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“Beyond Regulatory Arbitrage: Novel Evidence on ABCP Market”

Abstract. This paper investigates the drivers behind the deterioration of the quality of collateral held by the shadow banking system, suggesting a search for yield of shadow banks as a result of changes in interest rates and aggregate demand for safe assets. The empirical analysis is based on a unique hand-collected dataset of banks' sponsored ABCP conduits. We find that conduits increase their issuance, and thus their demand for collateral when the institutional demand for safe assets is increasing. During this expansion, they also change the quality of their collateral as higher interest rates increase their cost of funding. We find an increase in the holdings of collateral with lower rating and of CDO and MBS, ultimately increasing the vulnerability of the conduits to runs.