Discussion of "Do Global Banks Spread Global Imbalances?"

Adam B Ashcraft
Credit, Investment, and Payment Risk

Overview of paper

- ABCP conduits (\$1.2 trillion in June 2007) were used by global banks to manufacture "riskless debt" by purchasing the mediumterm private debt of countries with current account deficits using short-term debt and a bank-sponsored backup line of credit (section 3.1)
- ABCP conduits were sponsored by both current account surplus and deficit countries (section 3.2), but were more prevalent in countries with weaker capital requirements for backup lines of credit (section 3.3)
- Focusing on the largest publicly-traded banks in the US and Europe, banks with more ABCP exposure relative to equity capital had more negative equity returns during August 2007 (section 4)

Shadow Bank Liabilities

July 2007, estimated

Short Term

Long Term

ABCP

\$1200 billion

MTN \$2000 billion

Securities lending

\$600 billion

LTD

\$??? billion

Broker-dealer repo \$2500 billion

Equity

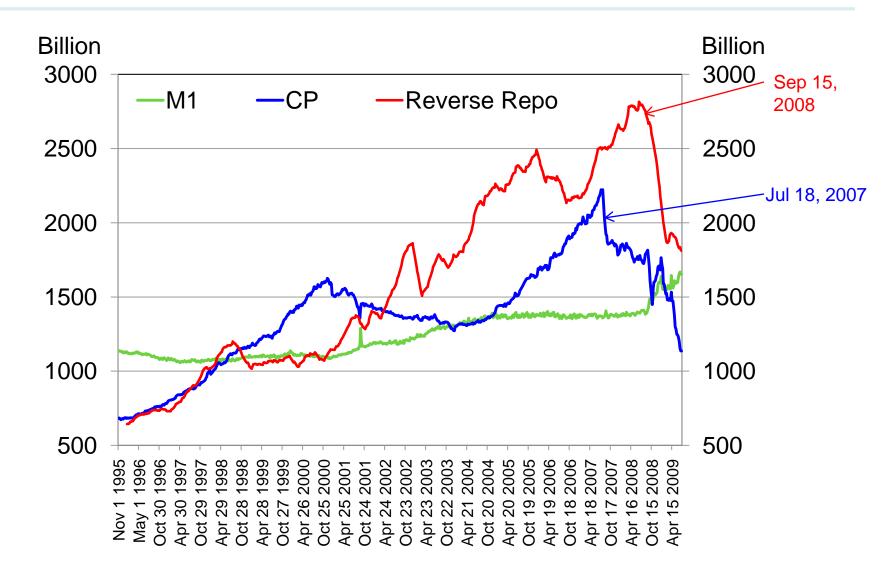
\$??? billion

Finance company CP \$400 billion

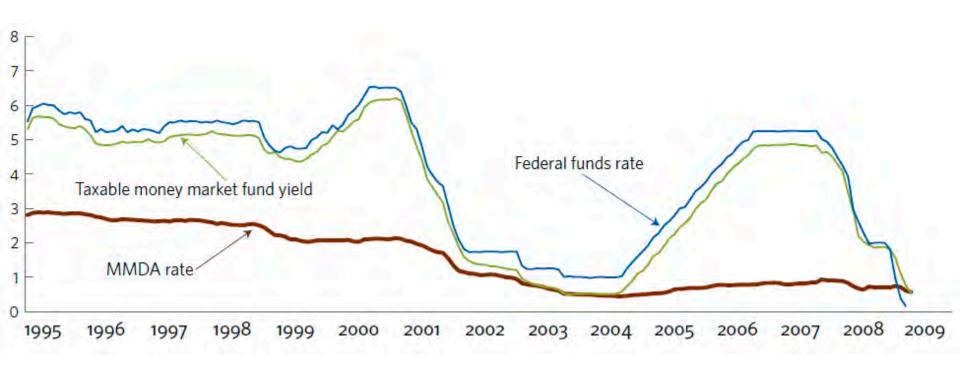
Liquidity puts \$700 billion

Total ~ \$10,000 Billion

Short Term Liabilities: CP, Reverse Repos, M1

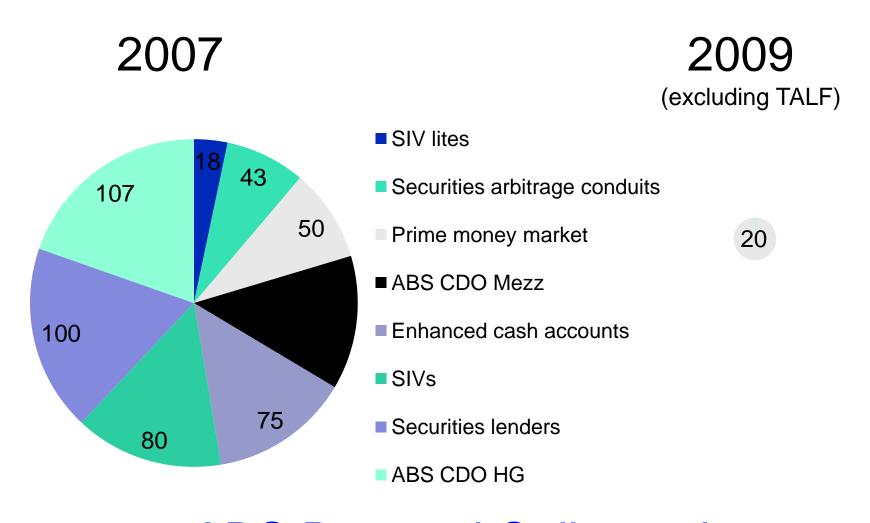


Bank deposit rates and money market yields



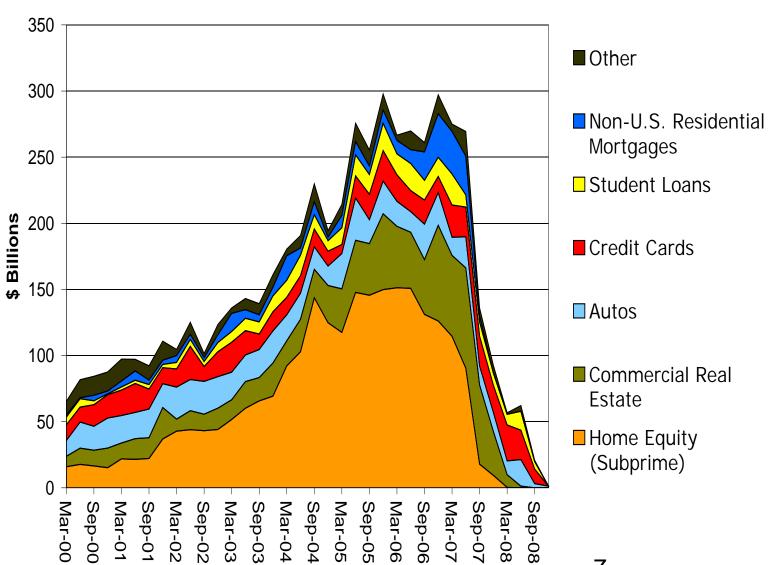
ABS Demand by Investor Type

Billions \$



Source: JP ABS Demand Collapsed

ABS Issuance: Growth and Collapse by Asset Class



Source: JP

7

7

Shadow Bank Topology Balance Sheet for ABS (1) Good SIVs Bad SIVs SIV Lites (Limited Purpose Finance Cos.) \$100 billion assets \$400 billion assets \$50 billion assets `ABCP ₩ -20% AAA-A ABCP ~60% **ABCF** ~40% AAA-A (heavy AAA-A MTN ~50% (subprime MTN subprime -30% MTN ~30% (no exposure) exposure) subprime) ~0% ~20% LTD ~20% LTD LTD BBB-B BBB-B Capital Notes -15% Capital Notes ~15% Capital Notes ~10% **∧evered** ~7x *l*evered ~7x Nevered ~10x Origination of Loan and ABS Shadow Bank Funding Term ABS ABS CDOs Multiseller Conduits (loan accumulators) (SPV. maturity matched) (resecuritization) \$525 billion assets AAA-A AAA-A AAA-A Finance Companies and BHCs **MMFs** Loans 100% ABCP Loans (loan originators) BBB-B BBB-B (funding) BBB-B Parent CF Equity CD levered ~∞ levered 5-10x levered 5-10x CP ABCP MTN MMF Loans Conduit Single-Seller Conduits **Floaters Shares** ABS (maturity transformators) MTN, LTD \$150 billion assets Equity 60 days 1 day Loans 100% ABCP implicit levered levered ~15x Balance Sheet for ABS (2) Securities Arbitrage Conduits **MMFs** Securities Lenders \$ 50 billion assets \$600 billion assets \$50 billion assets A1 (MMF) MMF *Hybrid conduits were a AAA-A 100% ABCP AAA-A T-Bonds tranches **Shares** mixture of single-seller, multiseller and arb conduits and had \$210 in levered ~∞ levered ~50x implicit leverage CP outstanding at the peak.

