

An important factor affecting the performance and regulation of multinational banks is the choice of the form that they decide to use to operate in foreign markets. Multinational banks may use for operation abroad either the form of a foreign bank subsidiary or branch. The differences between the two forms can be described briefly as follows. Foreign bank subsidiaries are independent companies owned by the parent bank and governed by host authorities. In contrast, foreign branches are part of the parent banks and are therefore regulated by their home countries. This difference provides different incentives for parent banks as well for monitoring and supervising banks by the home and host countries' authorities.

There are several studies on branches and their possible systematic risk to host countries financial system as they are different in regulation from subsidiaries. However, there are very few studies on the operation of foreign branches. The existing empirical studies in the literature focus mainly on the multinational bank decision either to operate as a branch or subsidiary in a new host market. In consequence, there are currently no empirical research on the performance of the foreign branches versus bank subsidiaries after entering the market. Moreover, there are also no empirical studies analyzing the impact of foreign branches versus bank subsidiaries on parent bank performance. Our projected research study, henceforth, will try to fill the existing gaps in the literature by providing a comprehensive analysis on the determinants of the decision of converting a foreign subsidiary into a foreign branch. Moreover, we will investigate the impact of the decision on the performance of its parent bank.

The main objectives of the research project can be summarized as follows. First, we will try to establish the determinants of converting a foreign bank subsidiary into a branch. The existing empirical research documents that regulations, country and political risks have a paramount effect on the choice of banks' organizational form. In our study we assume that subsidiaries and also multinational banks current financial situation may also determine the decision to convert a foreign bank subsidiary to a branch.

Second, we will analyze the consequences of the conversion of a foreign bank subsidiary into a branch on the parent bank financial performance. However, the parent bank absorbing the foreign branch may differ from the ultimate parent bank (multinational bank). Therefore, we will compare the performance of the parent bank of the branch and also the multinational bank holding organization taking into account their main choice of operation abroad. In this case we want establish whether multinational banks using to larger extend foreign bank branches are more profitable than those using mainly foreign bank subsidiaries.

The results of those two related studies should provide a new knowledge on multinational banks, foreign branches and subsidiaries. We hope that our results will provide new significant information on the main determinants behind the choice of using bank branches versus bank subsidiaries. To the best of our knowledge, this study is the first to directly investigate the decision to convert subsidiaries to branches, and examine the impact of this decision on multinational bank performance.