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An In-depth Look at Large and Complex Banks

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NEW YORK—The Federal Reserve Bank of New York today released a special *Economic Policy Review* series on large and complex banks. The 11 research papers that make up this series provide analysis in several key areas, including bank size, complexity and resolution. The papers, which are written by New York Fed economists, aim to further study and debate of these topics and to help inform policymakers.

“We believe that good research is a vital input to sound economic policy,” said Jamie McAndrews, Executive Vice President and head of the New York Fed’s Research and Statistics Group. “This is nowhere more true than in the policy issues surrounding the public debate on large and complex banks.”

Among the papers’ key findings:

- Bank size has benefits and costs: the upside is the potential for economies of scale and lower operating costs; the downside is the “too-big-to-fail” problem and associated funding advantages and moral hazard.
- Banks have become less bank-centric and more organizationally complex. Furthermore, the increase in bank complexity may be a natural response to an evolving intermediation technology.
- Bail-in regimes, where the claims of creditors of the parent company are converted to equity in resolution, are an efficient and superior process for resolving the failure of a large financial firm. Requiring systemically important bank holding companies to issue “bail-inable” long-term debt that converts to equity in resolution would make large bank failures more orderly.

The research papers will be accompanied by a two-week series of blog posts on *Liberty Street Economics*. The first post introduces the series and presents the key takeaways from the 11 research papers, while the subsequent posts dive deeper into the findings of each report.

Below are the 11 papers:

Bank Size

- Do Big Banks Have Lower Operating Costs?
- Evidence from the Bond Market on Banks’ “Too-Big-to-Fail” Subsidy
- Do “Too-Big-to-Fail” Banks Take On More Risk?
- Components of U.S. Financial Sector Growth, 1950-2013

Bank Complexity

- The Evolution of Bank Complexity
- Measures of Complexity of Global Banks
- Matching Collateral Supply and Financing Demands in Dealer Banks

Bank Resolution

- Bank Resolution Concepts, Trade-Offs, and Changes in Practices
- The Failure Resolution of Lehman Brothers
- Why Bail-in? And How!
- Why Are Large Bank Failures So Messy and What to Do about It?

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