Abstract

This paper considers optimal executive pay regulations for banks that are too-big-to-fail. Theoretically, we map the consequences of a series of commonly-used pay schemes, describing their relative optimality and ultimate societal consequences. We argue that in a world of too-big-to-fail policy, simple equity-linked remuneration schemes maximise shareholder value by incentivising executives to choose excessively risky projects at the expense of the taxpayer. We find that paying the executive partly in debt fails to mitigate the project choice distortion when debt markets are informed. By contrast, both clawback rules and linking pay to interest rates can incentivise the executive to make socially optimal risk choices, but only if they are accompanied by appropriate restrictions on the curvature of pay with respect to the bank’s market value. Pay curvature can be generated by tools such as equity options and promotion policy. The policy implication is that unless regulators can enforce restrictions on pay curvature, bank shareholders can undermine the effectiveness of these pay regulations.

Keywords: Clawback; Executive compensation; bankers’ bonuses; too-big-to-fail; risk taking; financial regulation.

JEL Classification: G21, G28, G38.
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات