

Discussion of “Do Global Banks Spread Global Imbalances?”

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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 medium-term 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

ABCP
\$1200 billion

Securities lending
\$600 billion

Broker-dealer repo
\$2500 billion

Finance company CP
\$400 billion

Liquidity puts
\$700 billion

Long Term

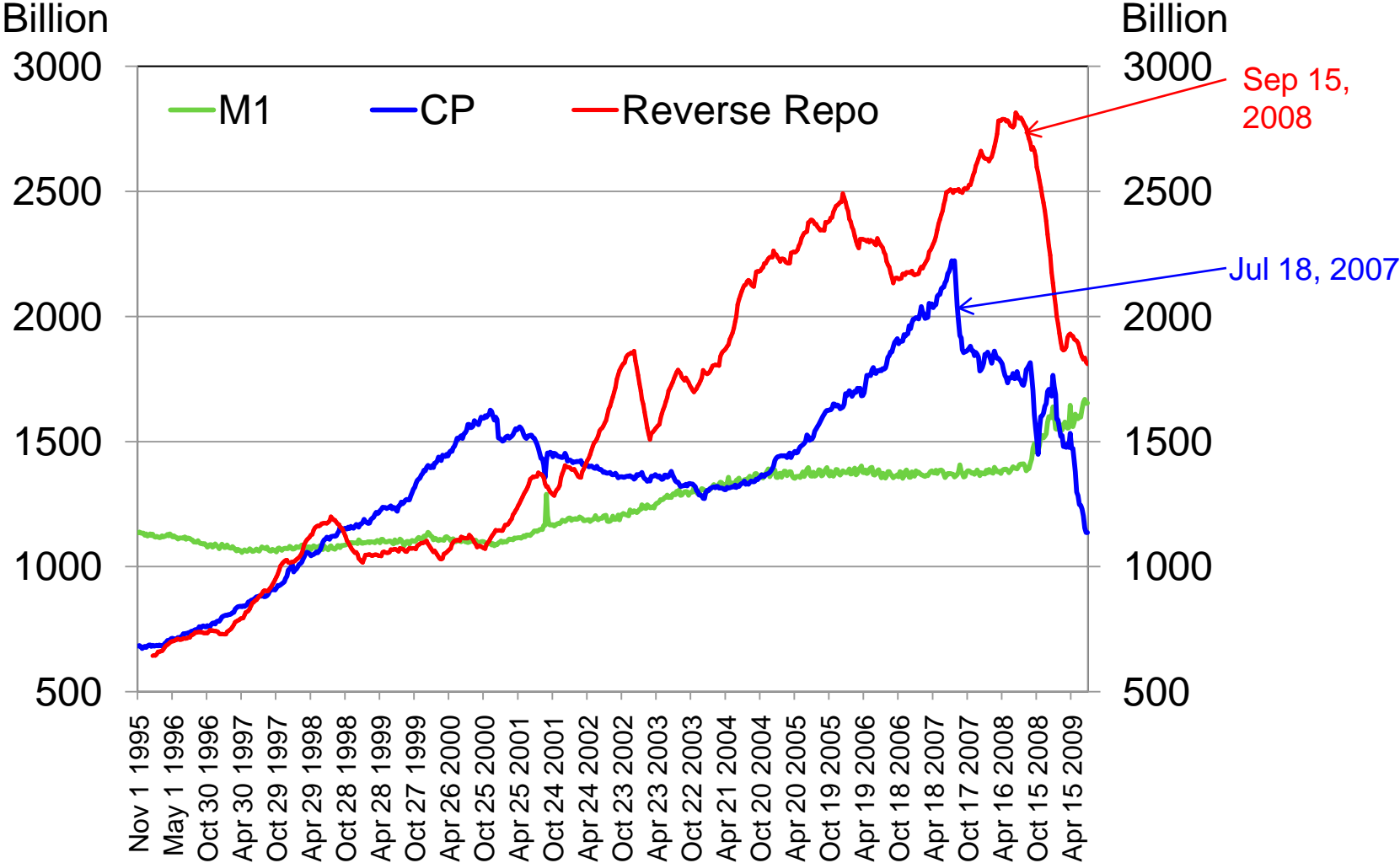
MTN
\$2000 billion

LTD
\$??? billion

Equity
\$??? billion

Total ~ \$10,000 Billion

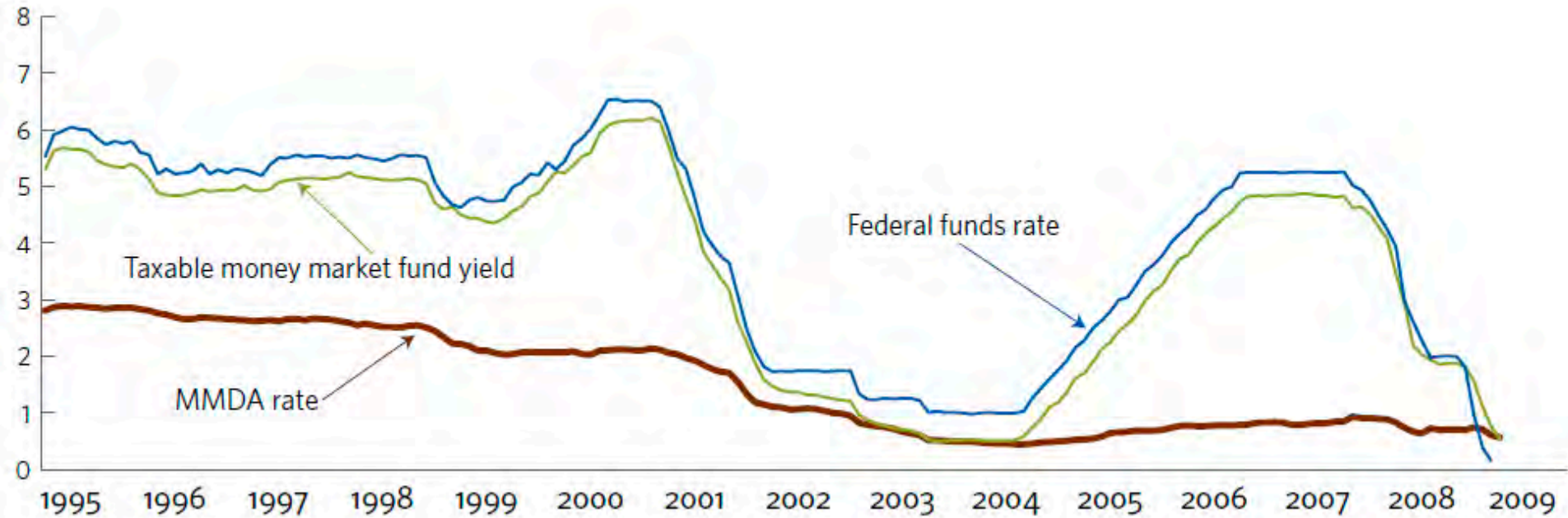
Short Term Liabilities: CP, Reverse Repos, M1



Source: Federal Reserve Board

M1 is a bad Proxy for Short Term Funding

Bank deposit rates and money market yields



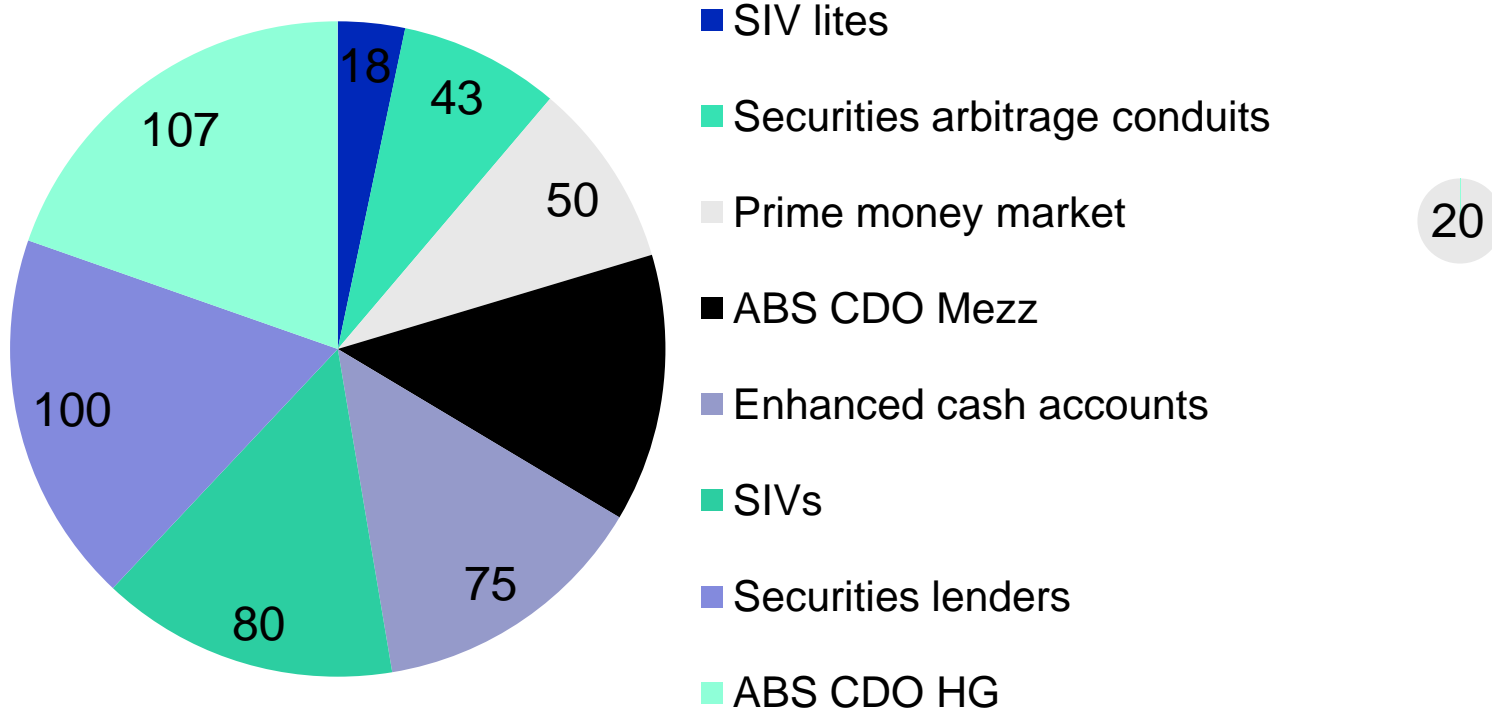
ABS Demand by Investor Type

Billions \$

2007

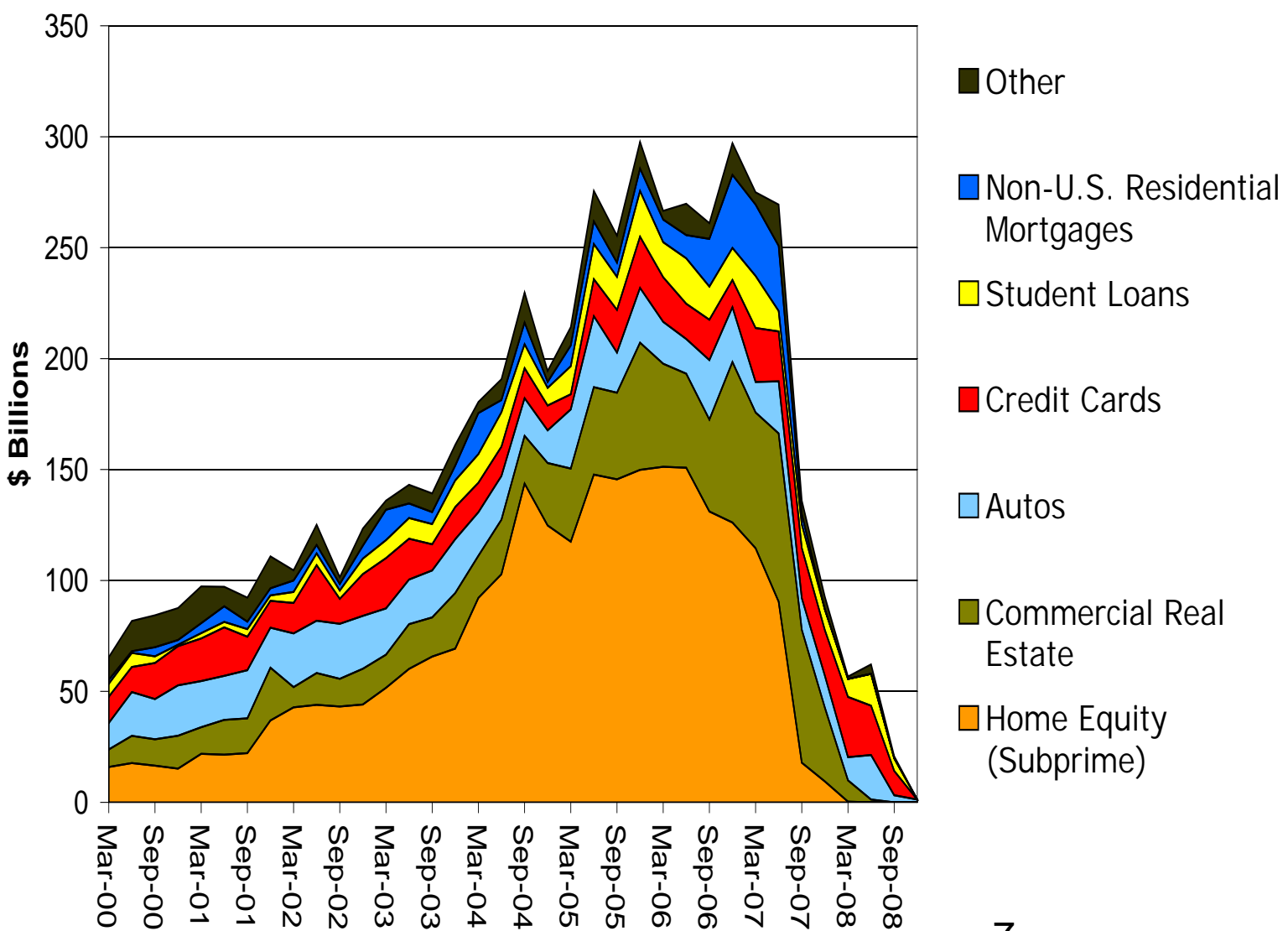
2009

(excluding TALF)



ABS Demand Collapsed

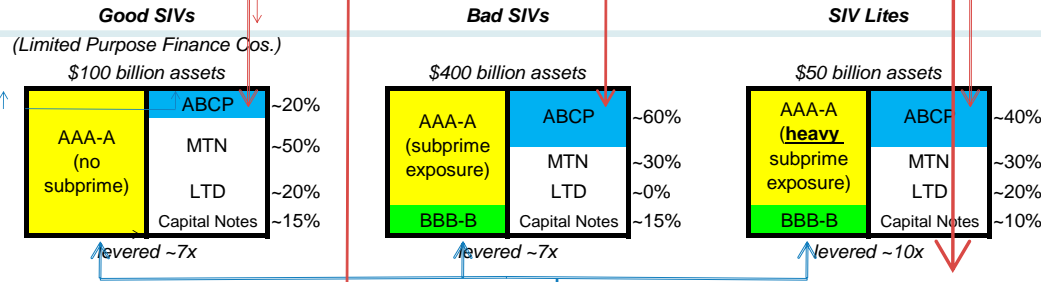
ABS Issuance: Growth and Collapse by Asset Class



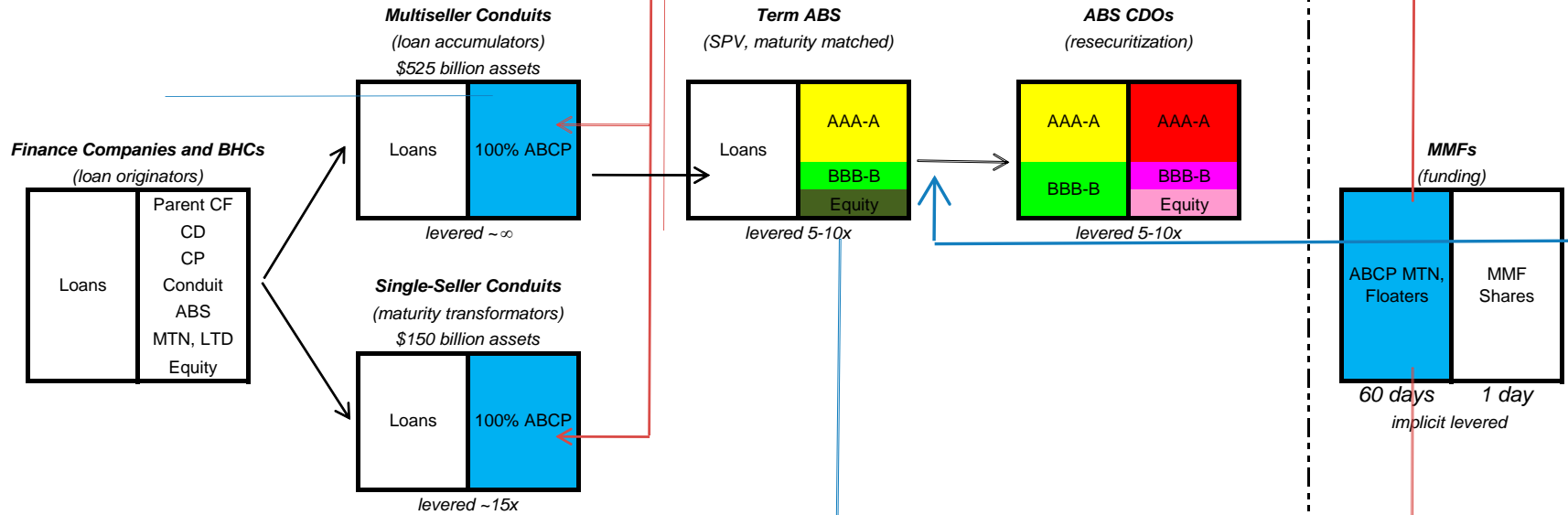
Source: JP

Shadow Bank Topology

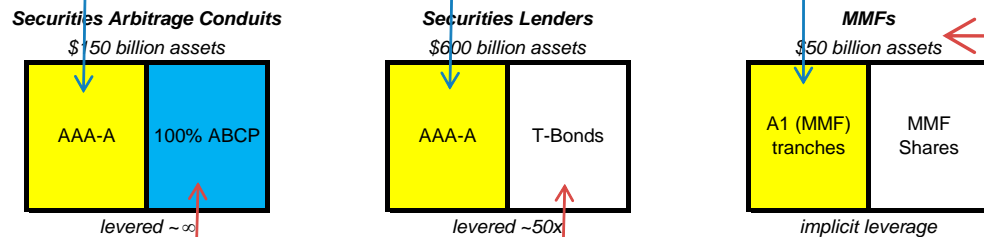
Balance Sheet for ABS (1)



Origination of Loan and ABS



Balance Sheet for ABS (2)



*Hybrid conduits were a mixture of single-seller, multiseller and arb conduits and had \$210 in CP outstanding at the peak.

