Too Many Rules & Too Much Discretion?
Simplifying Financial Regulation

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Getting the Monetary Policy on Track

May 3, 2024
Highly Leveraged Banks

Source: Jiang, Matvos, Piskorski, Seru (2020): “Banking without Deposits”...
Between the balance-sheets
US banks, aggregate balance-sheet, Q1 2022, $trn

Total assets
- Cash
- Securities
- Real-estate loans
- Other loans
- Other assets

Total liabilities
- Insured deposits
- Uninsured deposits
- Other

Total equity

Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses..."
“Turbulence”: Unrealized Mark to Market Losses

2Trillion+

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

Uninsured Deposits = 90
Insured Deposits = 5
Equity = 5

Uninsured Leverage = 90/100 = 90%
“Flight Risk”: Uninsured Leverage

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans = 100</td>
<td>Uninsured Deposits = 90</td>
</tr>
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</tr>
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</tbody>
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Uninsured Leverage $= \frac{90}{100} = 90\%$

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

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

“Solvency Run” Equilibrium

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

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?

Source: Buchak, Matvos, Piskorski, Seru (2024): “Beyond Balance Sheets”...
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Source: Buchak, Matvos, Piskorski, Seru (2024): “Beyond Balance Sheets”...
Decline of Bank Balance Sheet Lending...

...and rise of Private credit

Bank balance sheet lending

Source: Buchak, Matvos, Piskorski, Seru (2024): “Secular Decline of Bank Balance Sheet Lending”. ..
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Graph: Debt/Asset vs Size
- Black line: Shadow Bank
- Red line: Traditional Bank