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.

[Many Creditors, One Large Debtor: Understanding the Buildup of Global Stock Imbalances After the Global…]

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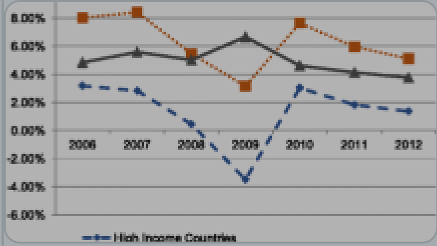

Notes

1. Bernanke (2009) and Portes (2009) also argue that it is impossible to understand the financial crisis fully without appealing to global imbalances and that they are the underlying cause of the crisis. Jagannathan, Kapoor, and Schaumburg (2009) argue that imbalances in labor supply can help to explain the financial crisis.

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 assets held by credit arbitrage conduits in March 2007. Based on conduits with assets outstanding of $196 billion or more Moody's find that 53 percent of assets measured by outstanding principal amount are originated in the United States and that 99 percent of rated assets are rated “Aa” or higher. These results support the findings based on conduit-level data.

7. An alternative measure of the size of the banking sector is bank assets. For our

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).

11. For example, the Swiss bank regulator issued a detail report on how the universal bank UBS suffered huge losses because of its exposure to the U.S. housing backed AAA-rated tranches.

12. The term “manufacturing tail risk” is used by Acharya and others (2010) to describe the evolving model of banks and financial firms as regulation

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Additional information

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