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The G-20's Regulatory Agenda and Banks' Risk*

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Highlights

- How are new prudential banking regulations likely to affect banks' risk?
- We measure risk by the realized volatility of banks' stock returns.
- Designation as a G-SIB and securities trading increase risk.
- Government support in the crisis is not associated with higher or lower risk.
- Capital requirements lower banks' risk; liquidity requirements have no effect.

Abstract

Using international listed banks from the United States, Europe, Japan and China from 2004 to 2014, we analyze the effect on banks' risk of some of the most relevant new elements of the prudential regulatory framework proposed after the Financial Crisis. We measure risk by a market measure, the volatility of banks' stock returns. We also examine the effect of government support during the financial crisis and designation as a G-SIB. We find little support for an association with government support and none for a negative relationship. We find support for a positive effect of designation as a G-SIB on risk. We find a positive association with securities trading and a negative association with capital. Banks´ chosen liquidity is unimportant for this measure of risk.

Key words: Banks, Regulation, Financial Crisis
JEL Codes: G21, G38, G01