Bank Resolution and the Structure of Global Banks *

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Abstract

We study the efficient resolution of global banks in the presence of national regulators. Single-point-of-entry (SPOE) resolution, where loss-absorbing capacity is shared across jurisdictions, is efficient but may not be implementable. First, when expected cross-jurisdiction transfers are too asymmetric, national regulators will not agree to set up an efficient SPOE resolution regime ex ante. Second, when ex-post required transfers across jurisdictions are too large, national regulators choose to ring-fence local banking assets, leading to a breakdown of a planned SPOE resolution. In this case, constrained efficient resolution is achieved through multiple-point-of-entry (MPOE) resolution, where some loss-absorbing capacity is assigned ex ante to national holding companies in each jurisdiction. Our analysis highlights a complementarity between bank resolution and the organizational structure of global banks—the more decentralized a global bank’s operations, the greater the relative efficiency of MPOE resolution.

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