While the trend in the U.S. and Europe seems to be moving toward an FDIC-type administrative resolution for financial companies, not everyone sees this as a positive trend.

Resolving Large, Complex Financial Firms

One of the most pressing policy issues facing those who supervise financial firms is the problem of systemically important financial institutions. These large and complex firms are sometimes referred to as "too big to fail," because their failure has potential destabilizing spillover effects on other financial companies, financial markets, and the real economy. Earlier this year, the Federal Reserve Bank of Cleveland held a conference to examine some of the challenges associated with resolving insolvent institutions, such as:

- Complexity -- of financial firms, markets, and products -- and its systemic consequences. As conference presenters noted, complexity reduces transparency, makes firm resolution more difficult, and encourages regulatory forbearance. Remedies discussed included living wills.

- International coordination. One proposal presented at the conference is for internationally active firms to operate as a single entity under a single bank charter. The resolution of a failed firm would be placed under the jurisdiction of the home country, which would draw on input from the members of a supervisor college.

Perhaps the widest divergence of opinion at the conference surrounded resolution authority: judicial (under the Bankruptcy Code) versus administrative (Orderly Liquidation Authority). While the trend in the U.S. and Europe seems to be moving toward an FDIC-type administrative resolution for financial companies, not everyone sees this as a positive trend.

Read: Resolving Large, Complex Financial Firms .

Business Credit Flows Recovered Quickly after Recession, says Cleveland Fed Researcher

The downturn in credit flows to businesses during the last recession was the most severe in the post-WWII period. But credit markets recovered quickly, says Pedro Amaral, a researcher at the Cleveland Fed.

Amaral attributes the credit dropoff to a combination of factors: a flight to liquidity, as overall uncertainty jumped; financing problems experienced by some lenders; and, as economic conditions worsened, most businesses simply became worse risks.

Addressing credit markets' quick bounce-back, Amaral says, "This is a testament to the depth of the credit markets surely, and possibly the interventions that were taken to support them."

Read more: Credit Flows to Businesses During the Great Recession .

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