## Reforming the Incentive Structure for Bank Executives

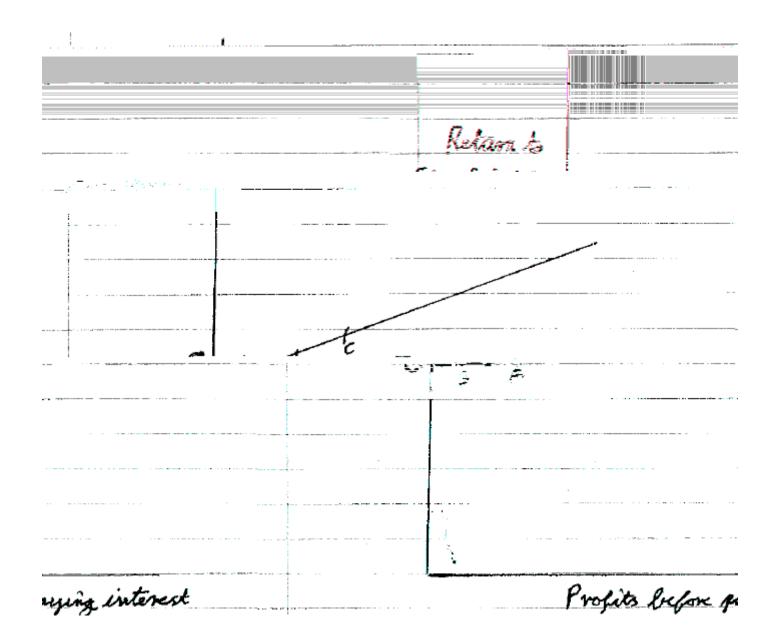
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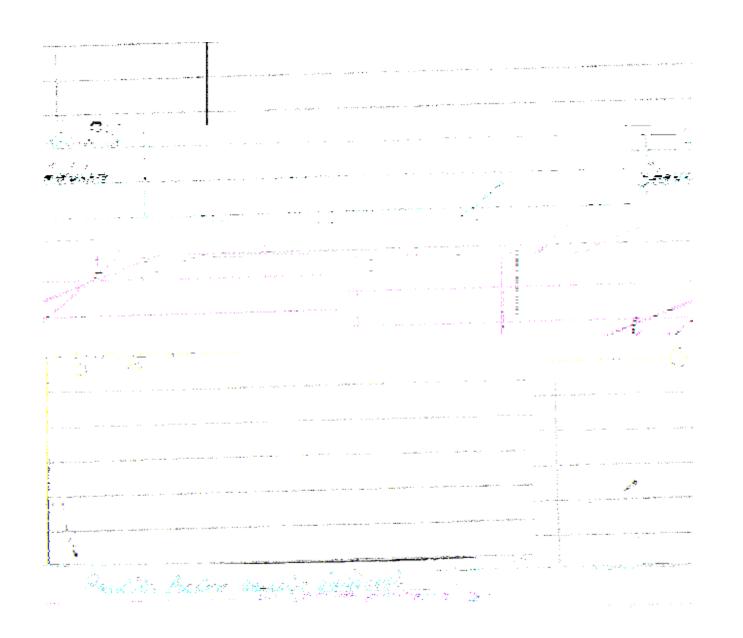
Limited Liability for Shareholders, including corporate executives, is the greatest source of moral hazard in a capitalist society.

Why Modigliani/Miller and early warnings from uninsured creditors does not work. Difficulty for accountants and supervisors to work in a confrontational fashion.

Some empirical evidence.

What can be done about it?





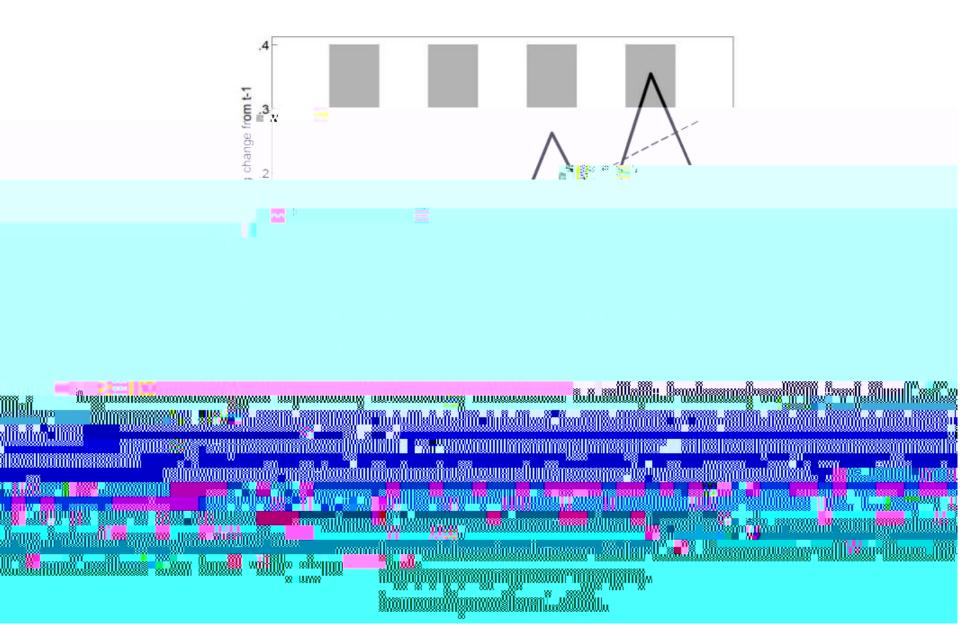
a faded franchise facing heightened competition and evolving client demands

\$65,470, according to the Bureau of Labor Statistics. At that wage, it would take 445 years to earn as much as the middle-of-the-

rose 63 percent from 2010 through 2023, based on data provided by ISS-CorpoaBT/F4 20.064 Tf1**trs.@0**00000010729 0 72059 0 72

## Why does Modigliani/Miller not work?

- 1) Tax advantage of debt.
- 2) Informational advantage of management.
- 3) Run if others run; not otherwise.
- 4) Bail-outs for bank creditors / Credit Suisse.
- 5) Who watches the watchers?



## Some empirical evidence:-

- 1) Goodhart and Lastra, Journal of Financial Regulation, Volume 6, Issue 1, 20 March 2020, pp 1-40.
- 2) Goodhart and Postel-

DP18799, 1 February 2024, and Economic History Working Papers No. 367, London School of Economics, February 2024.

3)

Insurance Corporation Working Paper 2024-03, April 2024.

Conclusion of paper three above:-

contribute to the stability of the banking system by encouraging banks to target lower default risk. Our study suggests that regulatory policies on bank executives can influence risk management practices and

## What can be done about it?

- a) Require more equity: Admati/Hellwig?
- b) Claw back?
- c) Remove limited liability for executives?
- d) Make all bonuses payable in bonds?
- e) Change appointment mechanism.
- f) Any others?