Do Global Banks Spread Global Imbalances? Asset-Backed Commercial Paper during the Financial Crisis of 2007–09

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suffered significant losses. The paper concludes that global banking flows, rather than global imbalances, determined the geography of the financial crisis.

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Notes

Conduits off or on balance sheet under IFRS," IFRS does not recognize the usual structure employed by U.S. banks to circumvent consolidation under FIN 46.

5. Under the internal-ratings-based approach, the difference in regulatory capital between off-balance-sheet and on-balance-sheet financing may be even lower, because this approach is based on modeling assumptions which make less distinction between credit and liquidity enhancements. In 2007, however, the regulatory treatment of ABCP conduits under the internal ratings based approach was still under discussion.

6. To validate these findings, we also consult a market-level report issued by Moody's Investor Service (2007). The report provides summary statistics on

sought to keep and purchase assets they had previously securitized.

10. Stiroh (2002) shows, for example, that the component of revenues earned through interest payments by commercial banks in the United States has been dwindling steadily, and it has been replaced by fee-based income and trading revenues. While interest and fee income is relatively stable over the business cycle, trading revenues are highly volatile and in fact much lower in Sharpe ratios. This can be considered evidence supportive of a gradual trend in banking to engage increasingly in short-term, speculative activities, a phenomenon only further facilitated by the repeal of the Glass-Steagall Act (separating commercial and investment banking activities) and enactment of the Gramm-Leach-Bliley Act in 1999 (allowing commercial, investment and insurance activities within a single bank).

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