

A Proposal for the Resolution of Systemically Important Assets and Liabilities: The Case of the Repo Market¹

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Abstract

One of the several regulatory failures behind the global financial crisis that started in 2007 has been the regulatory focus on individual, rather than systemic, risk of financial institutions. Focusing on systemically important assets and liabilities (SIALs) rather than individual financial institutions, we propose a set of resolution mechanisms, which is not only capable of inducing market discipline and mitigating moral hazard, but also capable of addressing the associated systemic risk, for instance, due to the risk of fire sales of collateral assets. Furthermore, because of our focus on SIALs, our proposed resolution mechanisms would be easier to implement at the global level compared to mechanisms that operate at the level of individual institutional forms. We, then, outline how our approach can be specialized to the repo market and propose a repo resolution authority for reforming this market.

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