Discussion of
"Unintended Consequences of Post-Crisis Liquidity Regulation"

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Disclaimer: The views expressed in this discussion are those of the author and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.

Summary

- Two seemingly unrelated regulations
  - LCR $\rightarrow$ Increased liquid assets at covered banks
  - MMF reform $\rightarrow$ Movement from riskier prime funds to government funds
- Where did government funds invest? FHLB debt
- How did banks increase liquid assets? FHLB advances
- FHLB now more systemic and more maturity mismatched than before
- Suggests need to increase run-off rate on FHLB advances in LCR

Comments

- Overall, very plausible story. Same as Gissler and Narajabad (2017) FEDS Notes series but with cross-sectional evidence.
- Period between LCR and MMF reform implementation
  - Use to isolate relative effect of each regulation?
  - How much of story was demand-side (LCR) vs supply-side (MMF reform) vs serendipitous confluence of both?
- How effective/ineffective was regulation at a system-wide level
  - On net, has aggregate liquidity risk decreased but not as much as it could have? Or has it not changed? Or has it even increased (Hachem and Song, 2021)?
- Decomposition of government subsidy calculation
  - For these regulations, maybe care more about short maturity subsidy
  - ABCP (rather than LIBOR) as private institution cost $\rightarrow$ no short maturity subsidy