Discussion:
"*Interbank Networks in the Shadows of the Federal Reserve Act*"
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LSE Networks Conference

Overview

- Interbank deposit network for ex ante risk management
  - Banks hold deposits at other banks to buffer liquidity shocks

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A large idiosyncratic shock can be systemically important

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  - The changes in network topology were mainly from new banks, and physical distance between connected banks decreased, suggesting that establishing and maintaining linkages is (informationally) costly

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- Fed member banks face tougher regulations but can access public liquidity
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  - Was liquidity insurance over-priced before the Fed? Were banks under-insured? Liquidity holdings have positive externalities

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- Is this moral hazard or a move towards efficiency?
  - Example: Did the increase in deposits lead to higher deposit rates (relative to TBill rates), indicating more abundant near-money assets?

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→ More interbank deposits are held by informed nonmember banks
  - Positive disciplinary effects on the member banks? Unintended consequences of network changes

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Disclaimer: I have ongoing collaboration with the Fed.