Discussion of **Rational dividend persistence in banking** by Benoit d'Udekem

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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): $\uparrow$ agency conflict $\Rightarrow$ $\uparrow$ 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
  $Prob(D_{it} = 1) = \Phi\left(\alpha + \tau T_t + \beta X'_{it} + \delta D_{it-1} + v_i + \epsilon_{it}\right)$

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Overview (cont.)

- Key variable definition (similar for buybacks and RWA)

"pay vs omit"	dummy	"maintain vs cut"	dummy
$div_t > 0$	1	$div_t \geq div_{t-1}$	1
$div_t = 0$	0	$div_t < div_{t-1}$	0

- (Residual) # owners, institutional ownership concentration, (Residual) # analysts, BHC dummy
- Find support for **H1**, **H2**, **H3**

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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))?
- Not obvious binary model is better than continuous (re results in Table 7)

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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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- Not fully convinced about exclusion of SCAP/CCAR controls (control for SIFIs maybe?))
- **H2** could be better substantiated by interacting other "agency conflict" proxies beyond ownership concentration
- Residual ownership & # analysts slightly differently defined than in Bodnaruk & Östberg (2013) & Hong et al. (2000); why?
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