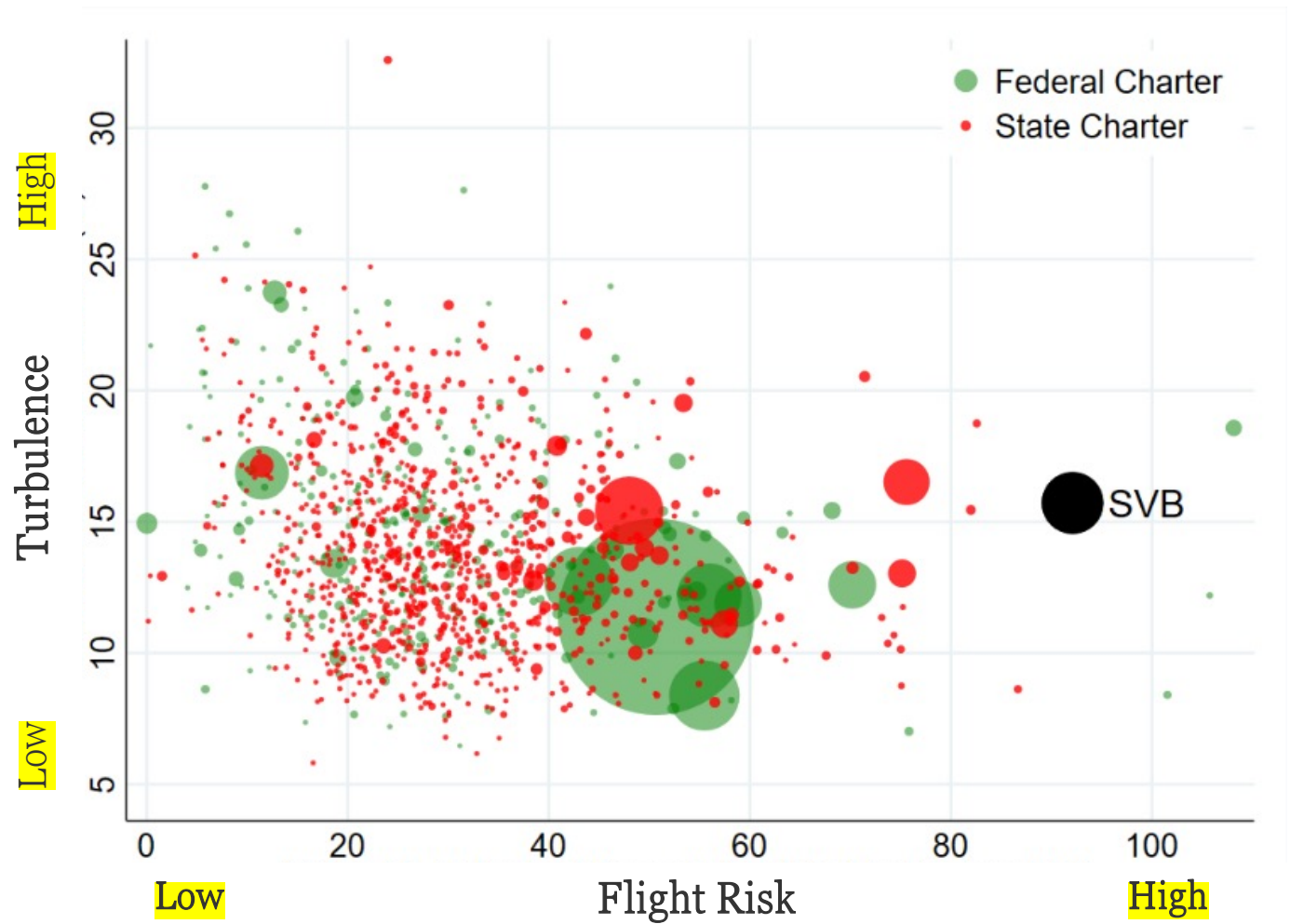
Source: Agarwal, Morais, Seru and Shue (2024): "Noisy Experts..."

Does Discretion Matter?



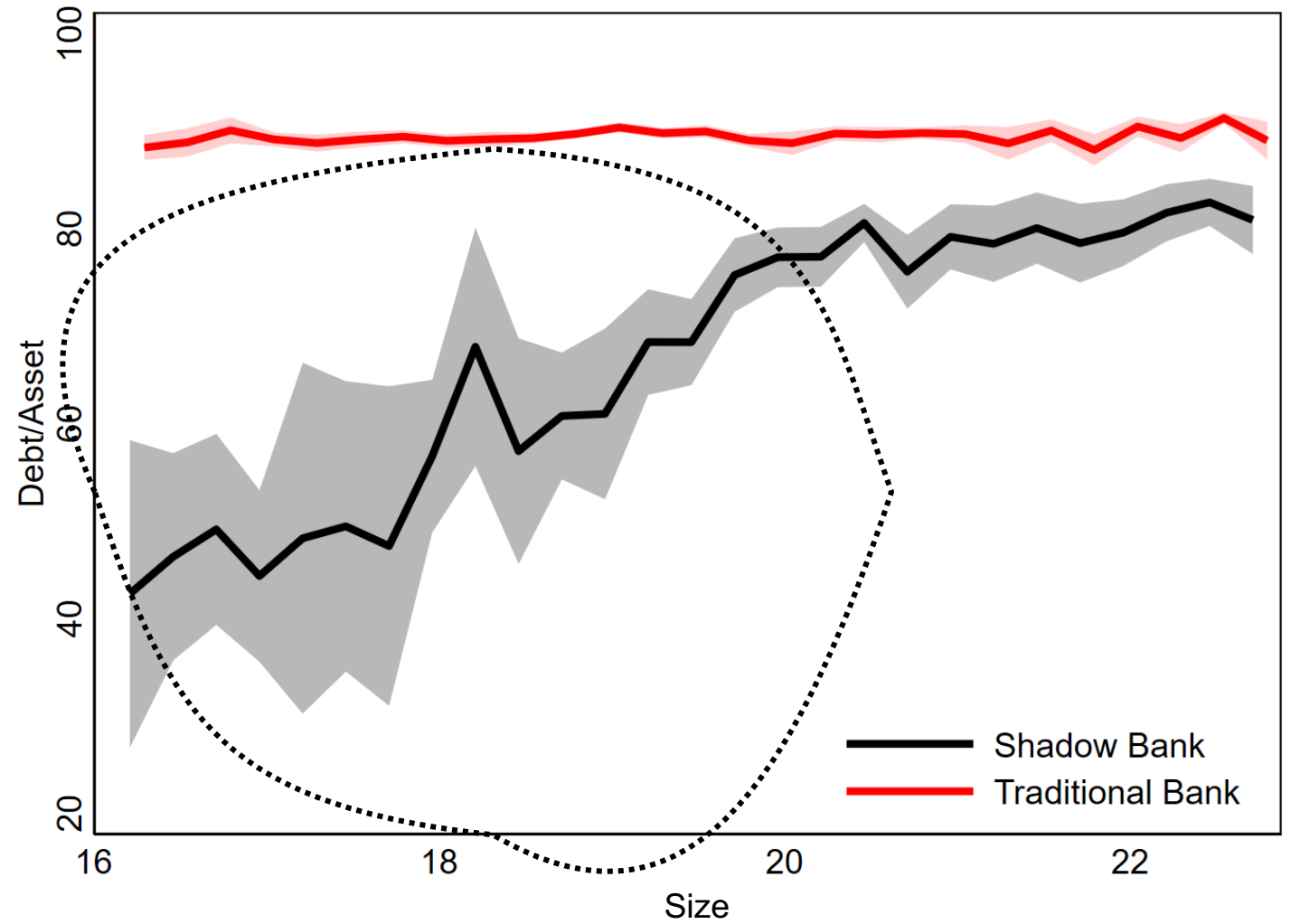
Source: Agarwal, Lucca, Seru and Trebbi (2014): “Inconsistent Regulators...”

Does Discretion Matter?



Source: Jiang, Matvos, Piskorski, Seru (2023): “Monetary Tightening, MTM losses”...

Simplifying Regulation?

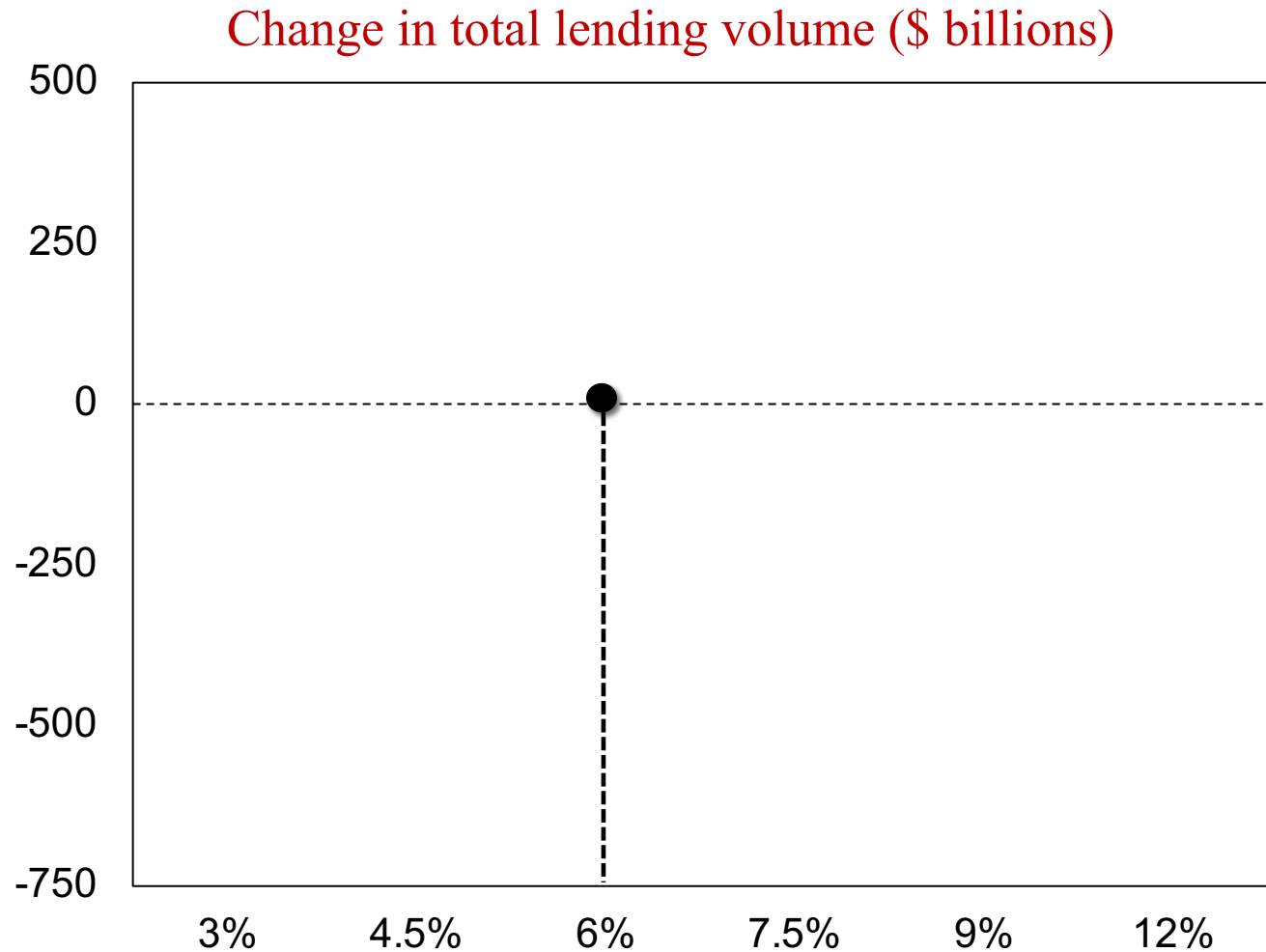


Source: Jiang, Matvos, Piskorski, Seru (2020): "Banking without Deposits"...

But doesn't
higher capital
requirement
lead to drop in
lending?

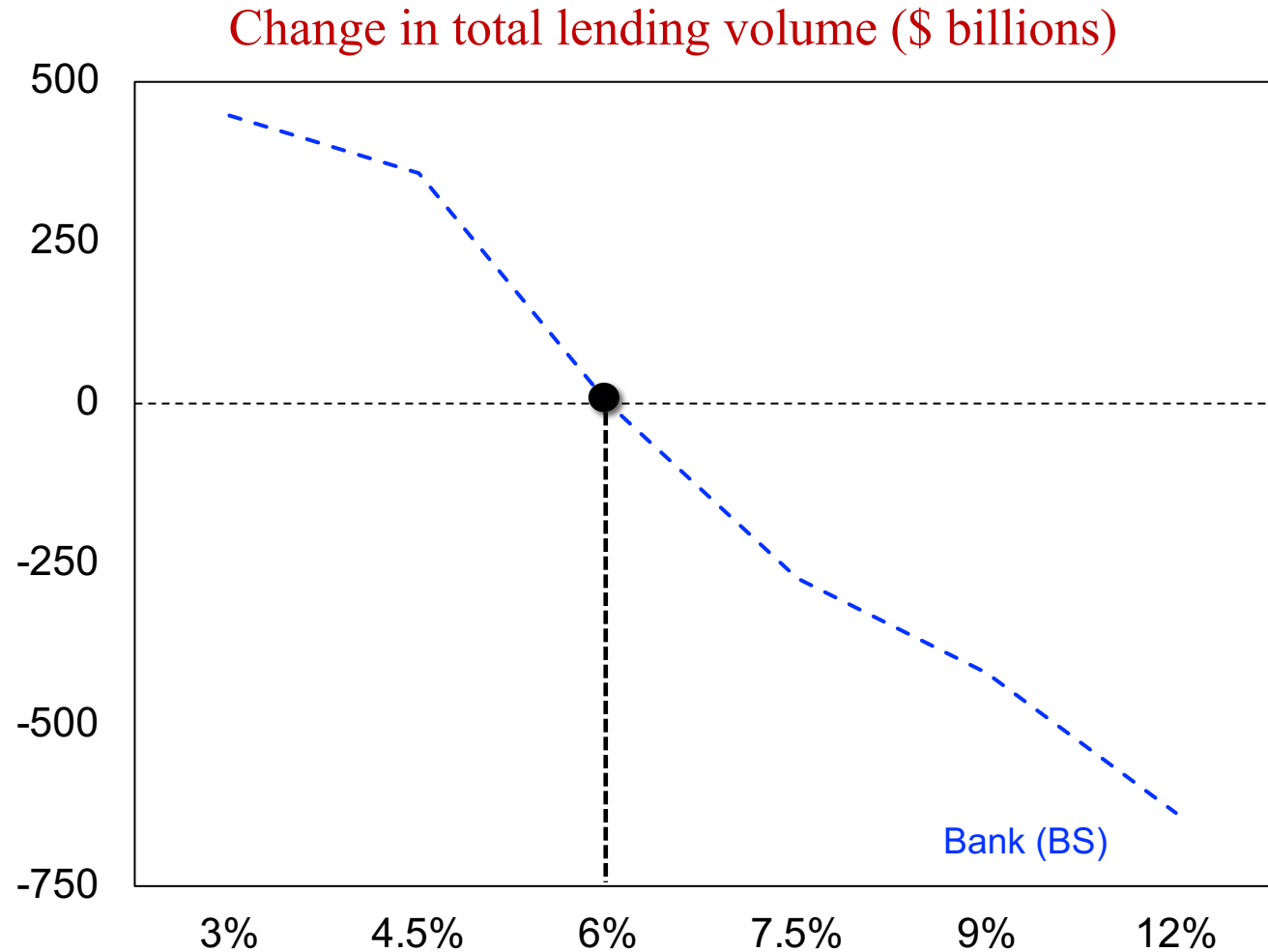
OTD

Private Credit



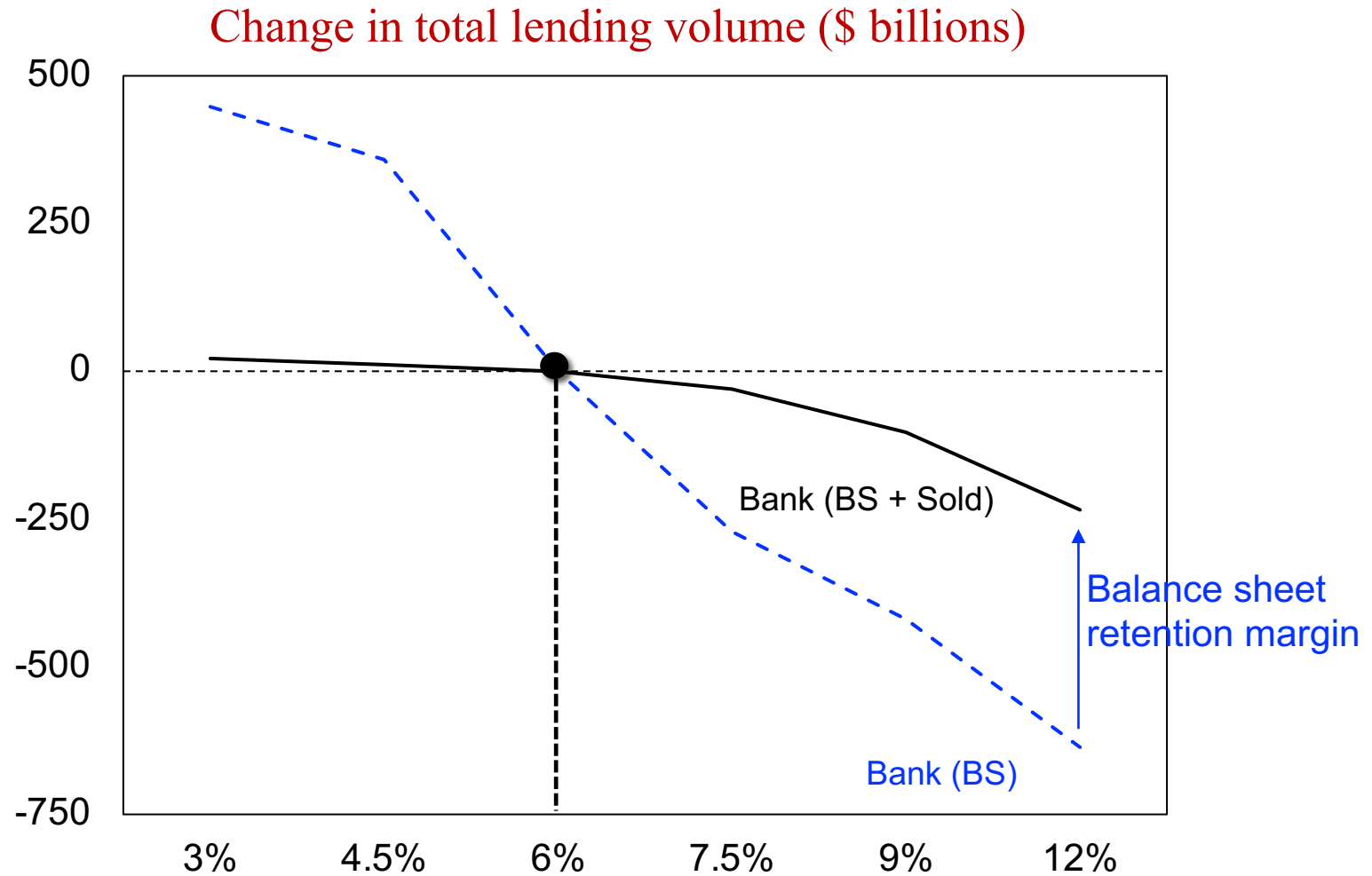
Source: Buchak, Matvos, Piskorski, Seru (2024): "Beyond Balance Sheets"...

But doesn't higher capital requirement lead to drop in lending?



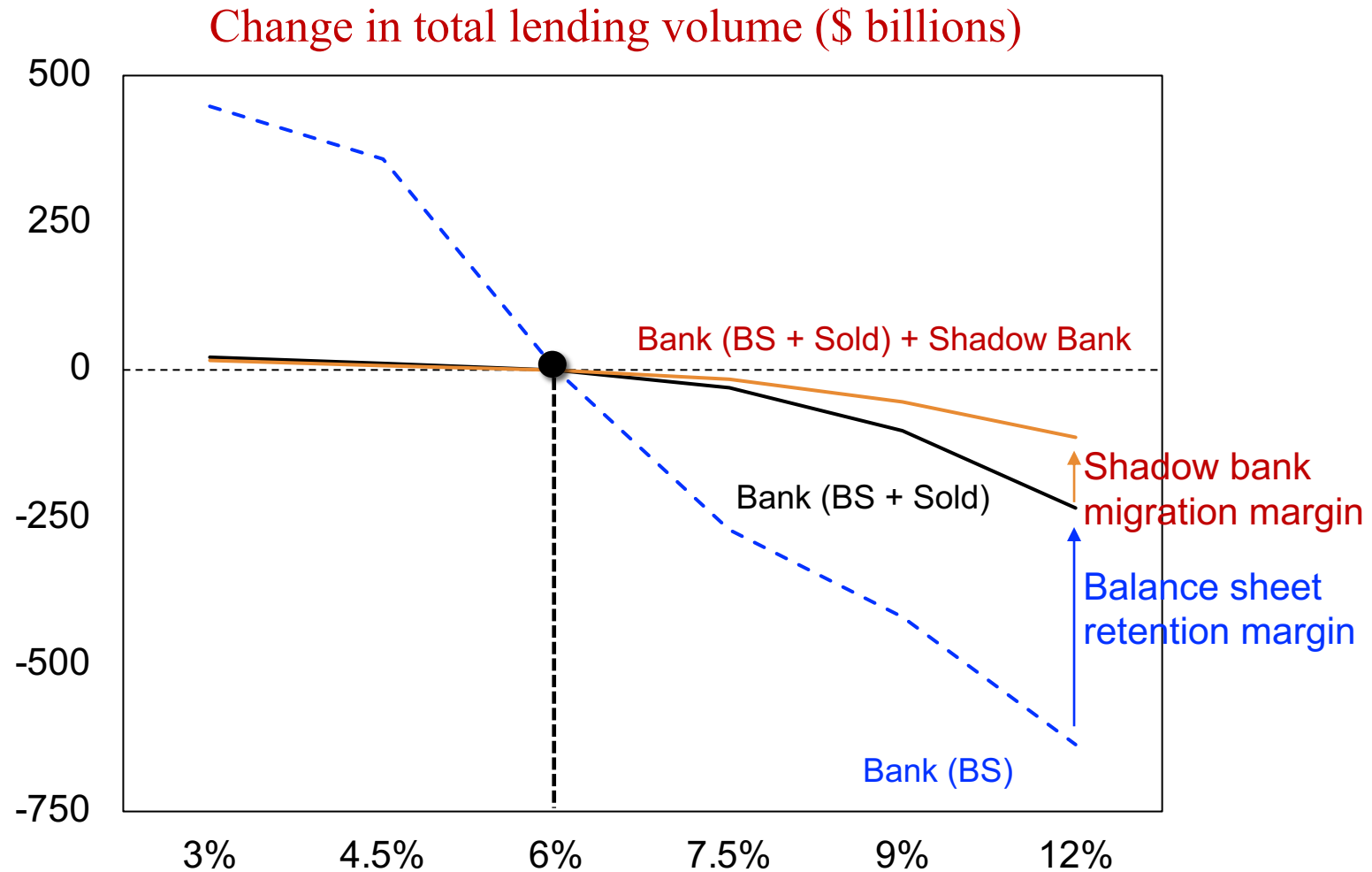
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But doesn't higher capital requirement lead to drop in lending?



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But doesn't higher capital requirement lead to drop in lending?



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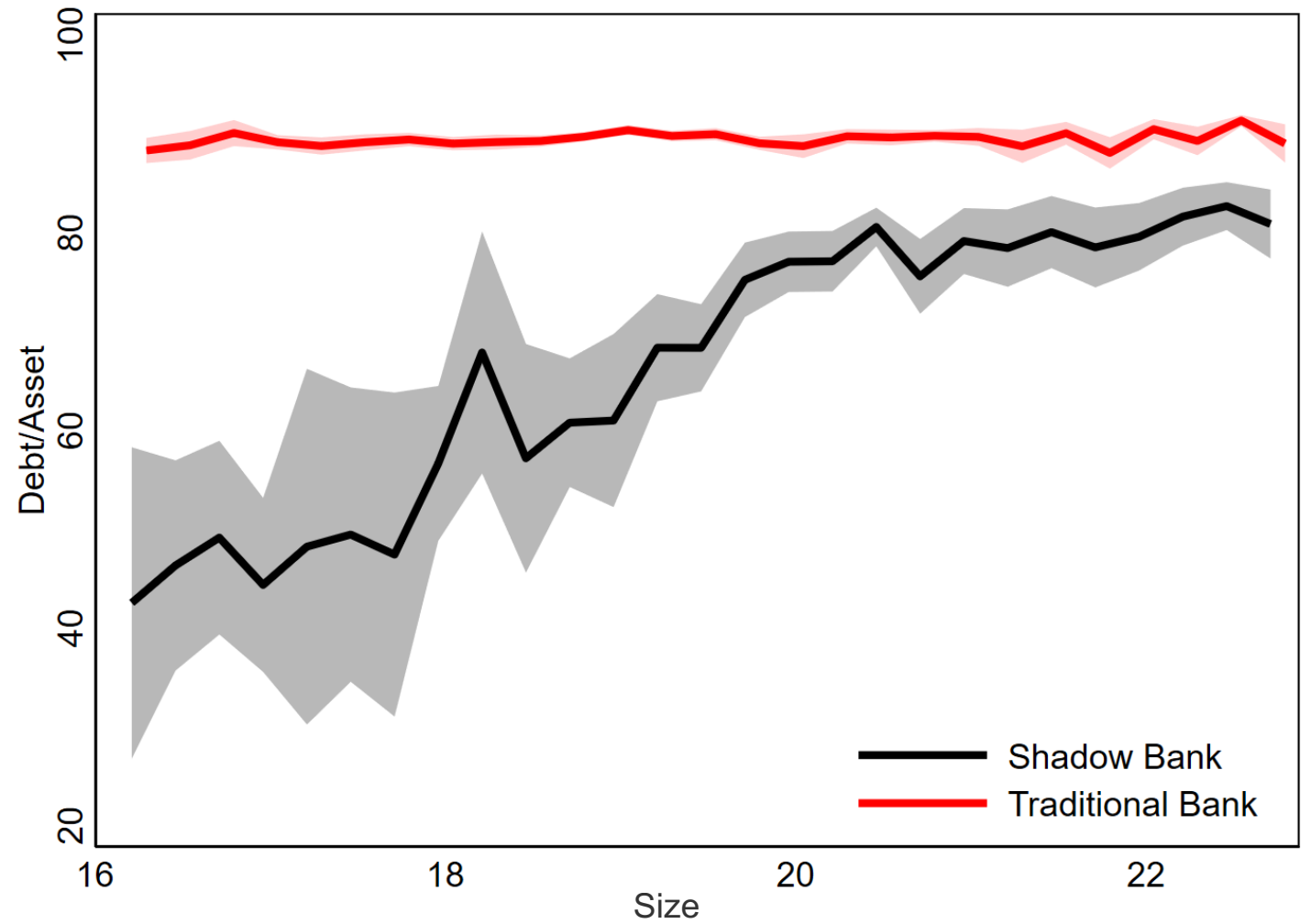
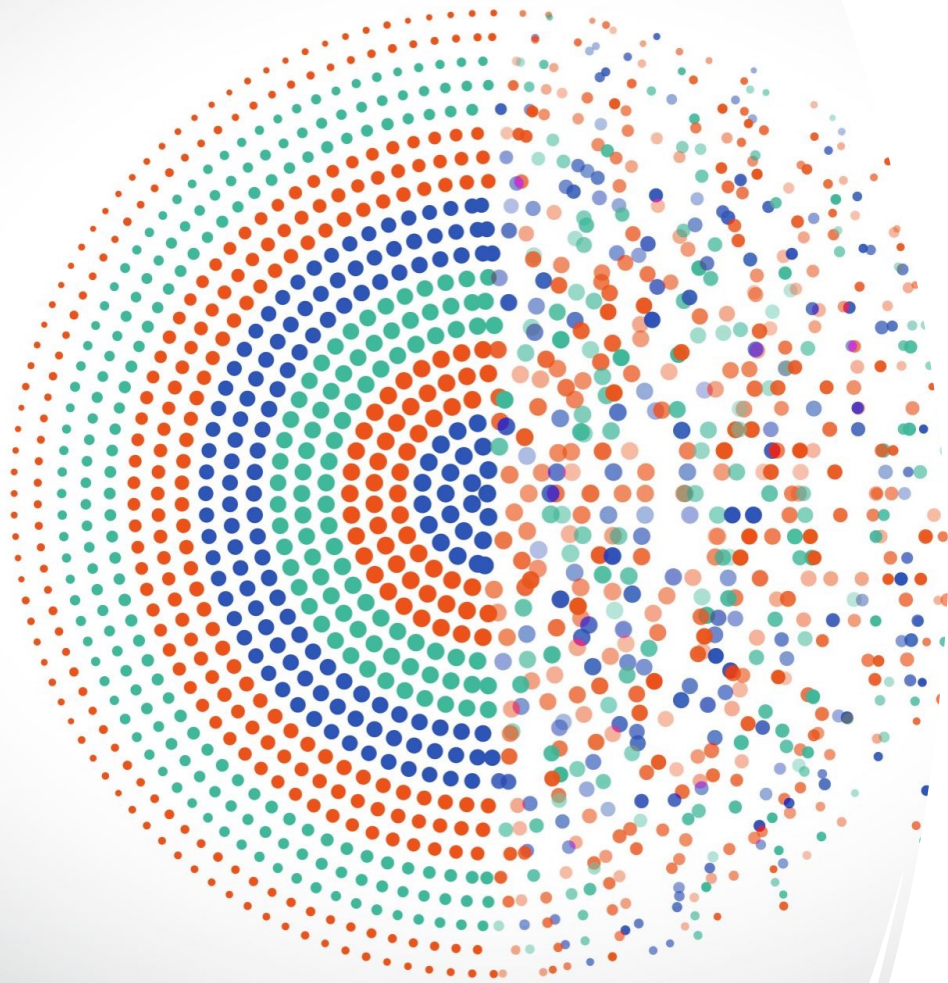
Decline of Bank Balance Sheet Lending...

...and rise of
Private credit



Source: Buchak, Matvos, Piskorski, Seru (2024): "Secular Decline of Bank Balance Sheet Lending"...

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