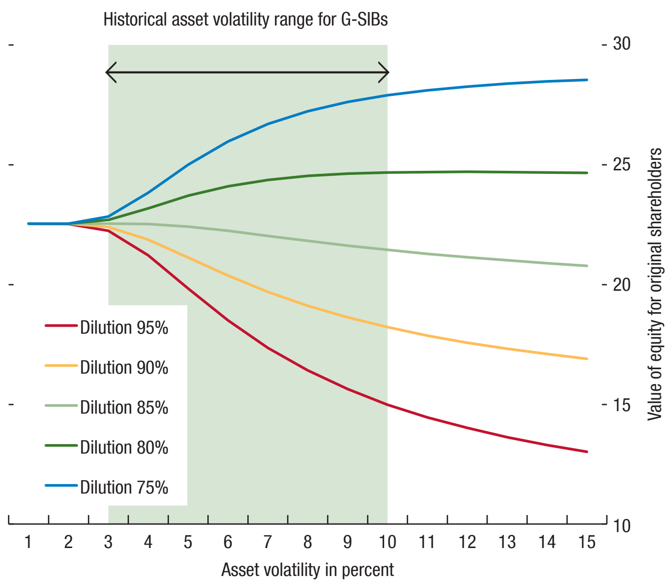
Figure 3.17. Equity Value for Original Shareholders under Bail-in Regime Converting Debt to Equity



Source: IMF staff estimates.
Note: G-SIBs = global systematically important banks. Ten percent dilution means bail-in debt holders receive 10 percent of (new) equity after they are converted to shareholders, whereas 90 percent of the new equity is given to original shareholders. Original shareholders' claim is diluted by 10 percent in this case. For simplicity, this exercise assumes two types of liabilities: (bail-in) debt and equity. It is assumed that $100 is initial asset value, $90 is face value of total debt, and 3 percent is the risk-free rate. Debt is converted to equity when asset value declines to $92.