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.

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) ?

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?

Comments on Q2 (risk) (1/2)

- **1. Bank risk variables**

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

Comments on Q2 (risk) (1/2)

- **1. Bank risk variables**
- 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…)

Other comments

- **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