Discussion of
"Finding Comfort in Stress Tests"
by
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October 2015

Motivation

- Motivation starts from a Bernanke (2013) speech: "(Stress tests) provided anxious investors with something they craved: credible information about prospective losses at banks. Supervisors' public disclosure of the stress test results helped restore confidence in the banking system and enables its successful recapitalization."

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- Conclusion of paper is that useful information is released to the market and therefore broadly consistent with Bernanke's interpretation

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Challenges

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- Instead focus on raising certain questions through my private experience following the events in Cyprus, and as (partly) reported in Economic Policy piece in 2014: "Cyprus: from boom to bail-in"

- Main question for authors in what follows: do they expect their results to hold always and everywhere? Basically, do they expect similar findings outside the US?

Transparency

- June 2012 blog in Cyprus: do you need a stress-test done by Blackrock/PIMCO if the sovereign has no backstop?
- "Protecting bank executives" or "Common knowledge generating risks to financial stability"?
- And if risks to financial stability exist, who, how and for how long performs the stress tests?

Cost of Delay

CDS spreads in Troika countries
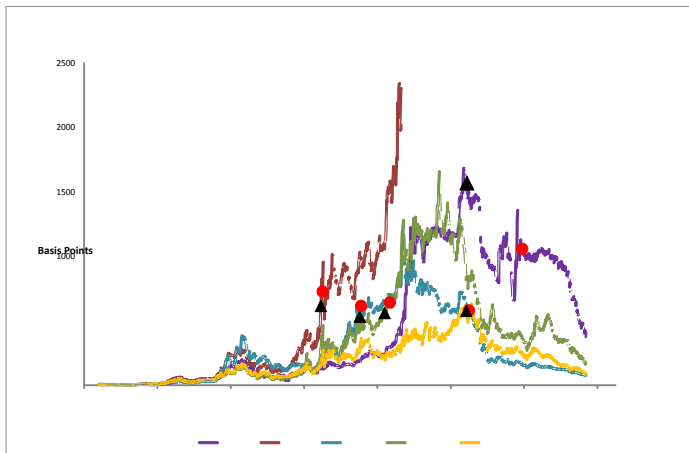
Limits to transparency?

- Can common knowledge create a bank run when backstop not pre-specified?
- What would happen if same event study was done for Cyprus? Or Greece in summer of 2015?
- No Cumulative abnormal returns to talk about, just a rapid slide in value of bank shares

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- Regulatory arbitrage and negative good will of 3.4 billion euros

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- Why does the central bank need to rely on black box private sector models? What does that tell you? Should heterogeneous private sector models be necessary or should central banks from other countries be performing this task?

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- Can information be used for political advantage through media leakages?
- Does financial stability and crisis management improve in such an environment?

- Do authors expect their results to translate to non-US environments? Like the Eurozone crisis for example?