

> Thursday, June 17th, 2021

13:00 - 14:30

FINANCE

RESEARCH
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EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

‘FINANCIAL RESTRUCTURING AND RESOLUTION OF BANKS’

JEAN-EDOUARD COLLIARD – HEC PARIS



ABSTRACT

How do resolution frameworks affect the private restructuring of distressed banks? We model a distressed bank’s shareholders and creditors negotiating a restructuring given asymmetric information about asset quality and externalities onto the government. This yields negotiation delays used to signal asset quality. We find that strict bail-in rules increase delays by worsening informational frictions and reducing bargaining surplus. We characterize optimal bail-in rules for the government. We then consider the government’s possible involvement in negotiations. We find this can lead to shorter or longer delays. Notably, the government may gain from committing not to partake in negotiations.

Keywords: Bank resolution, bail-out, bail-in, debt restructuring.