

Taming the Megabanks: Why We
Need a New Glass-Steagall Act
(Oxford Univ. Press, 2020)

Arthur E. Wilmarth, Jr.

Figures from the book

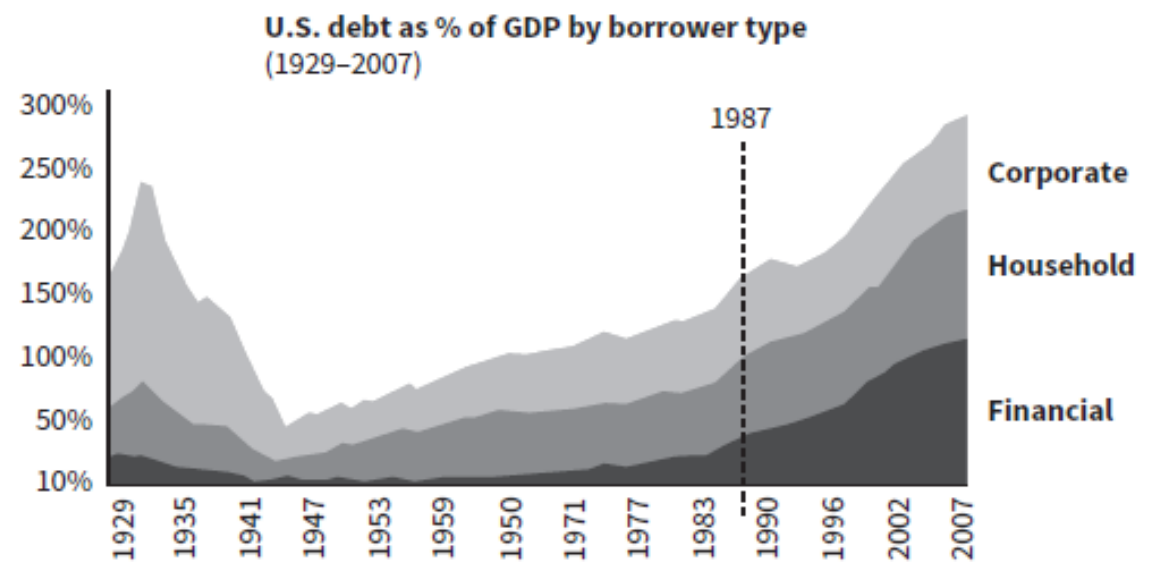
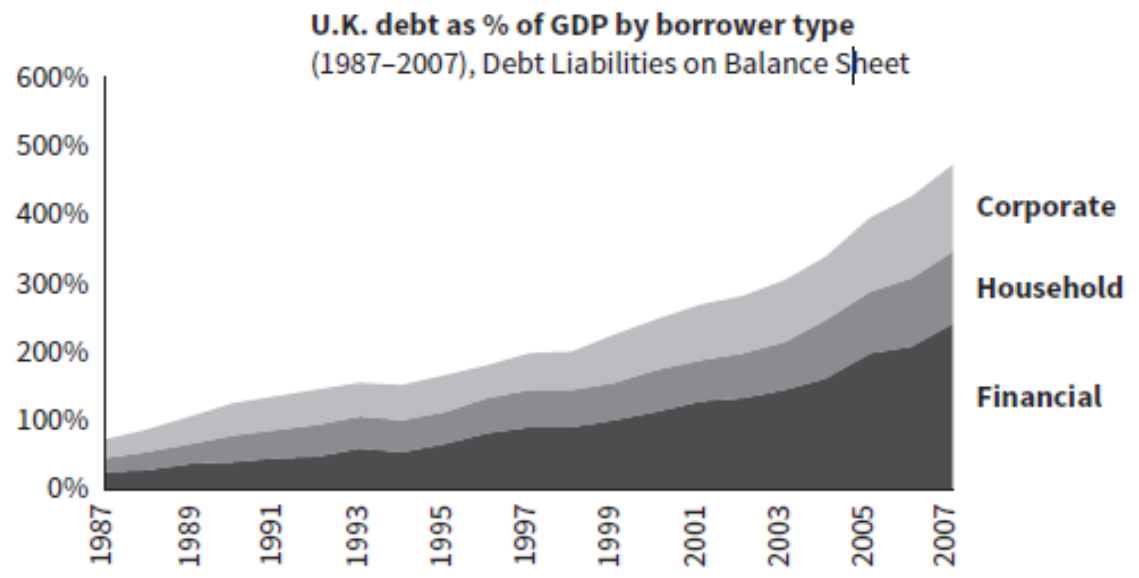


Figure 0.3 Changes in U.S. and U.K. Ratios of Total Debt to GDP During the Credit Booms Leading to the Great Depression and Great Recession
Source: FSA (2009: 18) (exhibit 1.10)

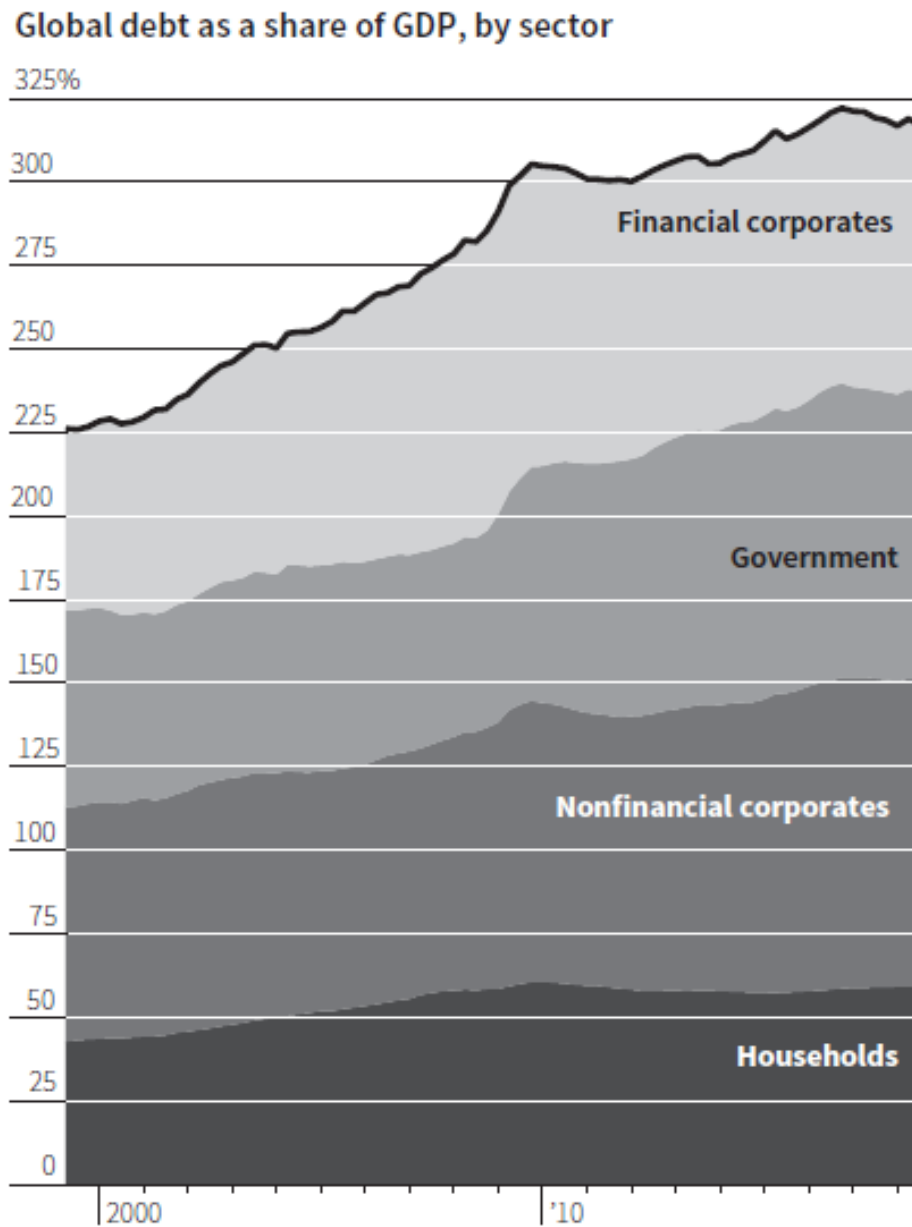


Figure 12.1 Increases in the Ratio of Global Debt to Global GDP, by Sector, 2000–2017

Source: Wall Street Journal (2019)

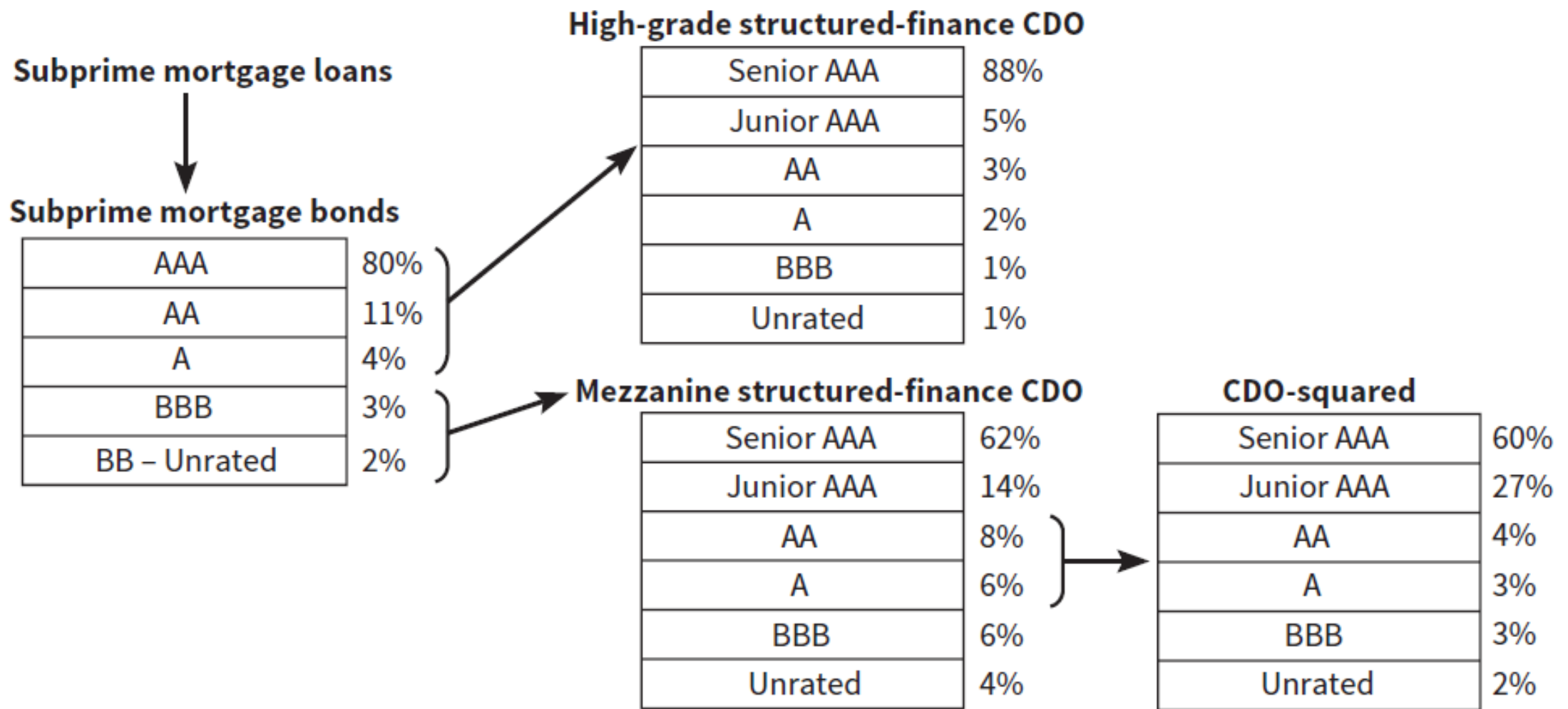


Figure 10.1 Constructing CDO and CDO-Squared Securities

Note: CDO = collateralized debt obligation.

Source: IMF-GFS (2008: 60) (box 2.2)

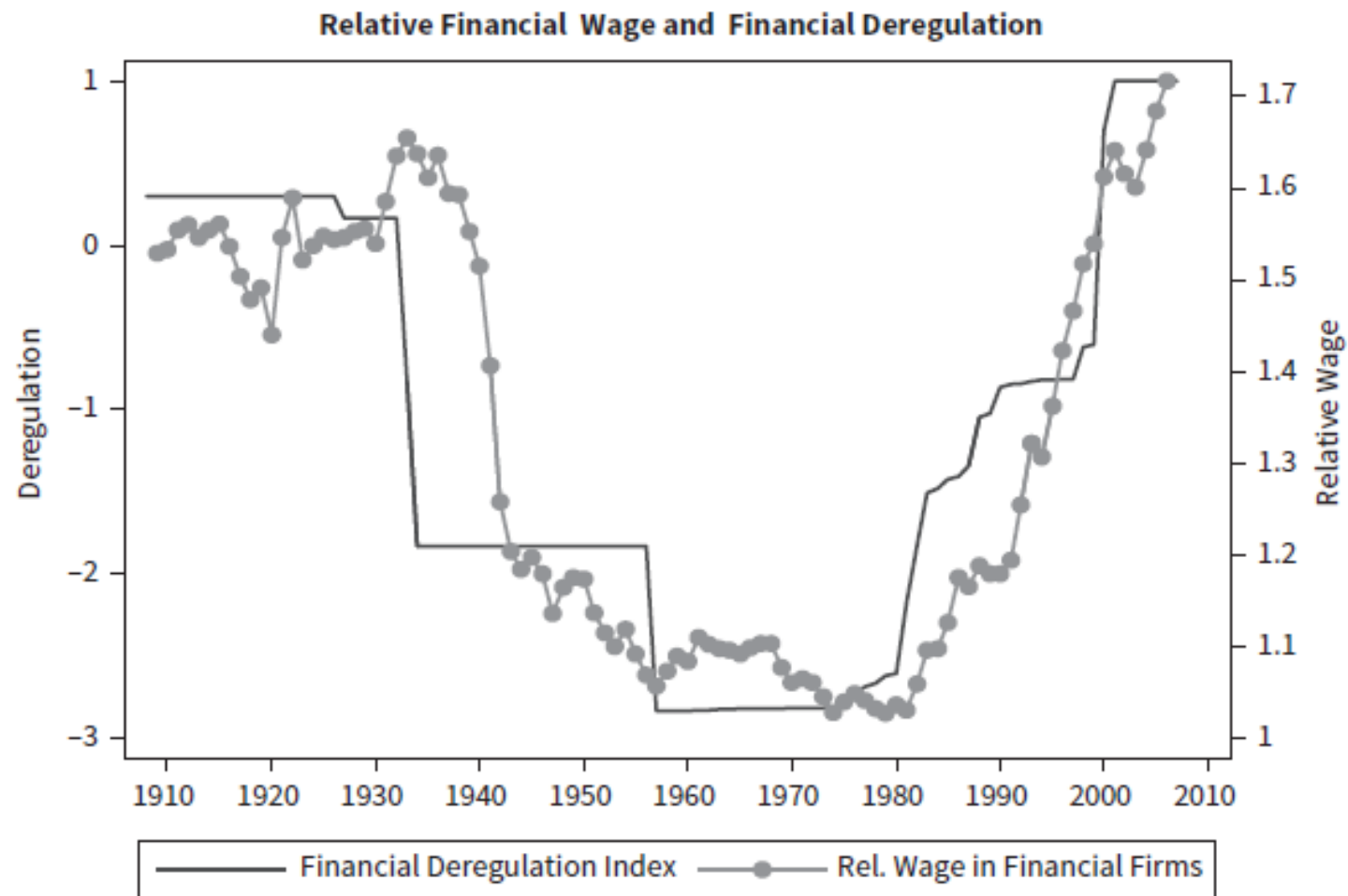


Figure 0.4 The Impact of Financial Deregulation on Compensation in the Financial Industry Compared with Other U.S. Industries, 1910–2008

Note: The “relative wage” is the ratio of the average wage in finance to the average wage in the nonfarm private sector (excluding finance).

Source: Philippon & Reshef (2012: 1578) (figure VIII C)

Are CLO Collateral and Tranche Ratings Disconnected? John M. Griffin & Jordan Nickerson October 2020

This paper examines the health of the CLO market by comparing recent downgrading activity of CLO collateral to tranches. Although both rating agencies have taken considerable downgrading actions on CLO loans, few tranches have been downgraded. It is difficult to reconcile the current lack of tranche rating actions with either rating agency's methodology, based on prior disclosures or current model outputs. We are not able to explain the potential reliance on non-model considerations by rating agencies. Additionally, roughly twice as many CLO tranches would be considered failing by S&P standards had managers not engaged in trading that made the portfolios appear to be safer. . . . Our results have substantial potential implications for current market conditions and regulators. First, a large emphasis of Dodd-Frank and other policies was to reduce reliance on credit ratings, but recent Fed policy operationalizes the purchasing of assets according to credit ratings, including static CLO tranches rated AAA. We are unaware of any process the Fed undertakes to verify rating accuracy. Second, banks, insurance companies, and mutual funds which hold such assets could contribute to systemic risk if assets are downgraded or experience correlated losses, as often happens with structured products during distress states. Third, favorable credit ratings can not only harm less sophisticated investors but also lead to mispricing of risk and mis-allocations of capital.

FEDS Notes (June 25, 2020), available at <https://www.federalreserve.gov/econres/notes/feds-notes/who-owns-us-clo-securities-an-update-by-tranche-20200625.htm>

Who Owns U.S. CLO Securities? An Update by Tranche

[Laurie DeMarco](#), Emily Liu, [Tim Schmidt-Eisenlohr](#)

Table 1: Domestic holdings of Cayman-issued U.S. CLO securities, by investor type as-of December 2018
Millions of dollars

Investor Type	2018	
Insurance Company	111,610	32.9%
Mutual Fund	61,537	18.1%
Depository Institution	61,204	18.0%
Other Financial Organizations (incl. Bank Holding Companies)	35,353	10.4%
Nonfinancial Organizations (incl. household)	27,338	8.1%
Pension Fund	22,359	6.6%
Fund or Other Investment Vehicle	20,182	5.9%
<i>Total Domestic Holdings</i>	<i>339,584</i>	<i>100.0%</i>

FEDS Notes (June 25, 2020), available at <https://www.federalreserve.gov/econres/notes/feds-notes/who-owns-us-clo-securities-an-update-by-tranche-20200625.htm>

Who Owns U.S. CLO Securities? An Update by Tranche (“Our new data suggest that institutional investors have sizable exposures to risky CLO tranches, which appear to be larger than what market participants believe.”)

[Laurie DeMarco](#), Emily Liu, [Tim Schmidt-Eisenlohr](#)

Table 2 – Domestic holdings of Cayman-issued U.S. CLO securities, by investor type and tranche as-of December 2018
Millions of dollars

Investor Type	Senior Notes		Mezzanine and Junior Notes		Equity Notes		Total*
Insurance Company	53,687	49.3%	53,491	49.1%	1,086	1.0%	108,885
Mutual Fund	39,408	66.4%	12,476	21.0%	7,411	12.5%	59,343
Depository Institution	56,573	95.4%	2,105	3.6%	592	1.0%	59,276
Other Financial Organizations (incl. BHCs)	20,569	60.4%	9,010	26.5%	4,353	12.8%	34,064
Fund or Other Investment Vehicle	5,799	29.7%	6,647	34.1%	6,990	35.8%	19,506
Pension Fund	16,946	76.6%	4,938	22.3%	240	1.1%	22,132
Nonfinancial Organizations (incl. household)	9,937	38.8%	9,944	38.8%	5,251	20.0%	25,638
<i>Total holdings identified by tranche</i>	<i>202,918</i>	<i>61.8%</i>	<i>98,612</i>	<i>30.0%</i>	<i>25,923</i>	<i>7.8%</i>	<i>328,846</i>