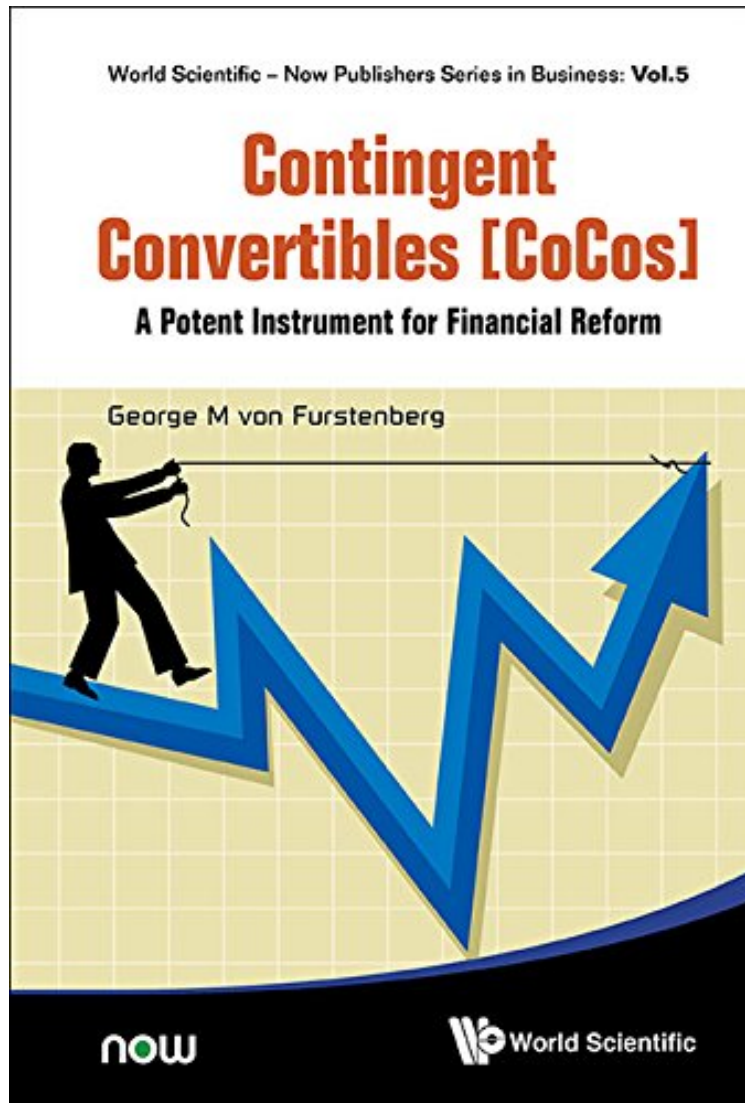


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Contingent Convertibles [CoCos] : A Potent Instrument for Financial Reform (World Scientific-Now Publishers Series in Business)

George M von Furstenberg
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George M von Furstenberg : Contingent Convertibles [CoCos] : A Potent Instrument for Financial Reform (World Scientific-Now Publishers Series in Business) before purchasing it in order to gage whether or not it would be worth my time, and all praised Contingent Convertibles [CoCos] : A Potent Instrument for Financial Reform (World Scientific-Now Publishers Series in Business):

1 of 1 people found the following review helpful. A pragmatic case for CoCos By Luc Perrot Excellent book explaining why CoCos can be and should be a relevant financial instrument to alleviate deterioration in a bank's balance sheet. This book counter balances economic concepts which are oftentimes far removed from the reality of a bank's operations and everyday decision-making experience. The pragmatic examples outlined in this book favorably contrast other books like *The Bankers' New Clothes* by Anat Admati and Martin Hellwig where the authors lay out very few foundations to support the "equity claim." Prof. Von Furstenberg's central premise is that a simple measure -- banks voluntarily raising capital through CoCos and reshaping their capital structure -- issuing bonds that can be converted to equity -- would greatly improve the stability of the issuing bank, improve corporate governance, enhance market discipline in the banking system, and would greatly reduce bailout costs. Prof. Von Furstenberg slices through the various issues, catalogs and presents a credible and clear view of an instrument still in its infancy. As a result, he addresses a number of CoCos' issues and features central to developing this product -- policies or the lack thereof, tax treatment, rating agencies roles -- risk premium, conversion price and replacement rate, recovery rate. In this challenge, the discussion around going-concern recovery sets the tone for a serious conversation about the need for such product. The simplicity in which the various ratios and calculations are presented makes for a pragmatic and relevant case. As a pragmatic example, I particularly enjoyed chapter 8 subsection 8.1 around the restructuring of SolarWorld and the theoretical demonstration of the need for such product not only for banks but for corporations. As an experienced restructuring banker, I appreciate the impact of the hypothetical CoCo issued and the estimated cash savings from interest payments, cash being key in such situations. While no single measure proposal can resolve every problem that might arise in the financial sector, CoCos appear as a necessary threshold that must be addressed. From a bank's perspective (having consulted as well for 5 years on the European financial crisis), I found Prof. Von Furstenberg's message to be quite persuasive and compelling.

1 of 1 people found the following review helpful. A Valuable Book By enak For anyone who wants to understand contingent equity, this book is full of valuable insights, useful facts, and careful distinctions. It begins with an encyclopedic treatment of differences in the evolving levels and composition of capital (i.e., equity) requirements in the US and EU. CoCos are described as creative instruments that in Europe authorities have allowed to lower some of the tax and regulatory burdens associated with providing loss-absorbing private equity funding to banks when it is desperately needed. The use of the word "potent" in his subtitle immediately tells us that Professor von Furstenberg hopes that his book can help overcome the reluctance of US tax and regulatory authorities to follow the Europeans' lead. He builds a case for CoCos as a way to temper the costs of Too-Big-to-Fail policies for taxpayers. In his view, the expected reduction in bailout costs would make it worthwhile to "bend" regulatory definitions of capital and tax-code restrictions on deductibility of interest, at least on instruments that are actuated automatically and set to convert long before the point of potential insolvency. In view of the difficulty of credibly estimating the side effects and after-effects of alternative policies, he does not attempt any quantitative balancing of the opportunity costs involved. The book has immense value as a reference, which is how I will use it. It catalogues -- and shows how to price -- a range of differences in contractual features and explains how particular variations in contract terms might improve corporate governance and enhance market discipline. It reviews real-world use and misuse of CoCos at banks that have actually issued them. Finally, the last 90 pages of the book work through a series of major policy issues and offer well-chosen excerpts from key statements on CoCos developed by the Basel Committee on Banking Supervision and US and European authorities.

Contingent Convertibles (CoCos) represent debt that is subject to being converted automatically into common equity under pre-specified terms of conversion if the chosen regulatory capital ratio falls to a level triggering conversion. CoCos are that subspecies of contingent capital that references regulatory (Basel III) concepts in its triggers. From 2014, trigger points are set by common equity (Common Equity Tier 1 [CET1]) in percent of risk-weighted assets [RWA] or of more complicated measures of total exposure to a variety of risks, particularly credit risk. This is the first comprehensive book on CoCos, an innovative instrument that has attracted growing attention since it was first issued in 2009. The book is mostly concerned with going-concern "recovery" rather than "resolution"; CoCos, because avoiding failure and costly disruption of financial networks without government financing is the first order of business. CoCos hold a high promise of providing fully loss-absorbing equity capital when it is most needed and least available to financial institutions. Yet, having grown out of the 2007-2009 financial crisis, they are still an "infant" reform instrument in many respects. Few of the instrument's design features (or even the rating, regulatory, and tax treatments) are entirely settled. This book seeks to move the discussion toward, and then past, the main decision points so that CoCos can prove their value for contingency planning and self-insurance all over the world. It is intended to increase the ability of issuers and investors to analyze and understand the different kinds of CoCos.

Contents: Foundations: Introduction Overview of Basel III Implementation Most Relevant for CoCos CoCos and the Struggle to Preserve Going-Concern Value The Treatment of TBTF Financial Institutions in the Last Crisis Strategic Policy Objectives in Privatizing the TBTF Backstop Why CoCos?: High-Trigger CoCos Compared with Other Bailinable Debt Self-Insurance with CoCos Compared to Common Equity Automatic CoCos Conversion vs. Voluntary

Restructuring Reasons for Having Cocos Liabilities on the Balance Sheet Varieties of Cocos Design and Rationales: Determining Conversion Price and Risk Premium in Cocos Write-Down-Only Cocos Actual or Prospective Recovery Rates from Converting Cocos Government Capital Injections and Bailout Cocos Misuses of Cocos in Government-Led Recapitalizations of Banks Policy Choices and Essentials for Cocos' Success: The Tax Treatment of the Interest Paid on Cocos Major Credit Rating Agencies' Approaches to Rating Cocos Regulatory Requirements at Cross-Purposes Conclusions and Recommendations for Cocos Design and Evaluations Readership: Researchers in Banking, Finance, and Financial Service, Finance Professionals, Law Firms, Accounting, and Financial-Consulting Firms; Portfolio and Wealth Management Specialists; Fixed-Income Investors and Fund Managers; Government Regulators of Financial Services; Libraries and Members of Research and Capital Markets Divisions at National and International Financial Institutions.

The July 2015 issue of Global Credit (Vol. 5) contains a 7-page " of [my book on] Contingent Convertibles -- From an Industry Perspective" by Dr. Jeffery Bohn (Berkeley):(i) "George M. von Furstenberg's recent book expertly peels back the layers of apparent complexity" and "opened my eyes to the range of possible Coco designs, regulatory and market interaction issues and the subtlety in how these instruments can drive senior managers' incentives." (ii) "[A]nyone interested in a deeper dive into how markets and regulators deal with deteriorating financial institutions will find this book provides a useful on-the-ground view often missing from books covering financial crises; von Furstenberg has materially added to this global discussion of how to promote financial stability."