Fire-sales and Information Advantage when Bank-Affiliation Helps

Massimo Massa, INSEAD, and Lei Zhang, NTU

DISCUSSION
by
Sergei Sarkissian, McGill University

Asian Bureau for Financial and Economic Research
Singapore, May 20-25, 2013
The paper’s place in the literature

It looks at **global financial market instability** issues (fire-sales) through the role of:

- **International institutional investors:**

- **Banking sector information:**
Major findings

◆ Bank-affiliated funds invest more in firms with close relation to their banks, and this investment delivers higher return.

◆ Bank-affiliated funds increase liquidity and reduce negative skewness, especially among stocks with more fire-sales pressures in crises.
Other results

- The explanatory power of CDS spreads for stock returns increases with bank-affiliated ownership.
- Bank-affiliated trades are related (unrelated) to stock returns before (during) the crisis.
- Bank-affiliated trades are unrelated to future price reversals.
Methodology highlights

◆ Sample period: 2001-2009

◆ Data types:
  ◆ International institutional ownership
  ◆ Firm-level accounting and stock market
  ◆ Bank loans
  ◆ CDS spreads for international bond issuers

◆ Estimation: Panel-based regressions
On average, it should be more difficult to find statistical support for bank-affiliated foreign ownership than for other foreign ownership.

- **Reason**: The average fraction of bank-affiliated foreign holdings is less than 30%.

- **Solution**: Adjust the estimation and inferences (especially economic) for large cross-sample differences.
### C1: Example

#### From Table 5 (contemporaneous returns):

<table>
<thead>
<tr>
<th></th>
<th>3-factor adjustment</th>
<th>4-factor adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006-07</td>
<td>2008-09</td>
</tr>
<tr>
<td>Drop in BA ownership</td>
<td>-0.114***</td>
<td>-0.065</td>
</tr>
<tr>
<td></td>
<td>(3.95)</td>
<td>(1.41)</td>
</tr>
<tr>
<td>Drop in other ownership</td>
<td>-0.050***</td>
<td>-0.092***</td>
</tr>
<tr>
<td></td>
<td>(4.31)</td>
<td>(5.23)</td>
</tr>
</tbody>
</table>
C2: Do bank-affiliated foreign investors have true advantage?

- Bank-affiliated foreign investors may hold on to their ownership in crisis years for reasons other than genuine informational advantage.
  
  **Reason:** Familiarity or some type of affinity to securities they hold can lead to the same behavior.

  **Solution:** If information is useful, then dropped stocks should exhibit negative abnormal returns, but this is not strongly observed.
**C2: Example**

From Table 5 (future returns):

<table>
<thead>
<tr>
<th></th>
<th>3-factor adjustment</th>
<th>4-factor adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006-07</td>
<td>2008-09</td>
</tr>
<tr>
<td>Drop in BA ownership</td>
<td>-0.044*</td>
<td>0.032</td>
</tr>
<tr>
<td></td>
<td>(1.82)</td>
<td>(0.87)</td>
</tr>
<tr>
<td>Drop in other ownership</td>
<td>-0.010</td>
<td>0.048***</td>
</tr>
<tr>
<td></td>
<td>(0.89)</td>
<td>(2.89)</td>
</tr>
</tbody>
</table>
C3: Levels versus changes

Does an increase in the fraction of borrowing in the specific country raises stock holdings by bank-affiliated funds in that country?

- **Reason**: Bank-affiliated funds invest more in countries in which borrowers have a close relation with their banks (Table 3).

- **Solution**: Conduct similar tests using changes in the variables.
Other comments

◆ How sensitive the results for non-bank affiliated funds are to the inclusion of Norges Bank?

◆ Are pre-crisis results stable across time?

◆ Risk-adjust for liquidity.

◆ Include hedging as another control variable based on Massa & Zhang (2012).

◆ Standard errors are not clustered everywhere.
Conclusion

◆ Pros:
  ▶ Rich dataset
  ▶ Generally convincing results

◆ Cons (minor):
  ▶ Some estimation issues
  ▶ Small editorial issues

Overall: Very interesting paper!