Bank Resolution and the Structure of Global Banks by Patrick Bolton and Martin Oehmke

Discussion by Elena Carletti
Bocconi University and CEPR

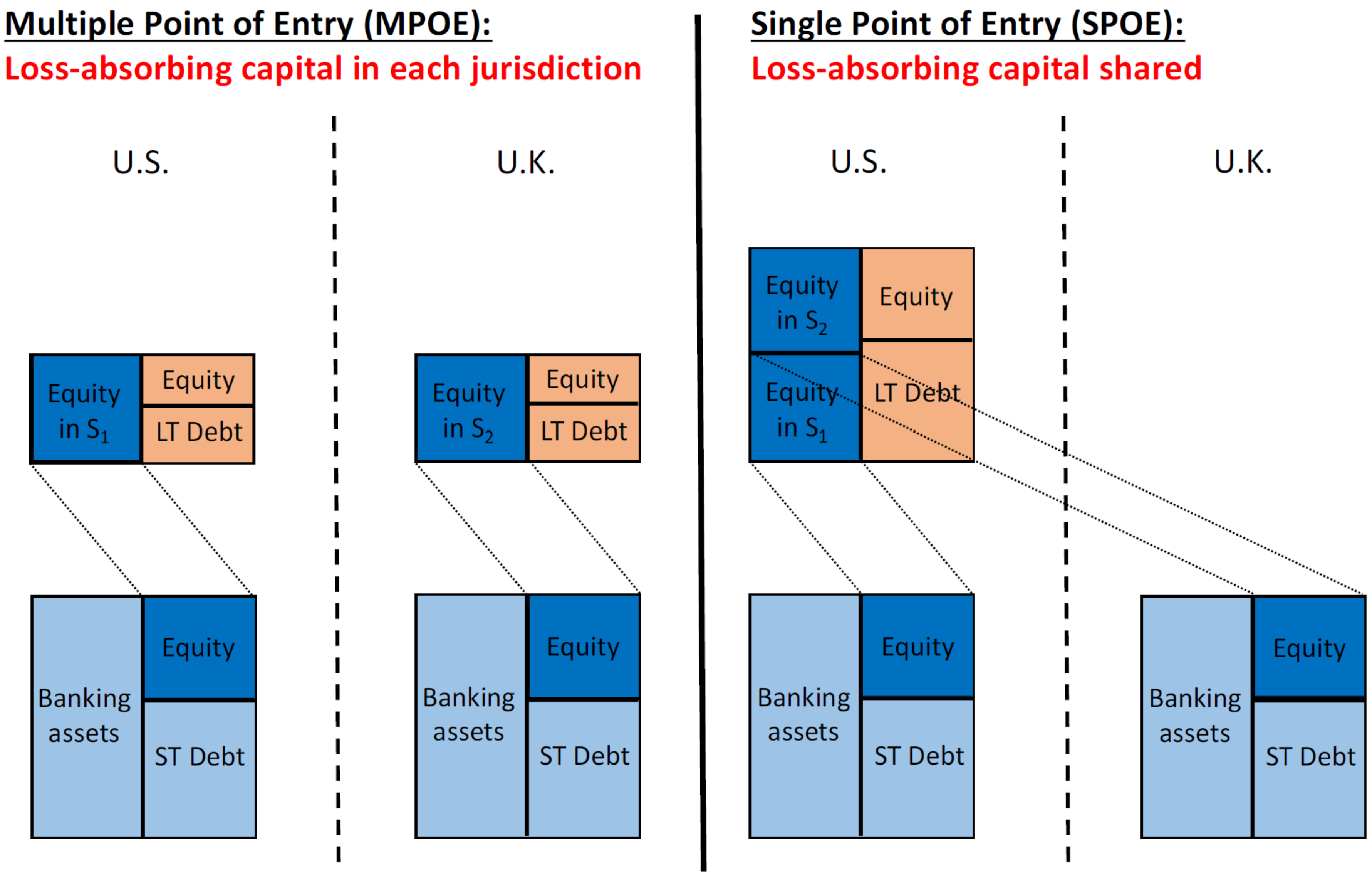
Stockholm International
Banking Crisis Management Conference
10-11 June 2026

Università Commerciale
Luigi Bocconi

The paper in short

- G-SIBs operate **internationally** but are **managed nationally in crisis times**
- **What does this imply for:**
  - The way they are resolved?
  - Their crisis preparedness?
- **Two resolution regimes:**
  - **SPOE:** loss absorption capacity is **shared** across jurisdictions
  - **MPOE:** loss absorption capacity is **not shared** across jurisdictions
- **Main results**:
  - SPOE is **more efficient** as it **maximizes resources** within the G-SIB
  - But it has to be **incentive compatible** both **ex ante** and **ex post**
  - Otherwise, MPOE will prevail: this happens when **expected transfers** across jurisdictions are **too asymmetric** or when **ex post transfers** are **too large**

The paper in a figure



My main comments

- **A fantastic paper - and still so relevant!**
  - Very elegant model
  - Suitable for extensions in various directions
- **Other comments:**
  - **Resolution structures in practice**
  - **Resolution and capital regulation**
  - **Miscellaneous**:
    - Choice of the resolution structure
    - Internal TLAC
    - Internal Liquidity in resolution

Resolution structures in practice

- **Almost all G-SIBs in Europe are SPOE**
- **Notable exceptions:**
  - BBVA and Santander (for Latin America operations)
  - HSBC (for Asian operations)
  - Erste and Raiffeisen (for non-BU countries such as Romania and Hungary)
- **Interestingly though, other banks are SPOE also in non-BU (e.g., Unicredit)**

Question: what can explain these observations?

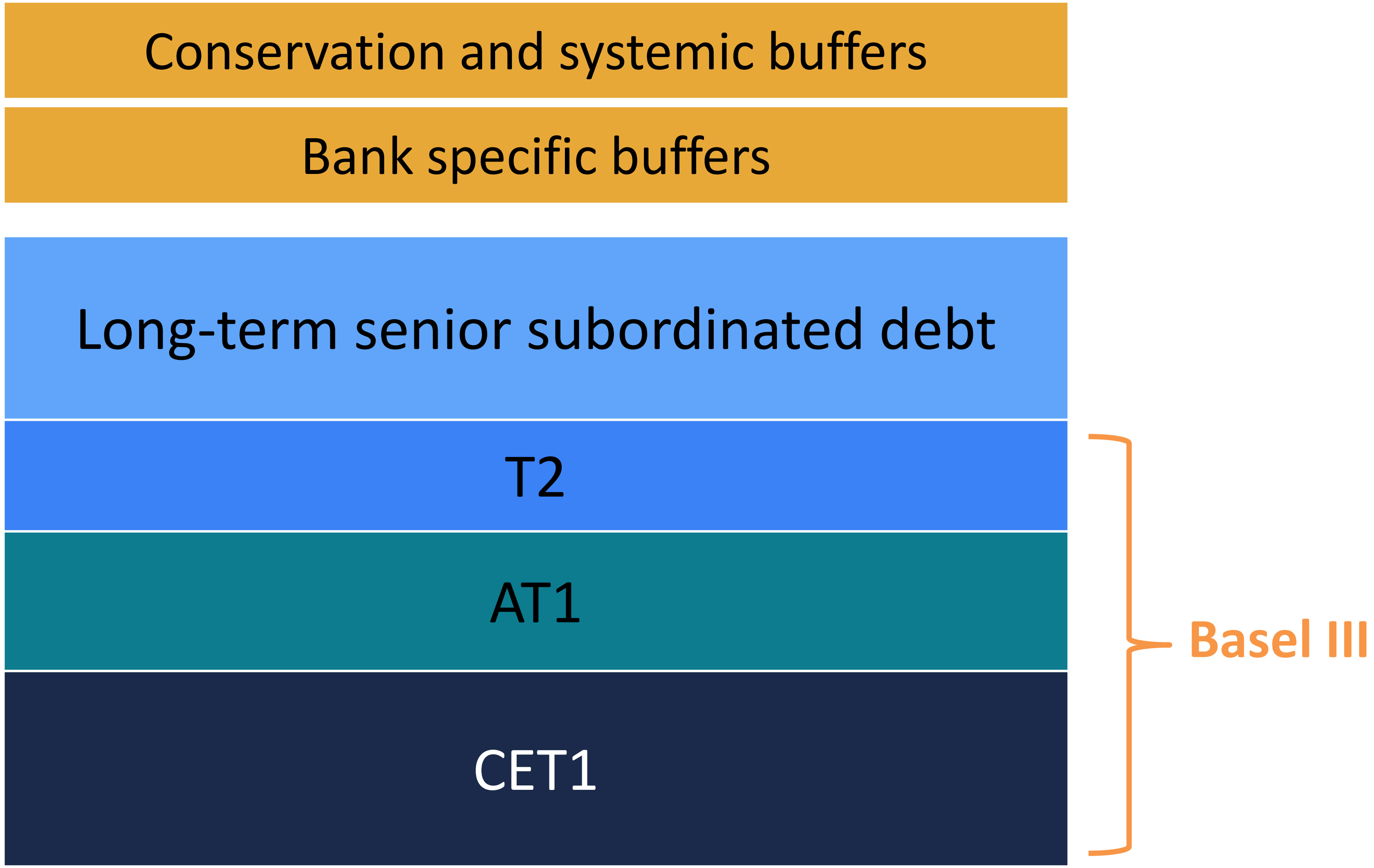
Business model?

Size of the center relative to subsidiaries or size of extra-SSM assets?

Other?

Resolution and capital regulation

The TLAC framework combines with the Basel capital requirements



Resolution and capital regulation

The TLAC framework combines with the Basel capital requirements

Conservation and systemic buffers

Bank specific buffers

Long-term senior subordinated debt

T2

AT1

CET1

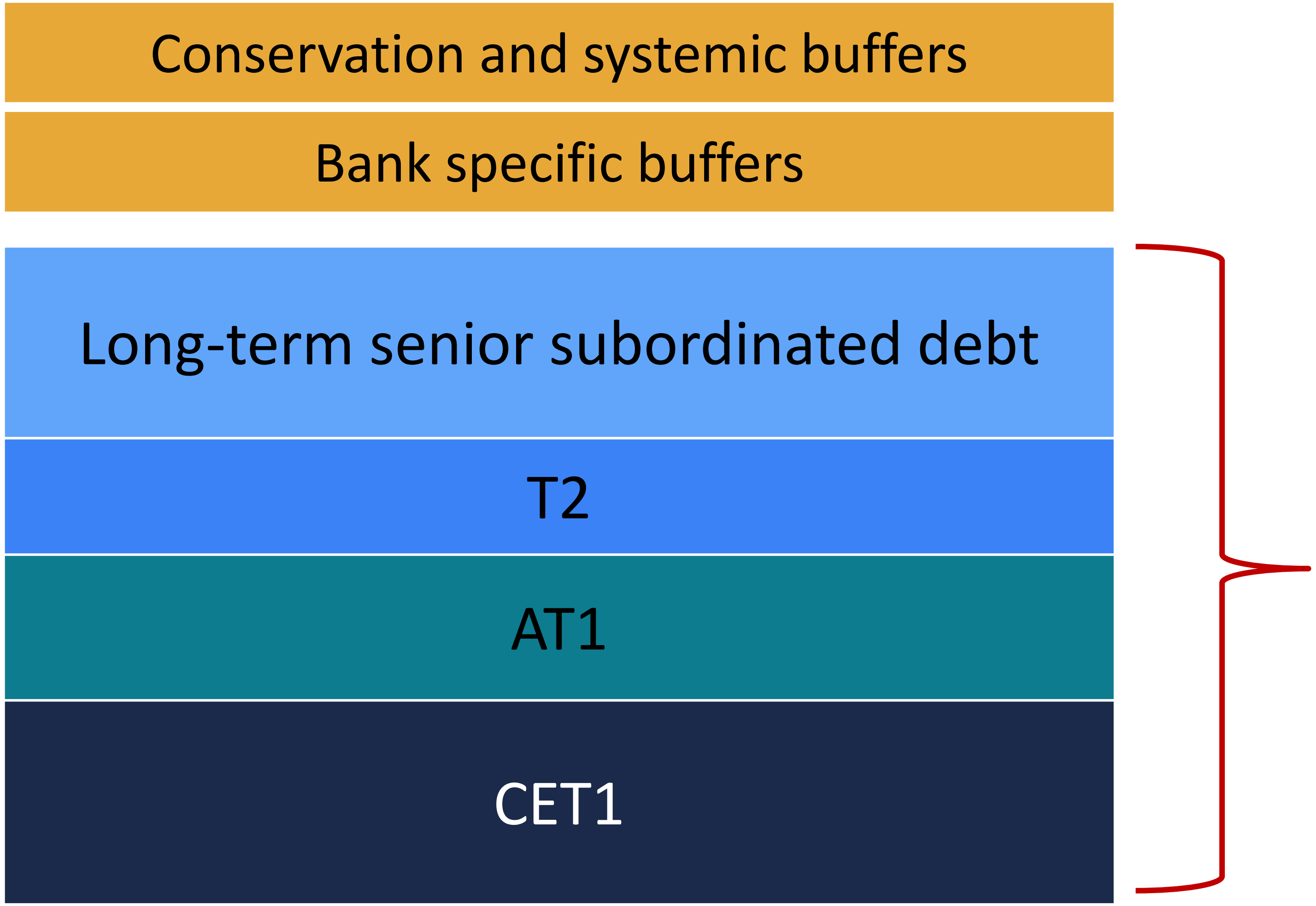
TLAC Framework

$$\frac{\text{Eligible Instruments}}{\text{RWAs}} \geq 18\%$$

$$\frac{\text{Eligible Instruments}}{\text{LR} - \text{Denominator}} \geq 6.75\%$$

Resolution and capital regulation

The TLAC framework combines with the Basel capital requirements



TLAC does <u>not</u> depend on the resolution strategy (even internal TLAC)

TLAC Framework

$$\frac{\text{Eligible Instruments}}{\text{RWAs}} \geq 18\%$$

$$\frac{\text{Eligible Instruments}}{\text{LR} - \text{Denominator}} \geq 6.75\%$$

Resolution and capital regulation

Questions:

1. How does TLAC interact with **capital regulation** (both at the **holding** and **subsidiary level**)?
2. Can the **stringency/complexity** of capital regulation affect the choice of resolution structure?

Relevant questions also in the context of the ongoing debate on *deregulation* vs *simplification*!

Miscellaneous

- **Choice of the resolution structure**
  - In the model only regulators choose the resolution structure
  - In practice, banks propose their **desired structure** for regulatory approval
  - Does it change the **mechanisms/results** of the paper (e.g., banks’ incentives)?

- **Internal TLAC**
  - In the model it is intended as a **hybrid form** of SPOE/MPOE model
  - In reality, internal TLAC is **independent** of the resolution structure and is motivated more by **limited liability considerations** rather than by ex post ring fencing motives

Miscellaneous (cont.)

- **Liquidity in resolution**
  - In the model, loss absorption capacity at the subsidiary level is **enough** in either structure to cover short term debt so that **runs** do **not** occur
  - This does **not** have to be the case and runs can **still occur**
  - How could **liquidity in resolution** depend on the resolution structure?

Conclusions

- **A great paper, still incredibly relevant**
- **Framework is suitable for a number of important extensions**
  - Interaction with capital regulation
  - Incentives of banks to prepare for either structure
  - Liquidity in resolution
- **Bringing the analysis to the data: can we build a measure of "resolution distance" and what would that depend on?**