A.3   Additional Specifications

We examine alternative specifications to gauge robustness of our panel regression findings. In one set of regressions, we use leverage defined in terms of banking sector market capitalisation instead of book equity, and also examine VIX as a proxy for the leverage of the global banks. We find that book equity performs best, not the leverage based on market cap. This result is consistent with Adrian, Moench and Shin (2013). We also find that VIX is a good proxy for leverage.

We examine interoffice flows between the headquarters and US-based offices of global banks, published by the Federal Reserve in its H8 data on foreign-related institutions. *Interoffice Growth* is the percentage growth in net interoffice assets of foreign banks in the US, winsorised at the 2.5%. Column 5 shows that *Interoffice Growth* is positive and significant, leaving other results unchanged, highlighting the role of interoffice flows.

We examine sub-periods of financial and banking crises. Even if we exclude the period post-2008, our main conclusions remain unchanged (column 6).[9] We then include individual local country bank crisis dummies that has value 1 (0 otherwise) for each year of a country banking sector crisis as classified by Laeven and Valencia (2010). Column 7 shows that a local banking crisis has a negative effect on banking flows but this does not alter the role of our variable *Global Leverage*.

In untabulated regressions not reported for space reasons, we show that our results: a) are robust to the inclusion of different country-level regulations (Barth, Caprio, Levine, 2001, and subsequently updated) that may affect the leverage decisions of banks in each country; b) are robust to the inclusion of additional control variables, like the Chinn-Ito Index that measures a country's degree of capital account openness or the level of legal enforcement

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reject the null hypothesis of no second-order serial correlation. The results also reveal a Hansen J-statistic test of overidentification with a p-value of 0.437 and 0.459, respectively, and as such, we cannot reject the hypothesis that our instruments are valid. The system GMM estimator makes the following additional exogeneity assumption that any correlation between our endogenous variables and the unobserved (fixed) effect is constant over time. We test this assumption directly using a difference-in-Hansen test of exogeneity. This test yields a p-value of 0.265 and 0.583, respectively, for the J-statistic produced by the difference-in-Hansen test and as such we cannot reject the hypothesis that the additional subset of instruments used in the system GMM estimates is exogenous.

[9]In untabulated results we verify that our results remain unchanged if we exclude the period 2007-2008 of the US financial crisis.