How do changes in financial reporting standards affect relationship lending?

Discussion

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The views expressed do not necessarily reflect those of the European Central Bank or the Eurosystem.
Overview

• The paper in a nutshell

• Three comments
  – Identification
  – A robustness check
  – Some open questions
The paper in a nutshell

- Topical, given the observed non-trivial impact of the IFRS 9 introduction on banks’ capital adequacy (could consider including in motivation)

![Graph showing CET1 ratio (transitional definition of capital) over time]

Source: ECB Supervisory Banking Statistics

- Valuable work on pre-IFRS definitions of credit-impairment stages, allowing for consistent comparisons over time (should be stressed more though!)

- Perspective of relationship lending: nice extension of literature linking banking regulation (and supervision) with credit provision and risk-taking
Banks’ credit supply over the period studied could (also) reflect:

- Impact of “low-for-long” interest rate environment on credit provision and risk-taking? (e.g. Jiménez et al. 2014; Arce, Garcia-Posada, Mayodromo & Ongena, 2018)

- Direct impact of NIRP on bank-firm relationships per se? (e.g. change of bank, as evidenced in Altavilla et al 2020)

- Change in relative importance of relationship lending due to banks’ need to satisfy lending targets (sample partly overlaps with availability of TLTRO II facility)?
A robustness check

- Khwaja-Mian FE → multiple relationship firms only
  - How much do multiple-relationship firms account for, in terms of sample coverage?
    - Significant share, also documented in past literature (~80% of loan volume), but good to document also in the paper
  - However, single-relationship firms might still be important:
    - Have been associated with different degrees of credit rationing (see Detragiache et al., 2000; Petersen & Rajan 1994)
    - Moreover, there is evidence that the choice of number of banks is endogenous (see Carletti 2004), which would suggest that multiple-relationship firms are structurally different from single-relationship firms in terms of risk profile

- Suggested work-around:
  → Use Industry – Location – Size (ILS) FE à la Degryse et al. (2019)
Some open questions

• What about relationship duration (see Petersen & Rajan, 2004; Berger & Udell, 1995; Degryse & van Cayseele, 2000, Maria Herrera & Minetti, 2007)? Maybe the short-term relationships were the ones impacted the most?

• Do ex-ante bank NPL ratios matter (maybe also in combination with capitalisation levels)?

• Microenterprises: What about their ex-ante and ex-post riskiness compared to the rest?