

Contents

1	Introduction	1
2	General Issues in Bankruptcy Law	5
2.1	Coordination Problems	5
2.2	Ex-Ante Efficiency: Incentives in Bankruptcy Law	8
2.3	Bankruptcy Procedures and Their Ex-Post Efficiency	10
2.4	Corporate Bankruptcy Law: Key Features and Implementation	16
	References	17
3	Are Banks Special? Implications for Bank Bankruptcy Law	21
3.1	What Is Different About Banks?	21
3.1.1	Liquidity Provision and Bank Runs	22
3.1.2	Systemic Impact and Regulatory Failure	23
3.1.3	Ex-Ante Moral Hazard: Risk Shifting	26
3.1.4	Ex-Post Moral Hazard: Opaqueness and Asset Substitution	29
3.1.5	Multiple Regulators and Political Economy of Banking	30
3.2	Bank Bankruptcy Law	34
3.2.1	Timely Intervention	34
3.2.2	Ex-Ante and Ex-Post Optimality	39
3.2.3	Liquidation, Purchase and Assumption Agreement, and Nationalization	42
3.2.4	The Design of Bank Bankruptcy Law and Its Relation to Corporate Bankruptcy Law	49
	References	57
4	Systemic Crises	65
4.1	Theoretical Research on Systemic Crises	65
4.2	Empirical Research on Systemic Crises	71
4.2.1	Accommodative Approach Towards Resolving Systemic Crises	71

4.2.2	Institutional Environment and the Costs of Systemic Crises	74
4.2.3	The Interaction Between Banking Crises, Currency Crises, and Sovereign Defaults	76
4.2.4	Overview of Interventions During the 2007–2009 Financial Crisis	77
	References	82
5	General Issues on the Structure of Banking Industry	85
5.1	Strengthening the Ex-Ante Regulatory Framework: Prudential Regulation	85
5.2	Separation of Public Infrastructure from the Financial System	88
5.3	Netting: The Case of Bank Loans	91
5.4	Closeout Netting: The Case of Derivative Contracts	92
	References	94
6	Current Bank Bankruptcy Regimes and Recent Developments	97
6.1	General Overview of Bank Bankruptcy Frameworks Around the World	97
6.2	Early Proposals on the Bank Insolvency Legal Framework: The Case of Sweden	101
6.3	The European Union Bank Bankruptcy and Reorganization Regime	103
6.4	The Bank Bankruptcy Regime in Germany	109
6.5	The U.S. Bank Bankruptcy Regime	113
6.6	The Dodd-Frank Wall Street Reform and Consumer Protection Act	116
6.7	Bank Bankruptcy Regime in the UK	121
6.8	Brief Comparison of U.S., UK, and German Bank Bankruptcy Law and Assessment	124
	References	129
7	Optimal Design of Bank Bankruptcy Law and the Bank Failures from the 2007–2009 Financial Crisis	133
7.1	Optimal Design of Bank Bankruptcy Law	133
7.2	The Northern Rock Collapse	139
7.3	The Lehman Brothers Bankruptcy	141
7.4	The Fortis Bank Bankruptcy	143
	References	145
8	Conclusions	147

9 Appendix	149
9.1 Design of Bankruptcy Law: U.S. Corporate Bankruptcy Law . . .	149
9.1.1 Liquidation Under Chapter 7 Versus Continuation Under Chapter 11	149
9.1.2 The Evolution of Chapter 11: DIP Financing, Asset Sales, and Tax Claims	151
9.1.3 Coordination Problems in U.S. Corporate Bankruptcy Law	153
9.2 Proposed Reforms of U.S. Corporate Bankruptcy Law	153
9.2.1 Shift of Control	154
9.2.2 Asset Sales	155
9.3 Summary and Comparison Between U.S. Corporate and Bank Bankruptcy Laws	157
References	157