

Preface

This book shows that a special bank bankruptcy regime is desirable for the efficient restructuring and/or liquidation of distressed banks. We first explore in detail the principal features of corporate bankruptcy law. Next, we examine specific characteristics of banks including public confidence, negative externalities of bank failures, opaqueness and the asset substitution problem, and liquidity provision. These features distinguish banks from other corporations and are largely neglected in corporate bankruptcy law. Other implications arise from the pressure of multiple regulators. Finally, we make recommendations for necessary changes in both prudential regulation and reorganization policies, which should allow regulators and banking authorities to better mitigate disruptions in the financial system and minimize the social costs of bank failures. We support our recommendations with a discussion of bank failures from the 2007–2009 financial crisis.

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