

# DISSERTATION DEFENSE

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## **Disclosure Policies, Bank Runs, and Managerial Incentives**

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My dissertation studies how financial disclosure policies affect the balance of managerial risk-taking incentives and creditors' bank runs. The ultimate goal of this research is to contribute on the understanding of how financial crises occur and what policies actually help to reduce the social costs of such crises.

In the first chapter, I study how the release of discount window information affects the provision of managerial incentives and whether the disclosure could trigger bank runs. I propose a model in which banks suffer adverse shocks that require cash infusion in order to continue operating and assets are subject to moral hazard. The bank is financed by depositors that can withdraw money at any time, introducing a collective action problem. I provide conditions that characterize whether disclosure or confidentiality of discount window borrowings maximizes the NPV of bank projects. The main result suggests that disclosure is a better policy when moral hazard is serious relative to the size of the liquidity shock, because it allows a contract that induces the banker to behave. Secrecy is a better tool when the moral hazard is small relative to the liquidity shock, because a run is avoided.

In the second chapter, I study the interaction between incentive provision and inefficient rollover freezes for a bank financed with short-term debt. I propose a dynamic model where rollover freezes occur because of an intertemporal coordination problem and management has discretion over the riskiness of assets. The main result states that when bank assets grow slowly, bank management chooses high risk and creditors run more frequently, increasing the resulting run probability. I characterize how changes in the fundamental's drift, debt maturity, liquidation costs, interest rate, and bailout policies change the equilibrium outcome of project riskiness and occurrence of runs, which in turn affects the value of the bank. A bailout friendly environment reduces creditors' incentives to run, which in turn gives the manager room to increase asset risk, ultimately increasing the run probability.

In the third chapter, I study the effects of disclosing financial information on the occurrence of bank runs and on management risk-taking activities. The main trade-off is between the risk of bank runs, which increases with a disclosure delay, and managerial incentives for risk taking, which runs discipline. I find that the main policy consideration is the growth rate of bank assets. If bank assets grow sufficiently slowly, then the optimal policy is to disclose with a lag, in order to balance managerial risk taking and creditors' coordination problems. When bank assets have high-growth rates, a disclosure lag increases the occurrence of runs and decreases bank value.