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## Corporate Governance of Banks and Financial Stability\*

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### ABSTRACT

We find that shareholder-friendly corporate governance is associated with higher stand-alone and systemic risk in the banking sector. Specifically, shareholder-friendly corporate governance results in higher risk for larger banks and for banks that are located in countries with generous financial safety nets as banks try to shift risk toward taxpayers. We confirm our findings by comparing banks to nonfinancial firms and examining changes in bank risk around an exogenous regulatory change in governance. Our results underline the importance of the financial safety net and too-big-to-fail guarantees in thinking about corporate governance reforms at banks.

**Keywords:** corporate governance; bank insolvency; systemic risk

**JEL classification:** G21, M21

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