

Comments on  
“Financial Distress and Bank  
Restructuring of Small to Medium Size UK  
Companies”  
and  
“Bankruptcy Resolution in Japan”

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## Franks and Sussman(2002)

It has shown how banks restructure distressed firms: UK evidence

Two important aspects

- Difference of Procedure

US system: Court-supervised system

VS

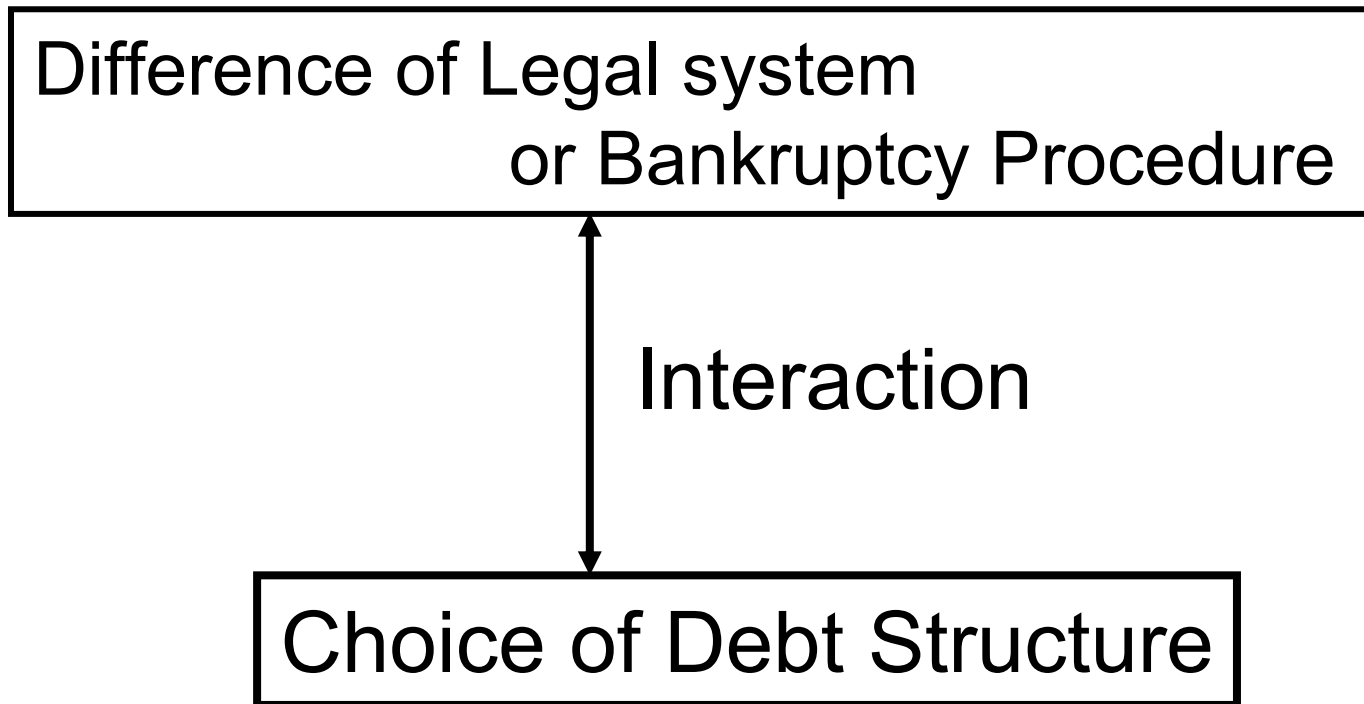
UK system: Contract-driven system

# Franks and Sussman(2002)

- Debt Structure  
Concentration VS Dispersion

# Franks and Sussman(2002)

- Important point



## Franks and Sussman(2002)

- Although the source of credit can be dispersed, the liquidation rights are extremely concentrated.
- Banks do not act softly in debt renegotiation, they are very tough.
- No creditors runs
- Evidence about lazy banking is mix.

## Xu (2002)

- There have been few econometric analyses about Japanese bankruptcy procedure.
  - ⇒ The results of this paper is important and interesting.
- Now Japanese legal rules are changing
  - Introduction of Civil Rehabilitation Law
  - Revision of Corporate Reorganization Law

## Xu (2002)

- Most firms experience senior management turnover and asset restructurings prior to bankruptcy filings.
- Priority of claims is less violated.
- Bankruptcy process became quick under Civil Rehabilitation Law.

# Comments

- Relation between bankruptcy rules and choice of debt structure is an important and interesting point.
- For decreasing bad loans, UK system might be attractive even in Japan.
- Debt restructuring before bankruptcy procedure is relatively difficult in Japan.



# Comments

- Japan uses court-supervised bankruptcy process, and *after* bankruptcy is much different from *before* bankruptcy.  
(different from UK system)
- Since bankruptcy process is costly, bankruptcy rules usually work just as a threat and private debt restructure or private resolution process is important.

# Comments

- Thus, companies which did not bankrupt would be interesting samples to consider bankruptcy rules.
- If bankruptcy rules mainly work as a threat, what is optimal rules? Or we should use UK rule?