Summary Discussion 1 - 02/11/2020

- **Voluntary buffers:**
  - Distinguish between:
    - Pillar 2 guidance (optional for banks and appreciated by regulators)
    - Cap. buffers (not triggering default in case of missed target BUT no dividend payments/cut of boni required
    - Capital requirements: In case of breach, loss of bank license (possible)

- **Asset vs. Liability side regulation:**
  - Key idea: How does asset and liability side regulation interact. Are there some unintended consequences
    - Example: If FIs are forced to fulfill certain requirements on their asset side, they might be forced to hold assets that they otherwise wouldn‘t under a pure optimization requirement.
      - Liquidity regulation could impose that banks need to hold more very liquid assets than they want -> Could this lead to a lack of **safe assets** for other institutions ?

  - **TO-DO (Martin)**: How do banks actually fulfill their asset-side requirments. In case of liquidity ratios: Do they mainly hold gov. bonds use repos, etc....

    - Welfare argument: Banks have an artificially high willingness to pay for liquid assets (as they are required by regulation.) Unregulated entities don‘t have these incentives.

- **TO-DO (Tobias):** Read up on the timeline (and inst. setting) of the asset side regulation (in particular, the liquidity regulation (HQLA))