Discussion of
Dollar Asset Holding and Hedging Around the Globe
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This Paper

- Data collection
  - Deep dive into a large number of industry- and company-level filings of global institutional investors
  - Goal: understanding foreign investors' USD security holdings and currency hedging practices

- USD securities holding and hedging facts
  - Leverage their data to explore patterns in USD asset holdings and hedging

- Model
  - Compare empirical findings to predictions of a model with a mean-variance investor optimizing their portfolio between domestic bonds and US bonds ($+$ hedging)

Main Findings

- Holding Facts

  - Fact 1: Foreign investors show increasing preference of USD securities

  - Fact 2: Foreigners prefer holding USD bonds over USD equities

  - Fact 3: A large fraction of foreign investors' holdings of USD bonds is issued by non-US issuers

- Hedging Facts

  - Fact 1: There is a substantial amount of hedging in actively-managed industries, especially post-GFC

  - Fact 2: Investors' hedging demand not deterred by rising hedging costs

  - Fact 3: Hedging behaviors show persistence and heterogeneity across sectors, geographies, and security types

Comment 1 - Importance of the Exercise and Challenges

- Crucial and timely question
  - ▸ Dominant role of the US dollar
  - ▸ Differential behavior across different types of intermediaries/sectors of the economy
  - ▸ Transmission of both US monetary policy and shocks to the dollar more generally depends on intermediary composition
  - ▸ Granular understanding of who holds USD assets and hedging behavior is critical

- Challenges
  - ▸ Reporting requirements and data availability vary across countries, sectors and time.
  - ▸ This will inevitably lead to differences in coverage
    - ★ $\sim$ 60 countries
    - ★ Company-level filings tilt towards larger firms

Comment 1 - Coverage and Representativeness

Figure 6: **Foreign holding of USD by industry and hedging status, June 2020**
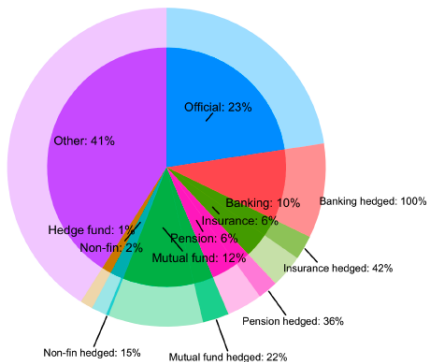
- 'Hand-collected data account for over 60% of all foreign-held USD debt and equity.'

- Impressive coverage given the bottom-up approach.

- Important to keep in mind potential biases/heterogeneity when we discuss the facts they find.

Comment 2 - How do we think/understand their results?

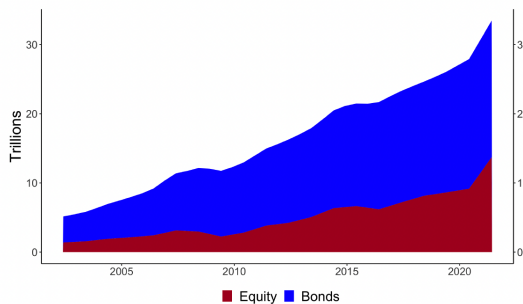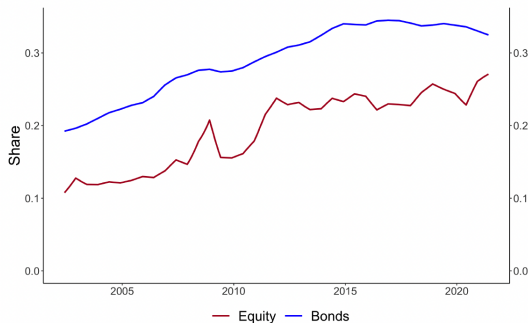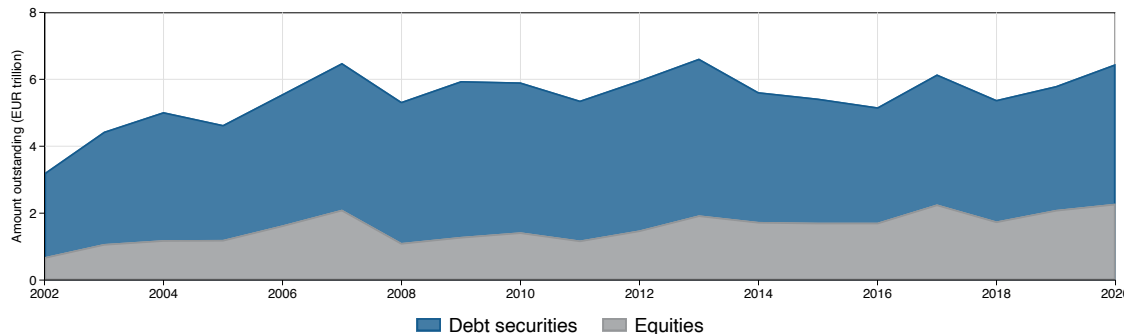Figure 3: **Foreign USD holding by security type**

Figure 4: **Foreign-held USD debt and equity as share of total outstanding**

- Holdings Fact 2: Foreigners prefer holding USD bonds over USD equities
- Is this truly about the USD or representative of a preference for bonds over equity?
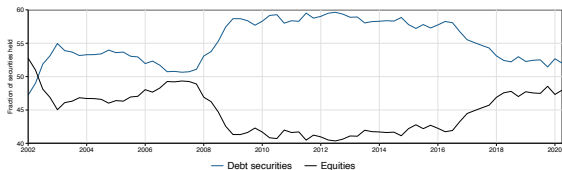
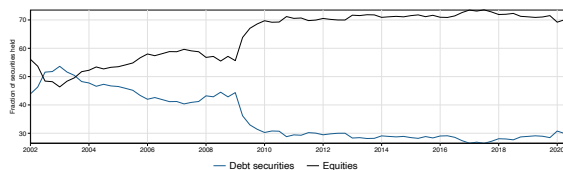# Comment 2 - How do we think/understand their results?

- Chart: Market Cap and amount outstanding of German securities
- Shows 'preference' for holding bonds over stocks in general, not USD specific.

# Comment 2 - How do we think/understand their results?

Insurance

Pension funds

- Chart: fraction of securities held in debt vs equities by EU insurance companies and pension funds
- Shows insurance prefer debt securities vs pension funds prefer equities in general, not USD specific

Comment 2 - How do we think/understand their results?

Figure 5: **Importance of USD debt issued outside of U.S.**
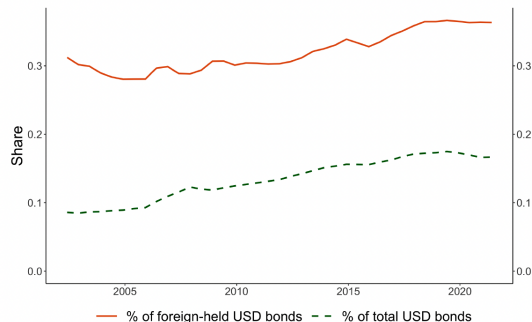
- Holdings Fact 3: A large fraction of foreign investors' holdings of USD bonds is issued by non-US issuers

- '... suggest that increasing foreign issuance goes hand-in-hand with increasing demand from foreign investors for USD bonds.'

- Does it reflect investors' demand for USD bonds or simply issuers' preferences for issuing in USD (+ home bias on the investors' side)?

Comment 3 - Sample Representativeness

- Bottom-up approach $\Rightarrow$ work with data from small sample of firms

$\Rightarrow$ Extrapolate behavior of few firms for entire sector/of few countries for sectors in other countries

- One particular example:
  - Coverage of pension funds in the Netherlands is limited to the two largest funds
  - 'manage assets equivalent to 1.5 times those of the next 15 biggest combined, or 50% of assets in all Dutch pension funds.'

- Does large share of AUM covered imply that have enough information to characterize behavior for the whole industry?
  - Not if economies of scale in e.g. investment costs: Broeders et al. (2016)
  - Not if differential hedging incentives across constraints

Comment 3 - Heterogeneity and Sample Representativeness
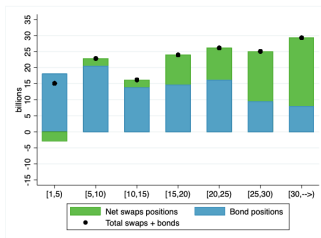
(b) Unconstrained P&Is
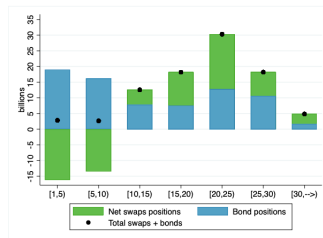
(c) Constrained P&Is

- Jansen (2021): regulatory data on insurance and pension funds in the Netherlands, with granular cash and derivatives holdings information
- Focuses on interest rate risk hedging
- Key findings
  - ▶ Substantial heterogeneity in hedging behavior for different institutions within the pension fund and insurance industry (e.g. by level of constraint)
  - ▶ And substantial heterogeneity across maturities: unclear if portfolio-wide hedging ratios representative of hedging ratios for particular securities

Comment 3 - Heterogeneity and Sample Representativeness

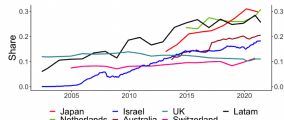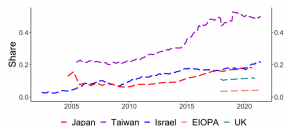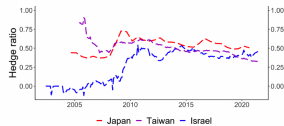Figure 2: **Portfolio allocation to USD across industries**

(a) **Insurance**

(b) **Pensions**

Figure 11: **USD hedging across industries**

(a) **Insurance**

(b) **Pension**

- Paper notes that hedging by Dutch pension funds outsized relative to pension funds in UK and CH, insurance firms in EU

- Jansen (2021) finds $\approx 50\%$ of interest rate risk hedged by Dutch insurance and pension funds: in line with pension funds in UK and CH, insurance firms in EU

- Suggests that the 2 PFs used in the paper unlikely to be representative of the industry

Comment 4 - Discussing Assumptions

- Paper (and reader) would benefit from a more thorough discussion of some of the assumptions

- 'For the non-financial sector, we estimate hedging by non-financial firms to be at the level studied in specific contexts... We assume that foreign non-financial firms hedge their USD securities in a similar manner as Korean firms hedge their export revenue; see Jung (2022).'

  - Is it reasonable to expect non-financial firms in other countries/sectors to hedge in a similar manner as Korean firms hedge their export revenues?

  - Paper uses a 15% hedge ratio for non-financial firms, where does that number come from?

Conclusion

- Very ambitious exercise on a crucial, timely topic.

  - Anyone interested in International Finance/Macro, the role of the dollar, spillovers from US monetary policy, the dollar as a global factor, should be very excited about this paper

- That being said, and especially because of how important this topic is, better contextualizing would make the paper more impactful

  - USD-specific facts vs general debt/equity preferences?

  - Coverage of securities vs hedging information?

  - Representativeness of the bottom-up approach?

- Looking forward to seeing the next version of the paper!