Discussion of "Synthetic, but How Much Risk Transfer?" by Osberghaus and Schepens

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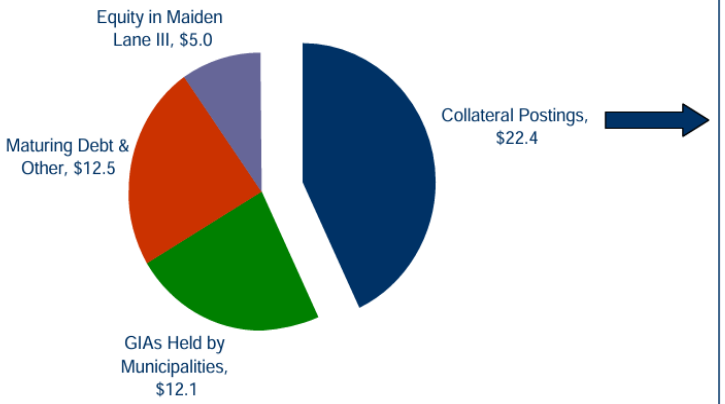
Synthetic risk transfer – shades of 2008?

- As of 2007:Q4, AIG had written CDS with notional value of **$527bn,** covering corporate bonds, mortgages, CDOs…
- AIG in its 10-K characterized $379bn (including corporate loans) as for *"regulatory capital relief rather than risk mitigation"*
  - Primarily by European banks in advance of Basel II
  - Losses on these positions fairly modest, not a key driver of AIG's collapse…
- See McDonald and Paulson (2015 JEP)

AIG Attachment A - Collateral Postings Under AIGFP CDS †

Use of Direct Support to AIG from 9/16/08-12/31/08

AIGFP Related Uses: $52.0 bn



Counterparty	Amount Posted ($ bn)
Societe Generale	$4.1
Deutsche Bank	2.6
Goldman Sachs	2.5
Merrill Lynch	1.8
Calyon	1.1
Barclays	0.9
UBS	0.8
DZ Bank	0.7
Wachovia	0.7
Rabobank	0.5
KFW	0.5
JPMorgan	0.4
Banco Santander	0.3
Danske	0.2
Reconstruction Finance Corp	0.2
HSBC Bank	0.2
Morgan Stanley	0.2
Bank of America	0.2
Bank of Montreal	0.2
Royal Bank of Scotland	0.2
Top 20 CDS Total	**$18.3**
Other	4.1
Total Collateral Postings	**$22.4**

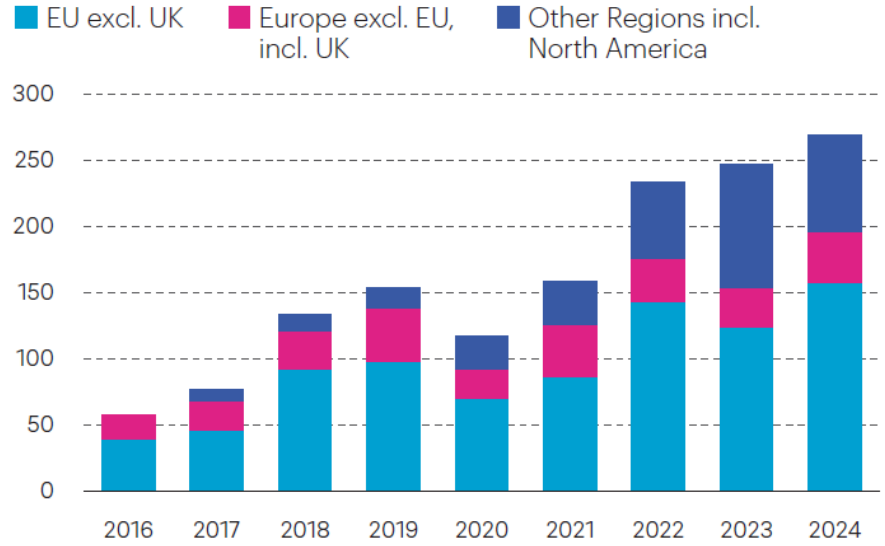
Fast-forward to 2026…

- ≈ $750bn in loans protected by bank SRT instruments around the world (BIS 2026)
- Recent growth aided by regulatory actions:
  - Euro: extension of “simple, transparent and standardized” framework to SRTs in April 2021
  - US: Fed FAQs about SRT regulatory treatment issued in September 2023
- Lots of interesting policy questions … e.g., does SRT adoption:
  - Increase bank risk and reduce capital adequacy?
  - Increase (or reduce) interconnections and systemic risk?
  - Boost credit supply?

FIGURE 1

Synthetic Securitization Volumes Have Grown in Recent Years

Underlying pool size of synthetic securitization at inception by issuer region, billions of U.S. dollars



Data Source: International Association of Credit Portfolio Managers (2024)

Note: Authors converted euros to dollars.

Source: Brizzi et al. (2025)

General reactions

- Clear contribution -- first “serious” academic paper on this important and growing market
- Fantastic data:
  - AnaCredit (Euro credit registry): at *loan-level* -- SRT flag, SRT issue identifier, % risk transferred, investor name
  - COREP: details of each SRT issue (e.g., number of tranches, issuance, maturity etc.)
  - Data on bank and investor characteristics from BankFocus and Orbis etc.
- Lots of interesting evidence, some of it quite well-identified: (i) selective use of SRT to reduce regulatory capital, (ii) effects on monitoring, (iii) “round-tripping” with SRT investors etc.
- Overall -- Great paper with lots of detail and practical policy implications. Read it!

Summary of main findings

1. SRTs are used for loans with high risk-weights relative to underlying risk
   - Identification: discontinuity in SME risk weights around €50m revenue
   - SRTs also mainly issued by banks with low capital – suggests reg cap mgmt. motivation

2. Banks use capital relief from SRTs to expand lending. On net, tier 1 cap ratio unchanged.

3. Banks monitor SRT loans less intensively, measured by frequency of internal PD updates

4. Nonbank SRT investors are interconnected with banks and invest based on leverage:
   - Banks have relationships with SRT investors, and lend to them to fund investment ("round-tripping")
   - Investors in thicker tranches are more leveraged (embedded vs external leverage)

Comments

1. Risk retention and other issue-level analysis
2. Monitoring effects
3. Risk weights and other drivers of SRT takeup
4. Broad takeaway lesson?

1. How much tail risk does the bank retain?

- SRTs sell off junior risk tranche -- senior tranche (and sometimes first loss) is retained by bank
  - Median attachment point = 15pp (but lots of variation – e.g., 30% of deals sell off all risk)
- How likely that losses > attachment? Comparison to post-SRT risk-weight of 10-15%?
  - If RWA reduction > decline in underlying risk, excessive incentives to engage in SRT. But converse may be true!
  - Stress-test against losses in Great Recession? Euro debt crisis? COVID?
  - Related: Capponi-Van Nieuwerburgh-Wu (2026) estimate % risk transfer for GSE credit risk transfer programs
- More broadly, I would love to see more *issue-level* analysis
  - What drives the substantial variation in attachment / detachment point? Risk? Bank characteristics?
  - More descriptive statistics on security issues (e.g., attachment, term, # tranches, number of issues per bank…)
    - Q: ESRB (2024) reports 62% of issues have 3-tranche structure; this paper says opposite – reconcile?

2. Monitoring effects

$$Monitoring_{f,b,t} = \beta_1 SRT\ loan_{f,b,t-1} * Post\ SRT_{f,t-1} + \gamma_f + \delta_b + \omega_t + \epsilon_{f,b,t}.$$

Paper can do much more to tighten & enrich evidence that SRT weakens monitoring incentives:

1. Trace out timing using event study plot
   - Discrete change in monitoring post-SRT? Pre-trends? Helps address empirical challenge that SRT not random…
   - SRT issuance seems to be rare / discrete event (3.5 issues per bank over 6 years?), which helps here

2. Plot response curve of PD ahead of default events
   - Does PD respond more slowly (or not at all) in quarters before a firm defaults if loan is part of SRT??
   - Direct test of informational content of PD -- analogous to Correia-Luck-Verner (2026) analysis of bank supervisors

3. Do changes in PD of other banks predict Δ PD of SRT bank?

3. SRT takeup and loan risk weights

- Convincing evidence that higher risk weight → higher SRT adoption
- But would like more help to interpret the magnitudes in Table 5:
  - **Col 1:** SRT up 0.035 (10%) through €50m threshold
  - **Col 2-7:** Much larger effects (up to 70%) when bank-firm exposure is small
  - But in Fig 1, size of discontinuity only weakly related to size of bank-firm exposure – puzzle?
- Elasticity of SRT adoption wrt risk weight?

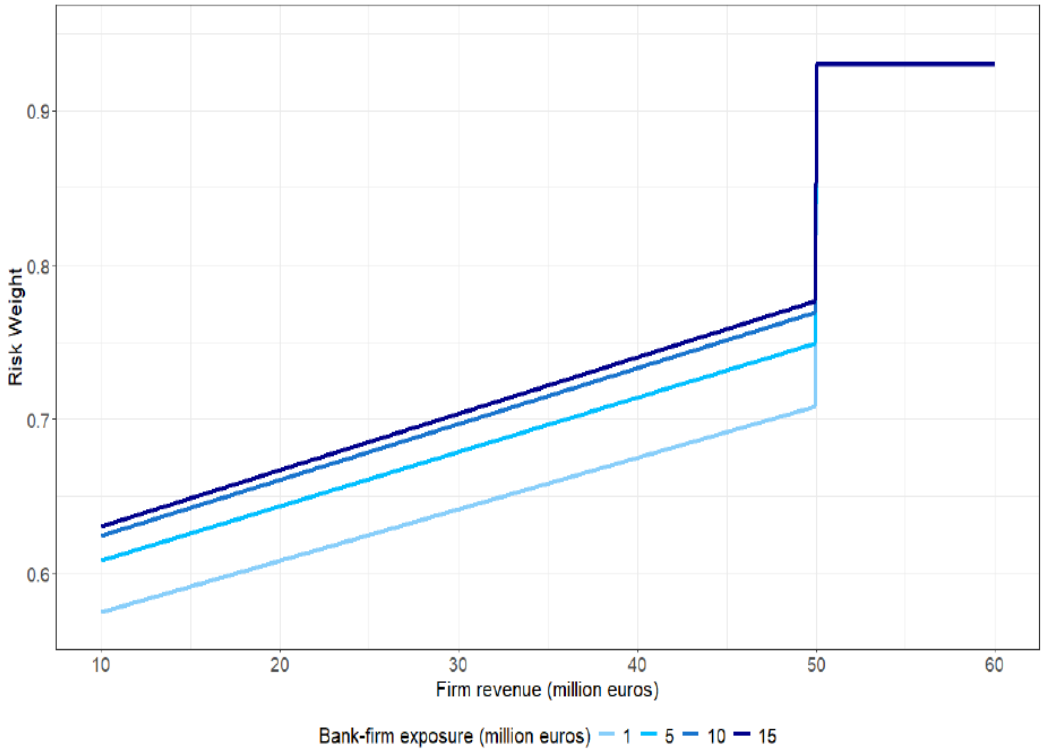


Figure 1: Risk weights exhibit a jump which decreases in the bank-firm exposure.

3a. Understanding *cross-country* variation in SRT takeup

Striking cross-country variation in SRT usage (graph at right). Why?

- *Loan characteristics?* (but are risk weights really "too high" in PT and IT?)
- *Bank characteristics?* (e.g., capital ratios, size, lending opportunities, sophistication)
- *Country characteristics?* (e.g., local laws or local regulators?)

Useful variation for understanding bank motivations for adopting SRT more generally

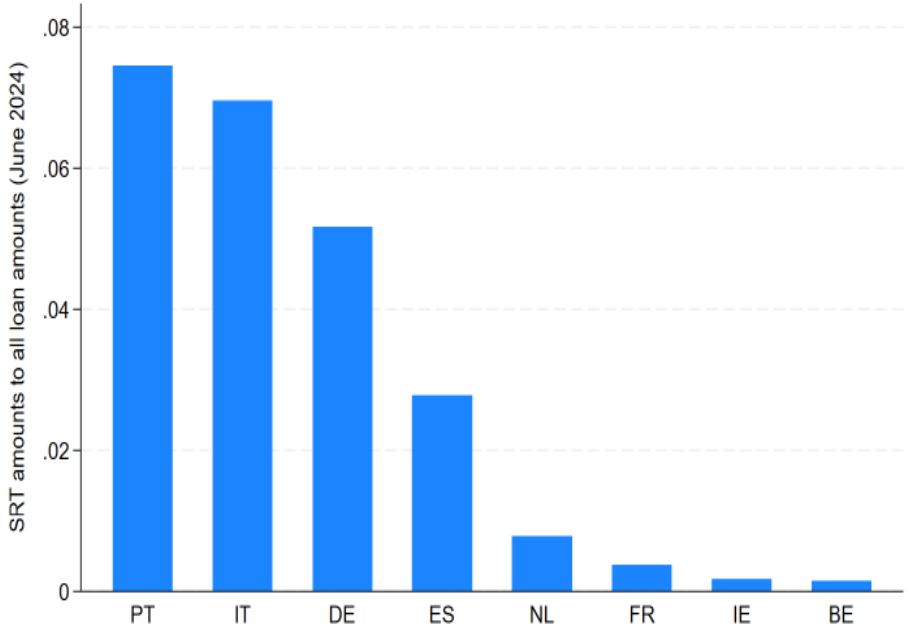


Figure A.2: Share of synthetically transferred loans by country. This figure shows the share of SRT amounts to total corporate loans by country in June 2024. The denominator includes loans that are traditionally securitized. SRT loans are selected based on the SRT flag in AnaCredit.

4. Stepping back – should we be concerned?

The case for SRTs:

1. Risk is being transferred to low-leverage less systemic institutions
2. Frees up risk capital which the paper shows the bank uses to increase credit supply!
3. Generally cash-collateralized – little/no counterparty risk for the bank (unlike AIG pre-2008)
4. Even with selection, decline in risk weight may be commensurate with fall in underlying credit risk

Agree?

Summing up

- Great paper that teaches us a lot of light on this important and growing market
- Evidence broadly relevant even outside the EU (e.g., in the US where SRT is growing fast)
- Lots of scope for further work especially considering the richness of the data

Thanks!