Discussion of "Ample Reserves for Whom? The Role of Foreign Banks in U.S. Monetary Policy Implementation"

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Overview: who absorbs reserve-supply changes?

- **Why it matters:** shrinking the central-bank balance sheet is an active policy question, but implementation depends on who absorbs reserve-supply changes.
- **Granular data:** who absorbs reserve-supply changes across domestic banks, foreign branches/agencies, and ONRRP.
- **Empirical identification:** use TGA shocks to trace reserve-supply changes across institutional types and policy regimes.
- **Main facts:** foreign branches are major reserve holders post GFC; reserve adjustment varies across QE/QT regimes and with global-dollar conditions.
- **Mechanism exercises:** FX-hedged returns, HQ funding flows, and quarter-end patterns point to branch balance-sheet capacity.

"Ample reserves" depends on who holds them

The paper brings all three explanations into the same account; the question is which one does the work.

Explanation	What it would mean
Direction dependence	Reserve injections and drains have different marginal effects for foreign branches.
Ratchet	QE creates reserve holdings that are not symmetrically unwound in QT.
Global-dollar state	Current hedged returns, HQ funding capacity, repo stress, and wholesale funding conditions change branch capacity.

My main discussion point: the facts are compelling, but the conceptual contribution depends on separating the reduced-form asymmetry from the mechanism.

Reserve absorption changes across QE/QT regimes

Table 6 asks which margins absorb TGA-driven reserve-supply shocks within each QE/QT regime.

QE/QT regime	Fed reserves	Foreign branches	Large domestic	Small domestic	ONRRP take-up
QE1 (2009–14)	↑	↑ **large**	↑ smaller	little	little
QT1 (2014–19)	↓	↓ not dominant	↓ **largest bank**	small	limited
QE2 (2019–21)	↑	↑ **important**	↑ smaller	small	↑ important
QT2 (2021–25)	↓	↓ not dominant	↓ **largest bank**	small	↓ important

These are the Fed balance-sheet regimes in Table 6. Arrows denote bank reserve holdings, except the last column, which denotes ONRRP take-up.

QE/QT asymmetry has three possible meanings

The paper shows foreign branches are **elastic absorbers**.
But elasticity can be the asymmetry, or reflect deeper mechanisms.

Direction dependence
same reserve level,
different direction

Path dependence
yesterday's QE
changes today's demand

State dependence
today's funding state
changes capacity

This distinction matters because the path-dependence story is close to Acharya, Chauhan, Rajan, and Steffen (2023); the state-dependence story is the paper's more distinctive contribution.

Three stories imply different tests

The same QE/QT asymmetry can come from three different facts.

Direction dependence

Injections and drains have different marginal responses.

Test: split positive and negative TGA shocks.

Path dependence

Past reserve accumulation predicts incomplete unwinding in QT.

Test: does lagged reserve intensity predict weaker shedding?

State dependence

Current global-dollar funding capacity changes branch absorption.

Test: does the QT coefficient shrink once funding states enter?

My reading: Section 6 and the model point more to state dependence.

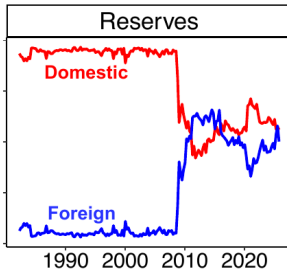
Section 6: branch elasticity depends on global funding capacity

Key: foreign branches/agencies are **slots on foreign banking organizations' overall balance sheets**.

- **Why branches absorb reserves elastically:** they are not standalone U.S.-capitalized subsidiaries; branch assets face less direct U.S. capital/leverage constraints and can draw on HQ funding.
- **Why QT runoff can be limited:** (1) HQ funding can substitute for the more constrained repo/wholesale funding; (2) high FX-hedged dollar returns make U.S. reserves attractive.

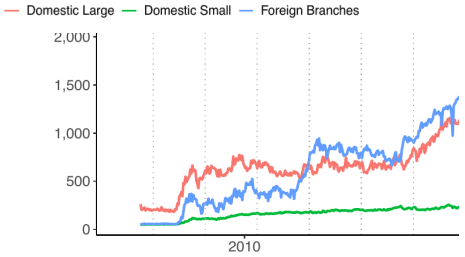
The foreign-bank definition matters for the mechanism

Figure 3: broad "foreign banks"



Foreign-owned U.S. subsidiaries plus branches/agencies.

Figure 4 / H.8: branches and agencies, 2008–2013



Excludes U.S.-chartered subsidiaries owned by foreign banking organizations.

- The mechanism is about **legal form**: branches/agencies can move dollar balance-sheet capacity through HQ.
- Subsidiaries have foreign parents, but they are U.S.-chartered and separately capitalized.

Sharper test: keep branches/agencies as the main object; use subsidiaries as a placebo.

Separate direction dependence from path dependence

$$R^F_{t-1} \equiv \frac{\text{foreign-branch reserves}_{t-1}}{\text{foreign-branch assets}_{t-1}} \quad \text{(proposed state)}$$

1. Direction dependence

$$\Delta R^F_t = \beta_+ \Delta TGA^+_t + \beta_- \Delta TGA^-_t + \Gamma X_t + \varepsilon_t.$$

Are reserve drains the mirror image of reserve injections?

2. Path / stock dependence

$$\Delta R^F_t = \beta_1 \Delta TGA_t + \beta_2 \Delta TGA_t \times R^F_{t-1} + \Gamma X_t + \varepsilon_t.$$

Does prior reserve accumulation predict weaker reserve shedding?

Use lagged funding states to test state dependence

3. Global-dollar state dependence

$$\Delta R_t^F = \beta_1 \Delta TGA_t + \beta_2 \Delta TGA_t \times HedgedMargin_{t-1} + \beta_3 \Delta TGA_t \times QT_t + \Gamma X_t + \varepsilon_t.$$

Does the QT dummy disappear after controlling for hedged dollar returns or HQ funding states?

Interpretation: if the QT coefficient shrinks, QT is partly a funding-state episode rather than only a policy-regime episode.

The policy implication depends on the mechanism

- **What I learned:** foreign branches are central to the marginal reserve-scarcity problem.
- **My main question:** which story carries QE/QT asymmetry: direction dependence, path dependence, or global-dollar state dependence?
- If it is **direction dependence**, the paper establishes that reserve injections and drains are not mirror images at the same reserve level.
- If it is **path dependence**, the paper extends Acharya, Chauhan, Rajan, and Steffen (2023) to foreign branches.
- If it is **state dependence**, the paper is more distinctive: international financial conditions via foreign-bank branches shape U.S. monetary policy implementation.

My suggestion: distinguish the economic mechanisms more sharply, because they carry very different policy implications.