Discussion of
Rational dividend persistence in banking
by Benoit d’Udekem

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December 1, 2016

XXV MBF Conference, Rome

Disclaimer: The views presented are those of the author and do not necessarily represent those of the Bank for International Settlements
Overview

- Topical and policy relevant (FRB (2011); BCBS (2011); Shin (2016a, 2016b); Acharya, Le & Shin (2016); Caruana (2016))
- Non-trivial empirical effort, carefully executed, well written
- Three hypotheses
  (H1): ↑ agency conflict ⇒ ↑ likelihood to keep dividend policy
  (H2): during crises, H1 is reversed
  (H3): repurchase/RWA decisions not driven by agency conflicts
- Main model: probit with random effects

\[ \text{Prob}(D_{it} = 1) = \Phi \left( \alpha + \tau T_t + \beta X_{it} + \delta D_{it-1} + v_i + \epsilon_{it} \right) \]
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Key variable definition (similar for buybacks and RWA)

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<tr>
<th>“pay vs omit”</th>
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- (Residual) # owners, institutional ownership concentration,
- (Residual) # analysts, BHC dummy
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Main comments

- **Rationale for RE: invariability of ownership concentration & BHC**
  - Show it!
  - Why not use Herfindahl?
  - Kripfganz & Schwarz (2015): estimation with time-invariant regressors
  - Interact BHC with other variables? For instance, if agency conflict higher for BHC, couldn’t this also be seen via interaction terms?
  - With FE presumably better able to control for certain things

- BHC = 84% of sample: Better to make distinction between BHC w/wo BD subsidiaries (Acharya, Le & Shin (2016))?

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  - Risk-shifting incentives when franchise values are low
  - Interlocking balance sheets, bank capital as public good
  - Control for interconnectedness? (value of OTC derivatives)

- Control for funding structure, probability of bank support?
- Interpretation: avoid drawing insights from expressions like “variable X is borderline insignificant”
- Purpose of “dividend paid” regressions? Main insights come from “cut regressions”... (emphasize this in discussion of descriptives (re tables 4 & 5))
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