



# International Financial Instability

Global Banking and National Regulation

*Editors*

**Douglas D Evanoff**

*Federal Reserve Bank of Chicago, USA*

**George G Kaufman**

*Loyola University Chicago, USA*

**John R LaBrosse**

*International Association of Deposit Insurers, Switzerland*

 **World Scientific**

# Contents

Acknowledgements	v
Preface	vii
I. Special Addresses	1
Cross-Border Banking Regulation — A Way Forward: The European Case <i>Stefan Ingves</i>	3
Remarks before the Conference on International Financial Instability <i>Sheila C. Bair</i>	13
Benign Financial Conditions, Asset Management, and Political Risks: Trying to Make Sense of Our Times <i>Raghuram G. Rajan</i>	19
International Financial Instability: Cross-Border Banking and National Regulation Chicago — Dinner Remarks <i>Jean Pierre Sabourin</i>	29
II. Landscape of International Banking and Financial Crises	37
Current State of Cross-Border Banking <i>Dirk Schoenmaker and Christiaan van Laecke</i>	39
Actual and Near-Miss Cross-Border Crises <i>Carl-Johan Lindgren</i>	65
A Review of Financial Stability Reports <i>Sander Oosterloo, Jakob de Haan, and Richard Jong-A-Pin</i>	77
Discussion of Landscape of International Banking and Financial Crises <i>Luc Laeven</i>	97

III. Causes and Conditions for Cross-Border Instability Transmission and Threats to Stability	107
Cross-Border Contagion Links and Banking Problems in the Nordic Countries <i>Bent Vale</i>	109
Currency Crises, (Hidden) Linkages, and Volume <i>Max Bruche, Jon Danielsson, and Gabriele Galati</i>	125
What Do We Know about the Performance and Risk of Hedge Funds? <i>Triphon Phumiwasana, Tong Li, James R. Barth, and Glenn Yago</i>	139
Remarks on Causes and Conditions of Financial Instability Panel <i>Garry Schinasi</i>	167
IV. Prudential Supervision	179
Home Country versus Cross-Border Negative Externalities in Large Banking Organization Failures and How to Avoid Them <i>Robert A. Eisenbeis</i>	181
Conflicts between Home and Host Country Prudential Supervisors <i>Richard J. Herring</i>	201
Cross-Border Nonbank Risks and Regulatory Cooperation <i>Paul Wright</i>	221
Challenges in Cross-Border Supervision and Regulation <i>Eric Rosengren</i>	233
V. Government Safety Net	239
Bagehot and Coase Meet the Single European Market <i>Vitor Gaspar</i>	241
Banking in a Changing World: Issues and Questions in the Resolution of Cross-Border Banks <i>Michael Krimminger</i>	257

International Banks, Cross-Border Guarantees, and Regulation <i>Andrew Powell and Giovanni Majnoni</i>	279
Deposit Insurance, Bank Resolution, and Lender of Last Resort — Putting the Pieces Together <i>Thorsten Beck</i>	299
VI. Insolvency Resolution	309
Cross-Border Resolution of Banking Crises <i>Rosa María Lastra</i>	311
Bridge Banks and Too Big to Fail: Systemic Risk Exemption <i>David G. Mayes</i>	331
Prompt Corrective Action: Is There a Case for an International Banking Standard? <i>María J. Nieto and Larry D. Wall</i>	355
Insolvency Resolution: Key Issues Raised by the Papers <i>Peter G. Brierley</i>	373
VII. Cross-Border Crisis Prevention: Public and Private Strategies	385
Supervisory Arrangements, LOLR, and Crisis Management in a Single European Banking Market <i>Arnoud W. A. Boot</i>	387
Regulation and Crisis Prevention in the Evolving Global Market <i>David S. Hoelscher and David C. Parker</i>	407
Derivatives Governance and Financial Stability <i>David Mengle</i>	423
Cross-Border Crisis Prevention: Public and Private Strategies <i>Gerard Caprio, Jr.</i>	439
VIII. Where to from Here: Policy Panel	443
Cross-Border Banking: Where to from Here? <i>Mutsuo Hatano</i>	445
Remarks on Deposit Insurance Policy <i>Andrey Melnikov</i>	449

The Importance of Planning for Large Bank Insolvencies <i>Arthur J. Murton</i>	453
Where to from Here: Policy Panel <i>Guy Saint-Pierre</i>	459
Some Private-Sector Thoughts on Home/Host-Country Supervisory Issues <i>Lawrence R. Uhlick</i>	463
Conference Agenda	471
Index	477