Organizational Complexity and Balance Sheet Management in Global Banks

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Short Summary

- Does the organizational structure of the corporate family affect how affiliate banks adjust lending to funding shocks?
  - H0: No, if affiliates behave independently and organizational structure just reflects size
  - H1: Yes, if there are synergies across affiliates

- Empirical test
  - Regulation reducing the cost of funds for US branches of FBOs
  - Variation in the complexity of FBOs (# of subsidiaries)

- Evidence supports H1
  - The more complex the conglomerate, the lower the elasticity of lending by US branches of FBOs to funding shock
  - Economically large and robust finding

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Main Comments

- Theory & hypothesis
- Theory & unit of analysis
- The interpretation of the shock
- Identification

Theory & Hypothesis

- Why does organizational structure matter?
  - The choices of affiliates take into account family characteristics
  - Affiliates should exhibit a lower elasticity of lending to funding shocks (e.g. internal capital markets)

- Intensive vs. Extensive margin
  - Authors use variation in the # of subsidiaries in a conglomerate
  - More clear-cut theoretical predictions for stand-alone firms vis-à-vis firms that belong to a conglomerate

- Besides the # of subsidiaries, what might matter is
  - The location of subsidiaries (acknowledged in the paper)
  - The type of activity performed by subsidiaries (SIC codes?)

Theory & Unit of Analysis

- Advantages of using branches of FBOs as unit of analysis
  - Identification of a funding shock
  - Variation in the organizational structure of the corporate family
  - Significant economic units
  - No confounding effect due to complexity «from below»

- However, at least in theory, it would be surprising to find evidence that branches behave like independent units
  - Branches are not separately capitalized
  - Parent is responsible for the liabilities of branches
  - The decision-making power of branches is constrained by the parent, regardless of organizational structure

Interpretation of the Shock

- Regulatory change increasing the cost of wholesale funds vis-à-vis insured deposits
  - Branches of FBOs cannot raise insured deposits
  - Domestic banks use more deposits than wholesale funds
  - Lower demand of wholesale funds represents a positive funding shock for branches of foreign banks

- Was the effect on funding costs long-lasting?

- Did branches of FBOs borrow more?

Identification

- The regulatory change occurs roughly at the same time as the sovereign crisis in Europe
  - Authors include a GIIPS dummy in their panel analysis
  - Time-varying GIIPS dummy?

- Retrenchment of European banks following the global crisis
  - European banks reduced foreign banking activities to improve their capital ratios (McCauley, Bénétrix, McGuire and von Peter, 2017)
  - Concern if the complexity of organizational structure is negatively correlated to capitalization
  - Control for family-level capitalization ratio?

THANK YOU!