

Mathias Schaller and Michael Sigmund, "The Capital Buffer Calibration for Other Systemically Important Institutions – Is there too much Country Heterogeneity?"

Discussion by Kim Abildgren



Brief recap of the paper

- **Background:**
 - Only EBA guidelines for OSII identification - not buffers.
- **Research question:**
 - Do the national translation processes of OSII-scores into capital buffers result in a consistent outcome across all EU countries?
- **Approach:**
 - Ordered probit, count data, quantile regressions.
- **Key findings:**
 - On average banks with a higher OSII-score receive a higher OSII buffer. However, country specific dummies are more important.
- **Policy implications:**
 - Need for guidelines for translation of OSII-scores into buffers?

Overall assessment

- Topic of great interest for policy makers and regulators.
- Clear focus and easy to follow.
- Well-crafted empirical bank-level study.
- Adds to the literature.

Major comments - 1

- It happens that a country only applies systemic risk buffers (SRB) and not OSII-buffers.
- In such cases, some results in the paper appear somewhat misleading.
- It should be considered to exclude such countries from the analysis.

Major comments - 2

- The introduction and motivation for the paper could deserve a little more work.
 - It would benefit the reader to have the definition of systemic risk clarified.
 - The “regulatory approach” is described as "a simple scoreboard approach" compared to the "academic approach" (SRISK, CoVAR). Is this a fair and balanced description?

Major comments - 3

- It would strengthen the paper to include a discussion on whether there are good reasons for country heterogeneity in the calibration of capital buffers for OSII.
 - What were the arguments for leaving this issue to the national regulators in the first place?
 - Do/should differences in financial structures matter?

More detailed comments

- More than half of the abstract devoted to background for the study.
- It is argued that market-based measures can not be used for OSIIIs since not all OSIIIs are listed companies. Some figures are mentioned (4% listed in the UK, 3% in France and 1% in Germany). Do these figures really refer to OSIIIs or to the entire banking system?
- Brownlees & Engle (2015) is now available in a journal version.
- The authors might consider including a reference to Engle, Jondeau & Rockinger (2015), where the SRISK measure is applied in a European context.

Summing up

- Great paper that presents the results of a very policy-relevant and well-conducted empirical study.
- A revised version of the paper should be of interest for a good field journal.