

# Bank Stress Test Disclosures, Private Information Production, and Price Informativeness

by Amanda Rae Heitz and P. Barrett Wheeler

Discussion by Deniz Igan

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# Quick recap

- Does mandated disclosure of stress test results reduce information production in the market and informativeness of market prices?
  - “First, how does the public release of stress test results affect the production of private information?”
  - “Second, how does revealing stress test information affect the overall price informativeness of the disclosing banks?”
- The answer seems to be yes
  - Comparison of banks that were required to disclose company-run stress test results to those that were not
  - Metrics: number (and experience) of analysts covering a bank, forecast error and dispersion, deviation of forecasts from time series prediction, level and volatility of betas

# Strong points

- Focus on smaller banks—less explored in the literature
- Different disclosure dates help tease out the effect of the announcement from confounding news
- Exploration of different dimensions and potential alternative explanations

# Potential improvement in the analysis - I

- Comparison of medium-sized banks to small banks a bit problematic (as the authors recognize)
  - Comprehensive summary stats for both groups would be welcome
  - Parallel trends assumption may be violated: analyst coverage for treated banks already on a downward trend before disclosure requirement
    - It would be good to show other metrics, even if they are closely related to coverage
  - Matched sample exercise welcome but arguably size still matters
    - Robustness to other dimensions such as opaqueness or complexity
    - Table 3 without fixed effects to see how much DISCLOSE and TREAT explain on their own
    - Possibly complement with regression discontinuity analysis
    - Check robustness of the findings with beta level and volatility as well

# Potential improvement in the analysis - II

- Measure of private information not the most intuitive
  - As analyst coverage increases, private info declines, by construction, why?
    - Good news is this should bias results against finding a decline in private info
- Finding on the drop on analyst coverage seems small (5%) but interesting that it seems to be the seasoned analysts dropping out
  - Why? Value added less because of wider public info creation so better to switch them to other banks/firms? Any information on what they switch to: smaller / larger banks, other industries, retirement?

# Nuance in interpretation and conclusions

- *Regulatory* disclosure can either increase or decrease private information production but the same applies to *company* disclosure?
  - The paper briefly discusses this but does not develop the link precisely
- Empirical findings could be explained by other factors
  - Decrease in forecast dispersion may have to do with having a common, better benchmark (as disclosed by the company itself)?
  - Sample period is benign enough to allow reliance on publicly disclosed information?
  - Analysis of beta level and volatility goes in that direction but evidence for increased beta volatility for treated banks is weak and why does beta level does not change if there is information in stress test disclosures?
- Stock prices being less informative could affect supervisory oversight but perhaps information produced by the stress test itself compensates, including soft information such as quality of data and model governance

# Wrapping up

- Interesting paper exploring a policy-relevant question for a set of banks that have not been studied extensively
- Empirical analysis can be improved by providing a more comprehensive comparison of treated banks and the control group and tightening the interpretation of the findings in a conceptual framework
- Conclusions could be nuanced to make room for other trends and to account for the possibility that the information content of the stress test itself helps supervisors