

# Resolution procedures in a system of financially linked institutions

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## **Abstract**

In a system of institutions holding liabilities on each other, their capacities to reimburse these liabilities are intertwined, thereby potentially generating coordination issues and defaults that could be avoided. These linkages call for an orderly resolution, as implemented by a regulatory authority assigning how much institutions within the system reimburse to each other. The paper studies such resolution procedures, assuming their main goal are to avoid a default on outside creditors, say, a default of a bank on its deposits. The main objective is to investigate what proportionality means for a procedure, taking into account various institutional, informational, and fairness constraints.