Gu-Kowalewski
“Creditor rights and corporate bond market”

Discussion
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GOALS OF THE PAPER

• Empirical paper investigating the determinants of bond (relative to stock) market «development»

• Sample: data for 42 countries x 34 years (1978-2011)
• Dependent variable: Bond/Stock mkt cap
• Independent variables: a number of indexes proxying for various aspects of the institutional context
  • Creditor/Shareholder Rights (investor protection)
  • Legal origin
  • Financial reforms
  • Information disclosure
  • Banking crisis
• Bond (stock) markets are more developed where creditor (shareholder) rights (CR/SR) are stronger
  CONFIRMED (CR more important than SR)
• Financial reforms enhance corporate bond market where CR are stronger
  CONFIRMED
• Financial reforms are more effective where disclosure is better
  CONFIRMED
  • However, the effect is small
• Corp. Bond market develops in response to banking crises
  Mixed results
  • Bond market more developed in banking crises; interaction with investor protection, however, is not significant
• An interesting paper, based on an impressive DB

• Comments on 3 main issues:
  • Sample definition
  • B/S definition and focus of the paper
  • Definition and interpretation of independent variables («Financial reforms» and «Banking crisis»)
• Limited overlap between the datasets used to define independent variables («indexes»)
  • However, still an impressive sample: 42 countries x 34 years = 1428 obs. (potentially)
  • Actually, B/S is available only for 856 country/years
  • N.obs. is even lower (470 to 564) for regressions considering «financial reforms»

• Suggestion: Revise Table 1?
  • Panel A reports data for the original DB used (up to 6,812 obs.)
  • What are the relevant statistics for the paper sample?
  • How representative is the paper sample of the population from the original DBs?
A correct interpretation of Bond mkt development (B/S) is crucial to understand the focus of the paper (and its results)

Suggestion: explain the implications of using B/S more clearly

- B/S is a STATIC measure of bond market WEIGHT
- B/S is a RELATIVE (to Stock market) measure of such weight
- B/S is NOT a measure of bond market «growth»
- B/S ignores the weight of bank financing
  - E.g. B/S = 1 might happen where bond financing is alternatively 1, 10, 50% of total corporate financing
The paper analyzes «Reforms» as (+) variations of «market liberalization» according to Abiad et al (2010)

- Market liberalization is the sum of 7 different scoring models regarding - mostly - the banking system:
  - Credit controls and excessively high reserve requirements
  - Interest rate controls
  - Entry barriers (in the financial system)
  - State ownership in the banking sector
  - Capital account restrictions
  - Prudential regulation/supervision of the banking sector
  - Securities market policy
• A liberalization of the banking system should favour the market for corporate loans in the first place
• The expected effect on the bond/stock market is less clear

• The paper investigates the association of reforms with B/S
  • Reforms of the banking system seem to affect the bond market more directly than the stock market

• Suggestions:
  • Distinguish banking from securities markets reforms?
  • Consider - alternatively - variations (instead of static measures) of investor protection?
• Some specific points
  • The definition of «treated» group is unclear (top 1/3 investor protection vs. ?
    • The bottom 1/3 («control groups when they are in the bottom third of the sample»)
    • Or simply the rest of the sample («and 0 otherwise»)?
  
  • Risk of collinearity of the «treated» dummy with CR and SR measures?
  
  • The «post-reform» dummy (i.e. not its interaction with other variables) is excluded in Table 4 («collinear with the year fixed-effects») but included in Table 5… Why?
• B/S is positively associated with banking crises
  • However, the interaction terms of banking crises with investor protection are, basically, small and not significant

• But:
  •Statics or dynamics? B/S is higher in banking crises;
  •Nothing is said about its evolution over time, or about causation

• The Bond market might be more «developed» under the same conditions where a banking crisis is more likely
• What is the relation between bond market and bank loans?
• An interesting paper, filling a gap in existing literature

• An impressive database, combining data from various international sources

• Quite promising preliminary results

• Still some work to do