

Accepted Manuscript

Convertible Bonds and Bank Risk-Taking

Natalya Martynova, Enrico Perotti

PII: S1042-9573(18)30008-1
DOI: [10.1016/j.jfi.2018.01.002](https://doi.org/10.1016/j.jfi.2018.01.002)
Reference: YJFIN 772

To appear in: *Journal of Financial Intermediation*

Received date: 15 May 2015
Revised date: 11 October 2016
Accepted date: 10 January 2018

Please cite this article as: Natalya Martynova, Enrico Perotti, Convertible Bonds and Bank Risk-Taking, *Journal of Financial Intermediation* (2018), doi: [10.1016/j.jfi.2018.01.002](https://doi.org/10.1016/j.jfi.2018.01.002)



This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Convertible Bonds and Bank Risk-Taking

Natalya Martynova

University of Amsterdam

Enrico Perotti

University of Amsterdam and CEPR

10 October 2016*

Abstract

We study how contingent capital affects banks' risk choices. When triggered in highly levered states, going-concern conversion reduces risk-taking incentives, unlike conversion at default by traditional bail-inable debt. Interestingly, contingent capital (CoCo) may be less risky than bail-inable debt as its lower priority is compensated by a lower induced risk. The main beneficial effect on risk incentives comes from reduced leverage upon conversion, while any equity dilution has the opposite effect. This is in contrast to traditional convertible debt, since CoCo bondholders have a short option position. As a result, principal write-down CoCo debt is most desirable for risk preventive purposes, although the effect may be tempered by a higher yield. The risk reduction effect of CoCo debt depends critically on the informativeness of the trigger. As it should ensure deleveraging in all states with high risk incentives, it is always inferior to pure equity.

Keywords: Banks; Contingent Capital; Risk-shifting; Financial Leverage;

JEL Classifications: G13, G21, G28.

*We thank Max Bruche, Fabio Castiglionesi, Amil Dasgupta, Xavier Freixas, Bengt Holmstrom, Frederic Malherbe, Thilo Pausch, Caspar Siebert, Javier Suarez, participants at EFA 2013, OxFIT 2013, 4th Financial Stability Conference, ECB Banking Supervision Conference 2013, Banking Structure Conference 2013 in Bonn, Marie Curie ITN Conference 2013, BdF-TSE Conference "Bailouts, Bail-in and Financial Stability" 2014, Joint workshop by the Basel Committee on Banking Supervision, CEPR and JFI, and seminar participants at the BIS, Bank of England, CEMFI, DNB, DSF, LSE, Tinbergen Institute, UvA for their helpful comments. Contact emails: n.martynova@uva.nl, e.c.perotti@uva.nl

Download English Version:

<https://daneshyari.com/en/article/8960880>

Download Persian Version:

<https://daneshyari.com/article/8960880>

[Daneshyari.com](https://daneshyari.com)