BAD NEWS BANKERS: UNDERWRITER REPUTATION AND CONTAGION IN PRE-1914 SOVEREIGN DEBT MARKETS

by
Sasha Indarte

Discussion by Jonathan Rose

Disclaimer: ISFMANOEAWTFRSOTD

What makes securities markets function?

Market features	Pre-1914 London-based sovereign debt markets	1920s US urban real estate bond market	2000s RMBS market	Crypto-asset markets
Regulation, disclosures	X ✅ ?	X	✅	X
Collateral/Recourse	X / ✅	✅	✅	X
Credit enhancements	X	X	✅	X
Underwriters with reputations at stake	✅	✅	✅	X ✅
Low likelihood of catastrophic undiversifiable risk	✅	X	X	X

Contagion

This paper

- Contagion = correlation of asset prices
- Possible to look at defaults or other outcomes as well?

Typical central bank ways of thinking about contagion

- Vulnerabilities that amplify shocks
- Risk premia that affect credit availability and cost

What I'd like to know more about

Possible to research the purpose of individual bonds?

- Why did borrowers take certain loans to certain underwriters?
  - *Khwaja-Mian type identification strategy – borrowers w/ multiple lender relationships*
  - *Random?*
  - *E.g. Suppose a firm has two loans: a term loan and a line of credit*
- Did they take the weaker bonds to the underwriters willing to risk reputation?