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Articles

The impact of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 repo 'safe harbor' provisions on investors

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the promulgation of BAPCPA gave rise to increased information asymmetry for banks with repo exposure.

KEYWORDS:

Repurchase agreements | bankruptcy code | safe harbor

JEL CLASSIFICATIONS:

m41 | g21 | g32

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Notes

1 As of A … dealers:
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2 The Ba … d 'safe
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3 Finance risk is sometimes referred to as roll-over risk. It is the risk that repo financing is not rolled over on maturity. Moreover, repos expose companies to counterparty risk. This risk refers to the possibility that the counterparty either fails to satisfy margin calls or fails to honour the agreement to repurchase the underlying assets.

4 We acknowledge that the ideal control group for our difference-in-differences analysis would be composed of banks to which all regulations except for the BAPCPA regulations relating to repo transactions apply. This control group does not exist since all US banks fall within the scope of the BAPCPA.

5 Sometimes provisions are inserted in the repurchase agreement which prohibits the sale and/or rehypothecation of the collateral to third parties.

6 SFAS 140, ‘Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities’ was issued in September 2000. It was amended by SFAS 166 (FASB 2009) ‘Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140’ and more recently FASB issued Accounting Standard Updated (ASU) 2014–2011 Transfers and Servicing (Topic 860) (FASB 2014) ‘Repurchase-to Maturity Transactions, Repurchase Financings, and Disclosures’ which expand disclosures on repurchase agreements.

7 Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, §907,

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11 Variable bhckb 193 of the FR Y-9C statements.

12 Variable bhck4340 of the FRY-9C statements.

13 Variable bhck7205 of the FRY-9C statements.

14 In untabulated results we obtain the same inferences when we run the analyses without winsorizing the data.

15 Further detail on this approach is provided in Sefcik and Thompson (1986).

16 Prior to data refinement that is based on the Sefcik and Thompson (1986) adjustment we have 459 unique bank holding companies. Thus, the use of the Sefcik and Thompson (1986) adjustment leads to the loss of 10 banks.

17 We recognize that due to limited data availability we are unable to control for the type of repo agreements the company engages into. As previously discussed it is only after ASU 2014–2011 became effective in 2015, that companies were required to disclose detailed information about the type of repo agreements they engage in.

18 Given that the choice of the beginning and end of sample period is 'ad-hoc' in robustness tests we test for the sensitivity of our results to this research design choice.

19 The economic significance is calculated as the coefficient on the interaction term (0.0019) divided by the mean SPR for the sample (0.00248).

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