

Discussion of
Do non-banks need access to the lender of last resort? Evidence from fund runs

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Summary

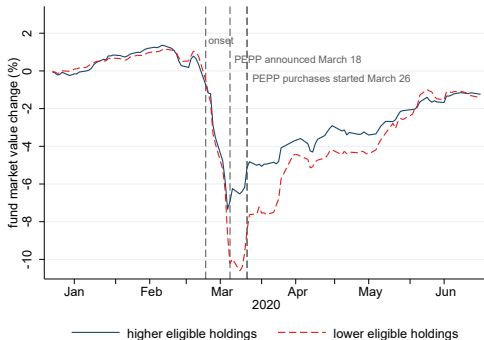
- How did ECB interventions during COVID-19 affect bond funds?

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- Two main channels:
 1. Asset-purchase programs raise the value of bond-fund assets
 2. Bank liquidity support improves repo funding to funds

Result #1: ECB asset-purchase program raises fund value

Fund performance (Figure 3)



1. Compare bond funds with a high share of central-bank-eligible assets relative to funds with a low share of central-bank-eligible assets
2. High-eligibility funds outperform low-eligibility funds

Result #2: ECB liquidity programs support repo funding

Repo lending to bond funds (Table 9)

	(1)	(2)	(3)
	Δ repo borrowing by funds		
<i>pre-Bridge LTRO * LTRO bank dummy</i>	-0.021 (0.037)	-0.019 (0.033)	-0.020 (0.034)
<i>Bridge LTRO announcement * LTRO bank dummy</i>	0.001 (0.026)	0.001 (0.027)	0.000 (0.028)
<i>First Bridge LTRO settlement * LTRO bank dummy</i>	0.262** (0.119)	0.262** (0.121)	0.259** (0.122)

1. Compare funds depending on existing bank relationships
2. Funds that have relationships with an “LTRO” bank receive more repo funding

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- Takeaway:
 1. Bond funds benefit (indirectly) from ECB interventions

Assessment

- Very interesting paper on an important question
 1. Paper has great data, lots of work went into it, and the empirical analysis is carefully done
 2. Important for understanding the impact of central-bank interventions in (future) crises

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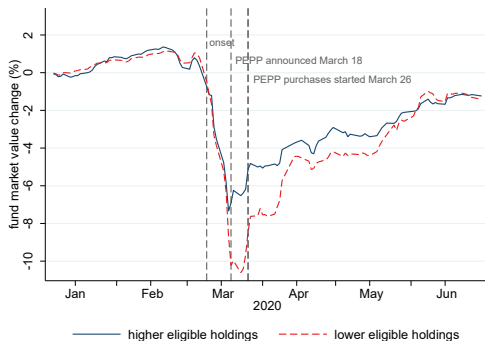
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- Main comment
 1. How important are asset purchases relative to repo funding?

How do asset purchases affect bond funds?

- Empirical identification
 1. Compare funds depending on the share of central-bank-eligible assets
 2. Main confounding concern: differences in risk exposure across funds

Fund performance before and after announcement

Fund performance (Figure 3)



1. Fund performance is almost identical prior to program announcement
2. Fund performance diverges exactly at announcement

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- Assessment
 1. Fund performance suggests that risk exposures cannot explain the result

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- Large economic magnitude
 1. Compare funds with 46% eligible assets relative to 5% and find a return differential of 3.6%
 2. Central-bank purchases increase fund value by $0.036/0.41 = 8.8\%$

How does repo funding affect bond funds?

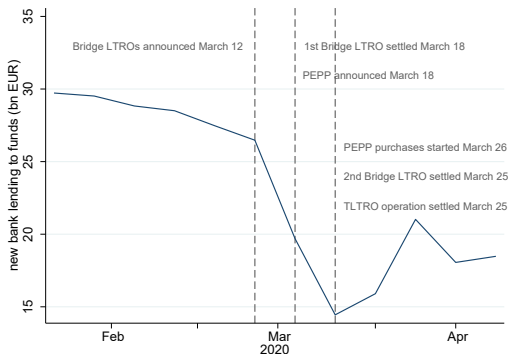
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 1. Authors conduct within-fund analysis (Khwaja and Mian estimator)

Repo funding to bond funds declines during COVID-19

Fund performance (Figure 2)



1. Repo funding provided by banks declined by 32%
2. Suggests that repo funding did not support funds in aggregate

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 2. Repo funding did not support funds in aggregate
- Small economic magnitude
 1. Repo/fund assets is about 3% (?) and capped at 10%
 2. Having a better relationship increases repo by only 0.26%
 3. Larger effect on fund performance, but timing is unclear

Comparing asset purchases vs. repo funding

- What was the impact of ECB interventions on bond funds?
 1. Asset purchases had an economically large effect
 2. Impact via repo funding was second-order
 - Implications
 1. Just as important to know what works and what does not work
 2. Does not include the impact of ECB on the “lack of bank asset purchases”
 - Footnote 4: *“Another channel through ... is if banks used liquidity obtained from the central bank to purchase assets sold by funds... a cursory check of the sector-level securities holdings data suggests that the banking sector did not absorb all assets sold by funds in March 2020.”*
- ⇒ Suggestion: quantify the economic importance of these interventions

Conclusion

- Asset-purchase programs had a first-order, economically large effect on bond funds during COVID-19.
- Repo funding mattered, but effects were second-order and limited in aggregate.
- Bond funds benefited indirectly from ECB interventions
- Main comment: quantify the relative economic importance of these channels.
- ★ Highly recommended reading for understanding the effect of central-bank interventions