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The Impact of the Volcker Rule on Targeted Banks, Systemic Risk, Liquidity, and Financial Reporting Quality

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Highlights

- This paper examines the market's perception of the Volcker rule using the equity and credit default swap market responses.
- The paper features a large and inclusive sample.
- The results suggest a favourable perception of the rule.
- We provide further analyses on the impact of the rule to "targeted" and "non-targeted" banks, using our own proxy.
- We provide further analyses on the roles of systemic risk, liquidity, and financial reporting quality.

Abstract: Using a large and inclusive sample, we assess the market's perception of the Volcker Rule and its effectiveness. We use both the equity and credit default swap (CDS) market responses to the announcement. Our results suggest that the capital markets perceive the Volcker Rule as a positive regulatory measure overall. Using our own proxy, we examine market reactions to banks targeted and not targeted by the Volcker Rule and find that the overall positive market response to the Volcker Rule appears to be driven by the larger number of non-targeted, smaller banks. We