The Fed - Pre-Positioning and Cross-Border Financial Intermediation

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Pre-Positioning and Cross-Border Financial Intermediation  
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Abstract: The benefits of cross-border financial activity are wide-ranging, from greater competition and more efficient markets to broader and more stable access to capital. During normal economic times, the official sector and private sector share an incentive to foster such cross-border financial activities. During a financial crisis, however, the short-term alignment of official- and private-sector incentives can diverge—sometimes significantly. We present a game-theoretic model of the underlying trade-offs and discuss lessons for international financial regulators, placing them in the context of the 2008 financial crisis, when challenges in cross-border cooperation both channeled and amplified financial stress. We also discuss the critical unfinished business of post-crisis regulatory measures to improve oversight of internationally active financial institutions.  
Keywords: Bank Capital, Bank Liquidity, Cross-Border Finance, Market Fragmentation, Pre-Positioning  
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