Foreign Investment, Regulatory Arbitrage, and the Risk of U.S. Banking Organizations

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Discussion by
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The paper in one slide

- **Objective of the paper**: to study the impact of cross-country differences in banking regulation and supervision on:
  - (1) locations of subsidiaries of US bank holding companies (BHC) (Q1)
  - (2) risk for BHC (Q2)

- Very nice paper:
  - Excellent dataset
  - Many estimations to check the results
  - Very clear to read

My comments are requests for clarifications / explanations.
Banking regulation variables

1. Why would the three chosen variables for banking regulation (activities restriction, capital regulation, supervisory power) influence location choices?

What are the hypotheses for each variable (e.g. activities restriction)?
Comments on Q1 (location choices) (1/2)

- Banking regulation variables

- 1. Why would the three chosen variables for banking regulation (activities restriction, capital regulation, supervisory power) influence location choices?

- What are the hypotheses for each variable (e.g. activities restriction)?

- 2. Why focusing only on these three variables?

- To me, you take the same three variables than Karolyi and Taboada (JoF, 2015) but you don’t explain why.
Comments on Q1 (location choices) (2/2)

- **Subsidiary location variables**
  - Two variables are used: a dummy variable for the presence of the BHC in the country, the log of one plus the number of foreign subsidiaries for a BHC in the country.
  - So both variables do not take into account the importance of the activities of the BHC in the country.

- If a BHC has a minor representative office or owns the largest bank of the country, both variables have exactly the same value.
- Why not taking into account the total assets of the subsidiary?
1. Bank risk variables

Why using only both these risk measures (VaR and DCoVaR)? Why not a z-score for instance?
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Why using only both these risk measures (VaR and DCoVaR)? Why not a z-score for instance?

2. Hypotheses

Why can we expect an impact of banking regulation in the country of the subsidiary on bank risk?

Is it that obvious?
Comments on Q2 (risk) (2/2)

- 3. Banking regulation variable

You investigate the impact of the average (weighted by subsidiary counts) regulatory stringency of subsidiary locations.

- Does it make sense?

- You do not take into account again the importance of activities in each country.
Other comments

1. Policy implications of the research question should be more developed

- why do we care about the impact of banking regulation on subsidiary locations / risk of BHC?

Too short on this point in the introduction.
Other comments

2. More justifications for considering only US BHC

- It is a question related to international banking.
- There is no obvious reason to consider only US banks. Why not having a larger sample including international banks from everywhere?
- More variation, greater dataset…
- Give reasons to focus on US banks (same home regulation, same biases towards other countries…)

3. Potential influence of US foreign policy

Very large set of control variables (economic, institutional,….) but maybe you should also take into account US foreign policy with a given country: it can exert an impact on the locations of BHC.
Thank you for your attention