Discussion of:

Collateral Easing and Safe Asset Scarcity: How Money Markets Benefit from Low-Quality Collateral

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Central Bank Collateral Framework and Funding Mix

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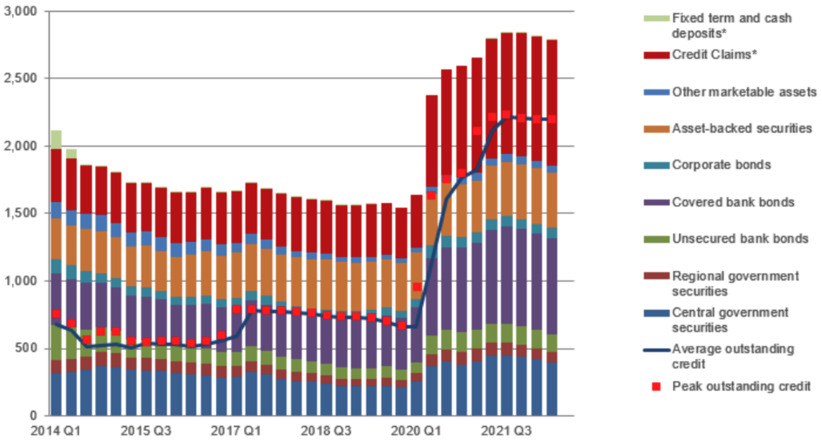
- Difference-in-differences research design
- Temporary expansion of the ECB collateral framework: Additional Credit Claims (ACC)
- Main findings:
  1. Treated banks pledge newly eligible ACC <u>instead of</u> high-quality marketable assets
  2. Treated banks increase activity in the private repo market $\Longrightarrow$ Reducing the scarcity of safe assets

Aggregate Evidence: Securities Pledged with the Eurosystem



- On aggragate, absolute dependence on central bank funding <u>increases</u>
- Credit claims appear to be pledged <u>in addition to</u> the existing eligible collateral

Control vs. Treated Banks: Securities Pledged with the Eurosystem

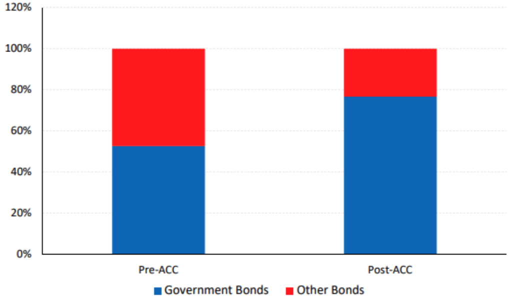


Figure: Control Banks

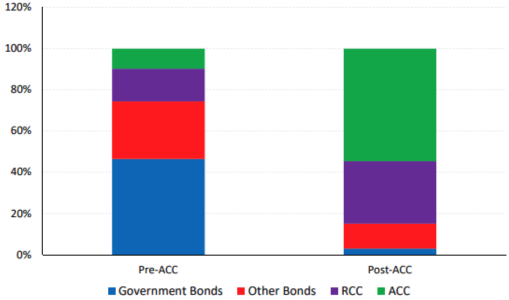


Figure: Treated Banks

- In relative terms, treated banks begin using fewer marketable securities as collateral
- Focus of the paper: The diminishing role of government bonds as pledged collateral for ECB funding
- Note: The adjustmet of government bonds is present both control and treated banks. Why?

The Role of Government Bonds as Pledged Collateral with the ECB

Micro-level Evidence: Difference-in-Differences

Dependent variable:	Nominal Value Pledged scaled by Amount Outstanding			
	(1)	(2)	(3)	(4)
	All bonds	Other bonds	Government	All bonds
Post x Treated	0.0090	0.0665	-0.1188**	0.0674
	(0.15)	(1.85)	(-2.49)	(0.84)
Post x Treated x Government				-0.1992**
				(-2.22)
Adj. R2	.8673	.8633	.8585	.8673
Obs	682,937	500,902	182,035	682,937
Bank-level Controls	Yes	Yes	Yes	Yes
Bond x Time FE	Yes	Yes	Yes	Yes
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Clustered S.E.	Bank, Time	Bank, Time	Bank, Time	Bank, Time

- Marketable securities, namely government bonds, carry a higher opportunity cost ("*liquid*" and "*sought-after assets for other private market transactions*")

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- Marketable securities, namely government bonds, carry a higher opportunity cost ("*liquid*" and "*sought-after assets for other private market transactions*")
- Government bonds are special. But are all EA government bonds considered equally special?
- The paper hypothesizes that there is "*some kind of pecking order when deciding with assets to pledge*"

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Interest rates, maturity, haircuts ...

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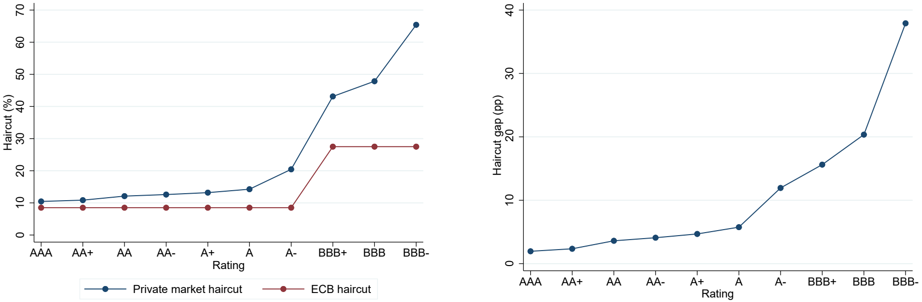

Example: Uncovered bank bond, 1-3 year residual maturity, fixed coupon

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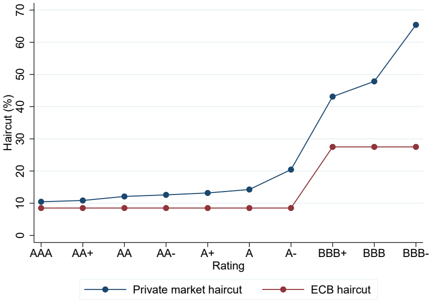

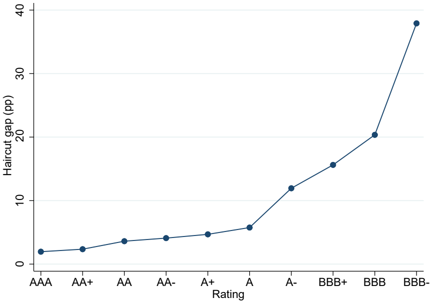

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$\Longrightarrow$ (Core EA) government bonds tend to offer very small or even negative haircut gaps
$\Longrightarrow$ Compared to other collateral, they are likely to be associated with the highest opportunity cost

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differences between control and treated banks related to ACC: NFC lending, TLTRO

	Treated = 0				Treated = 1			
	Mean	Std. Dev.	Median	Obs.	Mean	Std. Dev.	Median	Obs.
log(total assets)	10.462	0.897	10.482	42	11.424	1.087	11.25	87
Equity ratio (in %)	8.342	4.062	7.668	42	7.771	3.497	7.442	87
NFC Loans ratio (in %)	9.847	11.375	7.538	42	19.614	12.193	19.634	87
Bonds held ratio (in %)	9.589	8.152	7.701	42	9.138	5.536	8.603	87
Reserves ratio (in %)	9.271	8.933	5.864	42	5.986	4.491	5.079	87
LTRO ratio (in %)	1.194	2.78	0.000	42	3.583	3.214	2.439	87

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- Suggestions:
  - Which assets are pledged in the private repo market?
  - Present the main analysis on (1) pledging and (2) holding, respectively
  - Relate to existing evidence on how LOLR reduces funding uncertainty (Jasova, Mendicino and Supera (2021))

Final Thoughts

- Highly policy-relevant topic and thought-provoking paper
- I recommend everyone read it!
- Main suggestions:
    - Opportunity costs of government bonds and the role of haircut gaps
    - Address endogeneity concerns
    - Provide more insights into effects on money market activity