Bank Capital And Liquidity Bank Of England

This thesis assesses UK banking liquidity regulation and supervision and the Basel liquidity requirements, and models banks' liquidity risk. The study reveals that the FSA's risk-assessment framework before 2008 was too general without specifically considering banks' liquidity risk (as well as its failures on Northern Rock). The study also lists the limitations of the FSA's banking liquidity regimes before 2008. The thesis reviews whether the FSA's new liquidity regimes after 2008 would have coped with UK banks' liquidity risks if they have been applied properly. The fundamental changes in the FSA's liquidity supervision reflect three considerations. First, it introduces a systemic control requirement by measuring individual fifirm's liquidity risk with a market-wide stress or combination of idiosyncratic and market-wide stresses. Second, it emphasizes the monitoring of business model risks and the capability of senior managers. Third, it allows both internal and external managers to access more information by increasing the liquidity reporting frequencies. The thesis also comments on the Basel Liquidity Principles of 2008 and the two Liquidity Standards. The Principles of 2008 represents a substantial revision of the Principles of 2000 and reflect the lessons of the fifinancial market turmoil since 2007. The study argues that the implementation of the sound principles by banks and supervisors should be fexible, but also need to be consistent to make sure they understand banks' liquidity positions quite well. The study also explains the composition of the Basel liquidity ratios as well as the side effect of Basel liquidity standards; for example, it will reshape interbank deposit markets and bond markets as a result of the increase in demand for `liquid assets' and `stable funding'. This thesis uses quantitative balance sheet liquidity analysis, based upon modified versions of the BCBS (2010b) and

Moody's (2001) models, to estimate eight UK banks' short and long-term liquidity positions from 2005 to 2010 respectively. The study shows that only Barclays Bank remained liquid on a short-term basis throughout the sample period (2005-2010); while the HSBC Bank also proved liquid on a short-term basis, although not in 2008 and 2010. On a long-term basis, RBS has remained liquid since 2008 after receiving government support; while Santander UK also proved liquid, except in 2009. The other banks,especially Natwest, are shown to have faced challenging conditions, on both a short-term and long-term basis, over the sample period. This thesis also uses the Exposure-Based Cash-Flow-at-Risk (CFaR) model to forecast UK banks' liquidity risk. Based on annual data over the period 1997 to 2010, the study predicts that by the end of 2011, the (102) UK banks' average CFaR at the 95% confidence level will be -£5.76 billion, Barclays Bank's (Barclays') CFaR will be -£0.34 billion, the Royal Bank of Scotland's (RBS's) CFaR will be -£40.29 billion, HSBC Bank's (HSBC's) CFaR will be £0.67 billion, Lloyds TSB Bank's (Lloyds TSB's) CFaR will be -£4.90 billion, National Westminister Bank's (Natwest's) CFaR will be -£10.38 billion, and Nationwide Building Society's (Nationwide's) CFaR will be -£0.72 billion. Moreover, it is clear that Lloyds TSB and Natwest are associated with the largest risk, according to the biggest percentage difference between downside cash flow and expected cash flow (3600% and 816% respectively). Since I summarize a bank's liquidity risk exposure in a single number (CFaR), which is the maximum shortfall given the targeted probability level, it can be directly compared to the bank's risk tolerance and used to guide corporate risk management decisions. Finally, this thesis estimates the long-term United Kingdom economic impact of the Basel III capital and liquidity requirements. Using quarterly data over the period 1997:q1 to 2010:q2, the study employs a non-linear-in-factor probit model to show increases in bank capital and liquidity would reduce the probability of a bank crisis significantly. The study estimates the long-run cost of the Basel III requirements with a Vector Error Correction Model (VECM), which shows holding higher capital and liquidity would reduce output by a small amount but increase bank profitability in the long run. The maximum temporary net benefit and permanent net benefit is shown to be 1.284% and 35.484% of pre-crisis GDP respectively when the tangible common equity ratio stays at 10%. Assuming all UK banks also meet the Basel III long-term liquidity requirements, the temporary net benefit and permanent net benefit will be 0.347% and 14.318% of pre-crisis GDP respectively. Therefore, the results suggest that, in terms of the impact on output, there is considerable room to further tighten capital and liquidity requirements, while still providing positive effects for the United Kingdom economy.

Whether and to what extent tougher bank regulation weighs on economic growth is an open empirical question. Using data from 28 manufacturing industries in 50 countries, we explore the extent to which cross-country differences in bank liquidity and capital levels were related to differences in sectoral activity around the period of the global financial crisis. We find that industries which are more dependent on external finance, in countries where banks had higher liquidity and capital ratios, performed relatively better during the crisis, with regard to investment rates and the creation of new enterprises. This relationship, however, exists only for bank-based systems and emerging market economies. In the pre-crisis period, we find only a marginal link to bank capital. These findings survive a battery of robustness checks and provide some solid support for the tighter prudential measures introduced under Basel III.

This paper aims to evaluate the relationship between capital and liquidity following the implementation of the Basel III rules. These regulatory measures target both increased capital ratios and a reduction of banks' maturity transformation risk, which could result in excessive constraints on bank liquidity creation, thereby negatively affecting economic growth. Using a simultaneous equation model, we find a bi-causal negative relationship, which suggests that banks may reduce liquidity creation as capital increases; and when liquidity creation increases, banks reduce capital ratios. Our results therefore imply a trade-off between financial stability (higher capital, reduced risk) and economic growth (liquidity creation).

"A great write-up on the art of banking. Essential reading for anyone working in finance." Dan Cunningham, Senior Euro Cash & OBS Dealer, KBC Bank NV, London

"Focused and succinct review of the key issues in bank risk management." Graeme Wolvaardt, Head of Market Risk Control, Europe Arab Bank plc, London The importance of banks to the world's economic system cannot be overstated. The foundation of consistently successful banking practice remains efficient asset-liability management and liquidity risk management. This book introduces the key concepts of banking, concentrating on the application of robust risk management principles from a practitioner viewpoint, and how to incorporate these principles into bank strategy. Detailed coverage includes: Bank strategy and capital Understanding the yield curve Principles of asset-liability management Effective liquidity risk management

The role of the bank ALM committee Written in the author's trademark accessible style, this book is a succinct and focused analysis of the core principles of good banking practice.

Achieving Financial Stability: Challenges To Prudential Regulation

Bank Capital, Liquidity and Systemic Risk

Bank Capital and Liquidity Creation

Bank Liquidity Creation and Financial Crises

Bank Capital, Risk and Liquidity Creation

Bank Capital and the Cost of Equity

This paper uses a DSGE model with banks and financial frictions in credit markets to assess

the medium-term macroeconomic costs of increasing capital and liquidity requirements. The analysis indicates that the macroeconomic costs of such measures are sensitive to the length of the implementation period as well as to the adjustment strategy used by banks, and the scope for monetary policy to respond to the regulatory changes.

The paper analyzes the relationship between bank competition and stability, with a specific focus on the Middle East and North Africa. Price competition has a positive effect on bank liquidity, as it induces self-discipline incentives on banks for the choice of bank funding sources *and for the holding of liquid assets. On the other hand, price competition may have a potentially negative impact on bank solvency and on the credit quality of the loan portfolio. More competitive banks may be less solvent if the potential increase in the equity base-due to capital adjustments-is not large enough to compensate for the reduction in bank profitability. Also, banks subject to stronger competitive pressures may have a higher rate of nonperforming loans, if the increase in the risk-taking incentives from the lender's side overcomes the decrease in the credit risk from the borrower's side. In both cases, country-*

specific policies for market entry conditions-and for bank regulation and supervision-may significantly affect the sign and the size of the relationship. The paper suggests policy reforms designed to improve market contestability and to increase the quality and independence of prudential supervision.
One of the lessons learned from the Global Financial Crisis of 2007–9 is that minimum capital requirements are a necessary but inadequate safeguard for the stability of an intermediary. Despite the high levels of capitalization of many banks before the crisis, they too experienced serious difficulties due to

insufficient liquidity buffers. Thus, for the first time, after the GFC regulators realized that liquidity risk can jeopardize the orderly functioning of a bank and, in some cases, its survival. Previously, the risk did not receive the same attention by regulators at the international level as other types of risk including credit, market, and operational risks. The GFC promoted liquidity risk to a significant place in regulatory reform, introducing uniform international rules and best practices. The literature has studied the potential effects of the new liquidity rules on the behaviour of banks, the financial system, and the economy as

a whole. This book provides a comprehensive understanding of the bank liquidity crisis that occurred during the GFC, of the liquidity regulatory reform introduced by the Basel Committee with the Basel III Accord, and its implications both at the micro and macroeconomic levels. Università Cattolica del Sacro Cuore contributed to the funding of this research project and its publication.

Bank capital, and a bank's liquidity position, are concepts that are central to understanding what banks do, the risks they take and how best those risks should be mitigated. This article provides a primer on these concepts. It can be *misleading to think of capital as 'held' or 'set aside' by banks; capital is not an asset. Rather, it is a form of funding -- one that can absorb losses that could otherwise threaten a bank's solvency. Meanwhile, liquidity problems arise due to interactions between funding and the asset side of the balance sheet -- when a bank does not hold sufficient cash (or assets that can easily be converted into cash) to repay depositors and other creditors. The article also explains the role of prudential regulation of banks, which seeks to ensure that banks have sufficient capital and liquidity resources to properly account for the risks that they take.*

Bank Capital and Liquidity
Liquidity Risk and Asset-Liability Management
Essays on Financial Institutions Capital and Liquidity Regulation
Liquidity Risk Management
Mapping Capital and Liquidity Requirements to Bank Lending Spreads
Macroeconomic Costs of Higher Bank Capital and Liquidity Requirements

This paper studies the impact of bank regulation and taxation in a dynamic model with banks exposed to credit and liquidity risk. We find an inverted U-shaped relationship between capital requirements and

bank lending, efficiency, and welfare, with their benefits turning into costs beyond a certain requirement threshold. By contrast, liquidity requirements reduce lending, efficiency and welfare significantly. The costs of high capital and liquidity requirements represent a lower bound on the benefits of these regulations in abating systemic risks. On taxation, corporate income taxes generate higher government revenues and entail lower efficiency and welfare costs than taxes on non-deposit liabilities.
The Great Financial Crisis of 2007–2010 exposed the existence of significant

imperfections in the financial regulatory framework that encouraged excessive risk-taking and increased system vulnerabilities. The resulting high cost of the crisis in terms of lost aggregate income and wealth, and increased unemployment has reinforced the need to improve financial stability within and across countries via changes in traditional microprudential regulation, as well as the introduction of new macroprudential regulations. Amongst the questions raised are: What are the challenges to prudential regulation? How has the regulatory environment changed in recent years? How do the reforms interplay with market discipline, risk-taking incentives and risk management arrangements?Does the new regulatory framework allow for the introduction of financial innovation, and the associated benefits, without increasing disruptive financial risk? Contents: PrefaceAcknowledgmentsAbout the EditorsAbout the ContributorsSpecial Addresses: Challenges for Future Monetary Policy Frameworks: A European Perspective (Vítor Constâncio)Income Inequality: The Battlefield Casualty of Post-Crisis Financial Policy (Karen Shaw Petrou)A Practical Case for Rules-Based

Macroprudential Policy (Adam S Posen)Financial Regulation: The Evolving Macro- and Microprudential Landscape: Evolving Micro- and Macroprudential Regulations in the United States: A Primer (Diana Hancock)The Regulatory Response to the Sovereign-Bank Nexus (Luc Laeven)Japan's Regulatory Responses to Banking Crisis (Masami Imai)The Costs and Benefits of Bank Capital Requirements (Gianni De Nicolò)Capital Regulation: Capital Regulation: How Much Capital is Needed? (Mark Carey)CoCos: A Promising Idea Poorly Executed (Richard J Herring)Capital Regulation:

Lessons from a Macroeconomic Model (Caterina Mendicino, Kalin Nikolov and Dominik Supera)Liquidity Regulation: How Should Bank Liquidity be Regulated? (Franklin Allen and Douglas Gale)How Do We Figure Out Optimal Liquidity Regulation? (Douglas W Diamond and Anil K Kashyap) The Interplay Between Liquidity Regulation, Monetary Policy Implementation and Financial Stability(Todd Keister)Liquidity and Capital: Substitutes or Complements? (Marie Hoerova)Market Infrastructures, Central Clearing and Collateral Management: An Incentive Theory of Counterparty Risk, Margins, and CCP Design

(Florian Heider)Monitoring CCP Exposure, In Real Time If Needed (Albert J Menkveld)Regulation and Financial Innovation: Innovation & Regulation: Some Preliminary Observations (Michael S Barr)Financial Innovation and Regulation (Thorsten Beck)Thoughts About Financial Innovation (Josh Lerner and Peter Tufano)How Technological Innovation Will Reshape Financial Regulation (Carmelo Salleo)Bail-in Versus Bail-Outs: Incentives and Financial Stability: Bail-in-Able Debt and Fragility (Russell Cooper)Government Guarantees to Financial Institutions: Banks' Incentives and

Fiscal Sustainability (Agnese Leonello)The Unconvertible CoCo Bonds (Paul Glasserman and Enrico Perotti)Where to From Here?: The Macroprudential Toolkit (Richard Berner)The Great Financial Crisis and Its Aftermath: A This paper analyzes the evolution of bank funding structures in the run up to the global financial crisis and studies the implications for financial stability, exploiting a bank-level dataset that covers about 11,000 banks in the U.S. and Europe during 2001?09. The results show that banks with weaker structural liquidity and higher leverage in the pre-crisis period were more likely to fail afterward. The likelihood of bank failure also increases with bank risk-taking. In the cross-section, the smaller domestically-oriented banks were relatively more vulnerable to liquidity risk, while the large cross-border banks were more susceptible to solvency risk due to excessive leverage. The results support the proposed Basel III regulations on structural liquidity and leverage, but suggest that emphasis should be placed on the latter, particularly for the systemically-important institutions. Macroeconomic and monetary conditions are also shown to be related with the likelihood of bank failure, providing a case for the introduction of a macro-prudential approach to banking regulation.

'One of this book's greatest accomplishments is showing why banks still matter: they provide a useful lens for truly understanding our financial system. This book will be indispensable for anyone interested in how banks fund their operations. But it will

An Assessment of UK Banking Liquidity Regulation and Supervision

Banks and Capital Requirements

Does Going Tough on Banks Make the Going Get Tough? Bank Liquidity Regulations, Capital

Requirements, and Sectoral Activity

Bank Competition, Efficiency and Liquidity Creation in Asia Pacific

Bank Liquidity Management and Bank Capital Shocks

Bank Capital and Liquidity Regulation

Banking market integration in the Asia Pacific has greatly accelerated in recent years, in an environment of many other rapid advances in banking and finance. This has increased competition between domestic and foreign banks, and made the measurement of bank efficiency, competition, and liquidity creation a critical issue *for both policy makers and bank managers. This book investigates important policy-related issues in Asia Pacific banking. It analyses the link between competition and stability, examining the cases of fourteen Asia Pacific countries between 2003 and 2010, and goes on to discuss whether bank shareholder value is influenced by cost and profit efficiency changes over time. The authors explore the different ways in which banks in Asia-Pacific create liquidity, and whether this is linked to capital generation. This book provides valuable insight for researchers, policy makers and bank* *managers with an interest in financial rationalization, restructuring and consolidation. This study outlines a methodology for mapping the increases in capital and liquidity requirements proposed under Basel III to bank lending spreads. The higher cost associated with a one percentage point increase in the capital ratio can be recovered by increasing lending spreads by 15 basis points for a representative bank. This calculation assumes the return on equity (ROE) and the cost of debt are unchanged, with no change in other sources of income and no reduction in operating* *expenses. If ROE and the cost of debt are assumed to decline, the impact on lending spreads is reduced. To recover the additional cost of meeting the December 2009 proposal for the Net Stable Funding Ratio (NSFR), a representative bank would need to increase lending spreads by 24 basis points. Taking into account the fall in risk-weighted assets from holding more government bonds reduces this cost to 12 basis points or less. "The authors examine the relation between capital and liquidity creation. This issue is interesting because of the potential impact on liquidity* *creation from tighter capital requirements such as those in Basel III. They perform Granger-causality tests in a dynamic generalized method of moments (GMM) panel estimator framework on an exhaustive data set of Czech banks, which mainly includes small banks from 2000 to 2010. We observe a strong expansion in liquidity creation until the financial crisis that was mainly driven by large banks. They show that capital negatively Granger-causes liquidity creation in this industry, where majority of banks are small. But we also observe that liquidity creation Granger-causes a* *reduction in capital. These findings support the view that Basel III can reduce liquidity creation, but also that greater liquidity creation can reduce banks' solvency. Thus, the authors show that this reverse causality generates a trade-off between the benefits of financial stability induced by stronger capital requirements and the benefits of increased liquidity creation."--Abstract.*

This paper applies network analysis to assess the extent of systemic vulnerabilities in the ECCU banking system. It includes two sets of illustrative stress tests. First, solvency and liquidity shocks to *each individual bank and the impact on other banks in the network through their biltareal net asset exposures. Second, country and region-wide tail shocks to GDP affecting capital and liquidity of all banks in the shocked jurisdictions, followed by the rippling effects through the regional network. The results identify systemic institutions that merit hightened attention by the regulator, as determined by the degree of connectivity with the rest of the system, and the extent to which they are vulnerable to the failure of other banks.*

Basics for Bank Directors

Bank Funding, Liquidity, and Capital Adequacy
A Case Study of a New York State Bank Holding Company
Liquidity Risk, Efficiency and New Bank Business Models
Capital Regulation, Liquidity Requirements and Taxation in a Dynamic Model of Banking
The Changing Fortunes of Central Banking
An in-depth look at how banks and financial institutions manage assets and liabilities Created for banking and finance professionals with a desire to expand their

management skillset, this book focuses on how banks manage assets and liabilities, set up governance structures to minimize risks, and approach such critical areas as regulatory disclosures, interest rates, and risk hedging. It was written by the experts at the world-renowned Hong Kong Institute of Bankers, an organization dedicated to providing the international banking community with education and training. Explains bank regulations and the relationship with monetary authorities, statements, and disclosures Considers the

governance structure of banks and how it can be used to manage assets and liabilities Offers strategies for managing assets and liabilities in such areas as loan and investment portfolios, deposits, and funds Explores capital and liquidity, including current standards under Basel II and Basel III, funding needs, and stress testing Presents guidance on managing interest rate risk, hedging, and securitization
The Basel III Accord imposes minimum liquidity standards on bank balance sheets that are already constrained by minimum

capital standards. It is not clear whether or how banks' behaviors will change in this new joint-constraint regime. To gain some insight, we study the balance sheet liquidity behavior of U.S. banking companies in response to negative equity capital shocks prior to the implementation of Basel III. Our 1998-2012 data indicate that banks treated regulatory capital and balance sheet liquidity (e.g., net stable funding ratios, core deposits-to-loans, liquid assets-to-assets) as substitutes rather than complements. This main finding is limited to *so-called 'community banks' with assets less than $1 billion; equity capital and liquidity were neither substitutes nor complements at larger banks. In the course of rebuilding their capital ratios, shocked community banks substituted away from loans and loan commitments and reduced their dividend payouts, actions that resulted in greater balance sheet liquidity. Thus, in the state of nature that has traditionally most concerned bank regulators (i.e., stress to bank equity capital), community banks increase their* *liquidity buffers. Given that these lenders do not pose systemic risk, and that they have historically exceeded the Basel III liquidity minimums by wide margins, our findings suggest that imposing minimum liquidity thresholds on small banks will likely yield little prudential benefit.*

The appropriate level of bank capital and, more generally, a bank's capacity to absorb losses, has been at the core of the post-crisis policy debate. This paper contributes to the debate by focusing on how much capital would have been needed to avoid *imposing losses on bank creditors or resorting to public recapitalizations of banks in past banking crises. The paper also looks at the welfare costs of tighter capital regulation by reviewing the evidence on its potential impact on bank credit and lending rates. Its findings broadly support the range of loss absorbency suggested by the Financial Stability Board (FSB) and the Basel Committee for systemically important banks.*

The paper analyzes the relationship between bank competition and stability, *with a specific focus on the Middle East and North Africa. Price competition has a positive effect on bank liquidity, as it induces self-discipline incentives on banks for the choice of bank funding sources and for the holding of liquid assets. On the other hand, price competition may have a potentially negative impact on bank solvency and on the credit quality of the loan portfolio. More competitive banks may be less solvent if the potential increase in the equity base—due to capital adjustments—is not large enough to* *compensate for the reduction in bank profitability. Also, banks subject to stronger competitive pressures may have a higher rate of nonperforming loans, if the increase in the risk-taking incentives from the lender's side overcomes the decrease in the credit risk from the borrower's side. In both cases, country-specific policies for market entry conditions—and for bank regulation and supervision—may significantly affect the sign and the size of the relationship. The paper suggests policy reforms designed to improve market contestability and to* *increase the quality and independence of prudential supervision.*

Bank Liquidity and the Global Financial Crisis

An Introduction to Banking

Managing Funding and Asset Risk

New Evidence from a Quantile Regression Approach

The Causes and Implications of Regulatory Reform

Bank Funding Structures and Risk

Using data on commercial banks in the United

States and Europe, this paper analyses the impact of the new Basel III capital and liquidity regulation on bank-lending following the 2008 financial crisis. We find that U.S. banks reinforce their risk absorption capacities when expanding their credit activities. Capital ratios have significant, negative impacts on bank-retail-and-other-lending-growth for large European banks in the context of deleveraging and the “credit crunch” in Europe over the post-2008 financial crisis period. Additionally, liquidity indicators have positive but perverse effects on bank-lending-growth, which

supports the need to consider heterogeneous banks’ characteristics and behaviors when implementing new regulatory policies.
Liquidity Management is now a core consideration for banks and other financial institutions following the collapse of numerous well-known banks in 2007-8. This timely new edition will provide practical guidance on liquidity risk and its management – now mandatory under new regulation.
Bank Funding, Liquidity, and Capital AdequacyA Law and Finance Approach

The most up-to-date, comprehensive guide on liquidity risk management—from the professionals Written by a team of industry leaders from the Price Waterhouse Coopers Financial Services Regulatory Practice, Liquidity Risk Management is the first book of its kind to pull back the curtain on a global approach to liquidity risk management in the post-financial crisis. Now, as a number of regulatory initiatives emerge, this timely and informative book explores the real-world implications of risk management practices in today's market. Taking a clear and focused approach to the operational and financial obligations of liquidity risk management, the book builds upon a foundational knowledge of banking and capital markets and explores in-depth the key aspects of the subject, including governance, regulatory developments, analytical frameworks, reporting, strategic implications, and more. The book also addresses management practices that are particularly insightful to liquidity risk management practitioners and managers in numerous areas of banking organizations. Each chapter is authored by a Price Waterhouse Coopers partner or director who has significant, hands-on expertise Content addresses key areas of the subject, such as liquidity stress testing and information reporting Several chapters are devoted to Basel III and its implications for bank liquidity risk management and business strategy Includes a dedicated, current, and all-inclusive look at liquidity risk management Complemented with hands-on insight from the field's leading authorities on the subject, Liquidity Risk Management is essential reading for practitioners and managers within banking organizations looking for the most current

information on liquidity risk management.
A Practitioner's Perspective
Granger-causality Evidence
International Convergence of Capital Measurement and Capital Standards

Basel III and Bank-Lending: Evidence from the United States and Europe
Liquidity Transformation and Bank Capital Requirements
This book provides insight into current research topics in finance and banking in the aftermath of the financial crisis. In this

volume, authors present empirical research on liquidity risk discussed in the context of Basel III and its implications. Chapters also investigate topics such as bank efficiency and new bank business models from a business diversification perspective, the effects on financial exclusion and how liquidity mismatches are related with the bank business model. This book will be of value to those with an interest in how Basel III has had a tangible impact upon banking processes, particularly with regard to maintaining liquidity, and the latest research in financial business models.
This paper examines how the introduction of deposit insurance influences the relationship between bank cap-ital and liquidity creation. As discussed by Berger and Bouwman (2009), there are two competing hypothes-es on this relationship which can be influenced by the presence of deposit insurance. The introduction

of a deposit insurance scheme in an emerging market, Russia, provides a natural experiment to investigate this issue. We study three alternative measures of bank liquidity creation and perform estimations on a large set of Russian banks. Our findings suggest that the introduction of the deposit insurance scheme exerts a limited impact on the relationship between bank capital and liquidity creation and does not change the negative sign of the relationship. The implication is that better capitalized banks tend to create less liquidity, which sup-ports the "financial fragility/crowding-out" hypothesis. This conclusion has important policy implications for emerging countries as it suggests that bank capital requirements implemented to support financial stability may harm liquidity creation. JEL classification: G21; G28; G38; P30; P50 Keywords: Bank capital, liquidity creation, deposit insurance, Russia.

The purpose of this research paper is to examine the effect of bank capital on liquidity creation. Especially, we test two competing hypotheses: the “risk absorption” hypothesis and the “financial fragility-crowding out” hypothesis that describes such association in the context of UK and French banking industry. We use data collected from Bankscope for commercial banks pertaining to the aforementioned countries. The sample period range from 2000 to 2014. Liquidity creation was measured using a novel approach proposed by Berger and Bowman (2007). This study uses the quantile regression and the instrumental variables quantile regression, along with classical Ordinary Least Squares (OLS) and Panel regression, to deal with the mixed results reported by previous papers. Using OLS and panel regression, we first find that bank capital affects negatively liquidity creation which supports risk absorption hypothesis. Second, the result from quantile regression confirms the negative association between the aforementioned variables and shows that the effect is homogenous across quantiles of liquidity creation distribution.. Our result remains unchanged when using the quantile regression with instrumental variables to address potential problem of endogineity. This paper sheds more lights on the relationship between bank capital and liquidity creation by using a novel estimation approach based on the quantile regression methododolgy.

22.3.1 Basic Characteristics

Liquidity Creation and Bank Capital

Benefits and Costs of Bank Capital

Evidence From the Global Financial Crisis
How Does Bank Competition Affect Solvency, Liquidity and Credit Risk? Evidence from the MENA Countries
Bank Capital, Liquidity Creation and Deposit Insurance
Bank Asset and Liability Management

The review of the articles included in this thesis can be summarized as follows: The first essay examines the behavior of regulatory capital adjustment in a multiple capital requirement regime such as the Basel III one. This essay is motivated by the fact that the existing bank capital adjustment models are designed to address adjustment towards a single capital ratio. Our findings are numerous. Firstly, it appears that the joint regulation of two capital ratios (adjusted and unadjusted for risk) is assimilated to the regulation of a single capital ratio (not adjusted to risk), whose limit is assimilated to the value of a call option written on (regulatory) asset risk ratio. An analysis of both the Canadian and US experiences in the joint capital regulation provides further justification for the relative resilience of Canadian banks (in comparison with their US counterparts) during the last subprime crisis of late 2007. The second essay is devoted to the analysis of the counter-cyclical buffer standard introduced under Basel III. This standard aims to smooth undesirable cyclical fluctuations in bank capital as this negatively affect the granting of credit by banks, especially in times of crisis. This work aims to quantify the required level of cushion by taking into account the cyclical components of bank capital. The implications of the new liquidity standards are also discussed. The third essay analyzes the appropriateness of the new counter-cyclical capital standards of Basel III to Canadian credit unions regulation. Based on data extracted from Canadian financial cooperatives balance sheets over the period between 1996 and 2014, this essay shows that unlike banking institutions, credit union capital is already countercyclical, and therefore the introduction of the countercyclical buffer would not alter their intermediation activities. However, the analysis also reveals that the capital cushion of under-capitalized credit unions is pro-cyclical, and therefore these credit unions need close monitoring from regulators regarding their adjustment behaviors following countercyclical measures’ adoption. v The fourth essay is an extension of the previous one in that it analyzes the effect of regulatory capital on lending by Canadian credit unions. Our findings suggest that the growth in the Canadian credit unions loan portfolio is positively associated with the level of capitalization. In contrast, we uncover a negative relation between change in credit union capital and the growth of their lending portfolio. This finding suggests that credit unions should be encouraged to hold adequate levels of capital. This can be achieved through the implementation of conservative and countercyclical capital requirements as advocated for banks.

Using a sample of publicly listed banks from 62 countries over the 1991-2017 period, we investigate the impact of capital on banks’ cost of equity. Consistent with the theoretical prediction that more equity in the capital mix leads to a fall in firms’ costs of equity, we find that better capitalized banks enjoy lower equity costs. Our baseline estimations indicate that a 1 percentage point increase in a bank’s equity-to-assets ratio lowers its cost of equity by about 18 basis points. Our results also suggest that the form of capital that investors value the most is sheer equity capital; other forms of capital, such as Tier 2 regulatory capital, are less (or not at all) valued by investors. Additionally, our main finding that capital has a negative effect on banks’ cost of equity holds in both developed and developing countries. The results of this paper

provide the missing evidence in the debate on the effects of higher capital requirements on banks' funding costs.
Bank Liquidity Creation and Financial Crises delivers a consistent, logical presentation of bank liquidity creation and addresses questions of research and policy interest that can be easily understood by readers with no advanced or specialized industry knowledge. Authors Allen Berger and Christa Bouwman examine ways to measure bank liquidity creation, how much liquidity banks create in different countries, the effects of monetary policy (including interest rate policy, lender of last resort, and quantitative easing), the effects of capital, the effects of regulatory interventions, the effects of bailouts, and much more. They also analyze bank liquidity

creation in the US over the past three decades during both normal times and financial crises. Narrowing the gap between the "academic world" (focused on theories) and the "practitioner world" (dedicated to solving real-world problems), this book is a helpful new tool for evaluating a bank’s performance over time and comparing it to its peer group. Explains that bank liquidity creation is a more comprehensive measure of a bank’s output than traditional measures and can also be used to measure bank liquidity Describes how high levels of bank liquidity creation may cause or predict future financial crises Addresses questions of research and policy interest related to bank liquidity creation around the world and provides links to websites with data and other materials to address these questions Includes such hot-button topics as the effects of monetary policy (including interest rate policy, lender of last resort, and quantitative easing), the effects of capital, the effects of regulatory interventions, and the effects of bailouts

Liquidity involves the degree to which an asset can be bought or sold in the market without affecting its price. The 2007 to 2009 financial crisis was characterized by a decrease in liquidity and necessitated the introduction of Basel III capital and liquidity regulation in 2010. Inside, you'll learn how such regulations are applied on a broad crosssection of countries in order to understand and demonstrate the implications of Basel III. This book summarizes the defining features of the Basel I, II, and III Accords and their perceived shortcomings, as well as the role of the Basel Committee on Banking Supervision (BCBS) in promulgating international banking regulation. Basel III quantifies liquidity risk by using the measures liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). This book discusses approximation techniques that may be used to estimate these liquidity measures. Inside, the authors highlight the connections between liquidity creation and bank capital and provide you with the details of an investigation of the risks liquidity creation generates for banks. In addition, we consider the impact of the implementation of Basel III liquidity regulation on macroeconomic variables such as GDP, investment, inflation, consumption, income, savings, and employment.

Basel III Liquidity Regulation and Its Implications

Hearing Before the Committee on Banking, Housing, and Urban Affairs, United States Senate, One Hundred Fourteenth Congress, Second Session

A Revised Framework

A Law and Finance Approach

Bank Network Analysis in the ECCU

Channels of Adjustment