

Report Type

End of Award Report

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Project Title

Real Effects of Deregulating the Scope of Financial Intermediation

Project Abstract

The projects undertaken under the funding scheme consider the real effects of deregulating the scope of banking, by elucidating the impact of wider bank scope on loan contracting, monitoring, and private-information acquisition in bank-firm relationships.

Activities and Achievement

Thanks to the funding, I have been able to finish two papers on the real effects of bank-scope deregulation. The first one is titled "Does Bank Scope Improve Monitoring Incentives in Syndicated Lending?" and co-authored with Daniel Neuhann (University of Pennsylvania).

Over the past two decades, loan shares retained by lead arrangers in lending syndicates have been on a steep decline in the United States. As smaller lead shares indicate reduced financial incentives to monitor borrowers, this has been interpreted as an alarming fact of declining monitoring efficiency. However, this development needs to be interpreted also against the background of financial deregulation. Starting in the 1990s, the scope of banks has been deregulated through the stepwise repeal of the Glass-Steagall Act. In this paper, we provide a theoretical rationale for why banks of wide scope, because they are exposed to their borrowers not just through the loan but also through other products (such as underwriting services), require smaller lead shares for safeguarding the same degree of monitoring. We confirm these predictions empirically by exploiting the repeal of the Glass-Steagall Act. Our findings suggest that the observed increases in syndicated-loan volumes and simultaneous decreases in lead shares over the last two decades are not associated with losses in monitoring efficiency.

The second project is titled "Patents as Substitutes for Relationships" and is joint work with Alminas Zaldokas (Hong Kong University of Science and Technology).

Firms face a trade-off between patenting, thereby disclosing innovation, and secrecy. In this paper, we show that this trade-off extends to financing relationships. We exploit the American Inventor's Protection Act of 1999, which forced firms to disclose the content of their patent applications within 18 months after filing for them. Firms in industries that experienced a greater change in the publicity of their patent applications were significantly more likely to break up their previous banking relationships and switch lenders. In addition, we explore whether deeper banking relationships tip the trade-off in favor of secrecy by increasing the value of private information. Consistent with this conjecture, we find that increased lender informedness following the creation of universal banks leads to fewer patents issued

by publicly listed U.S. firms, without affecting investment in innovation and its outcomes, such as new-product announcements.

Dissemination

"Does Bank Scope Improve Monitoring Incentives in Syndicated Lending?" has been revised and presented multiple times (not just in Cambridge but also at the University of Zurich, ESMT Berlin and the second EuroFIT conference on syndicated loans at London Business School).

"Patents as Substitutes for Relationships" has been finished and is currently being presented at conferences and seminars. In the fall, I presented the paper at Stockholm School of Economics, University of Zurich, University of Geneva, Université Paris Dauphine, INSEAD, HEC Paris, University of Luxembourg and LMU Munich (German Economists Abroad). This year I have presented the paper at the FIRCG conference organised by the University of Melbourne and at KU Leuven. Furthermore, the paper has been accepted to be presented at the WFA Annual Meeting.

Outputs

The two papers are my main outputs from this research:

<http://farzadsaidi.com/papers/Scope.pdf>

www.farzadsaidi.com/papers/info_patents.pdf

Major Difficulties and Any Other Issues

None.

Web Links

<http://farzadsaidi.com/papers/Scope.pdf>

www.farzadsaidi.com/papers/info_patents.pdf

Additional Information

Declaration

Details of relevant outputs of this award have been submitted to the CERF Database and details of any ensuing outputs will be submitted in due course.

Signature - Main Award Holder

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