

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

Noriyuki Yanagawa
RIETI and University of Tokyo

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

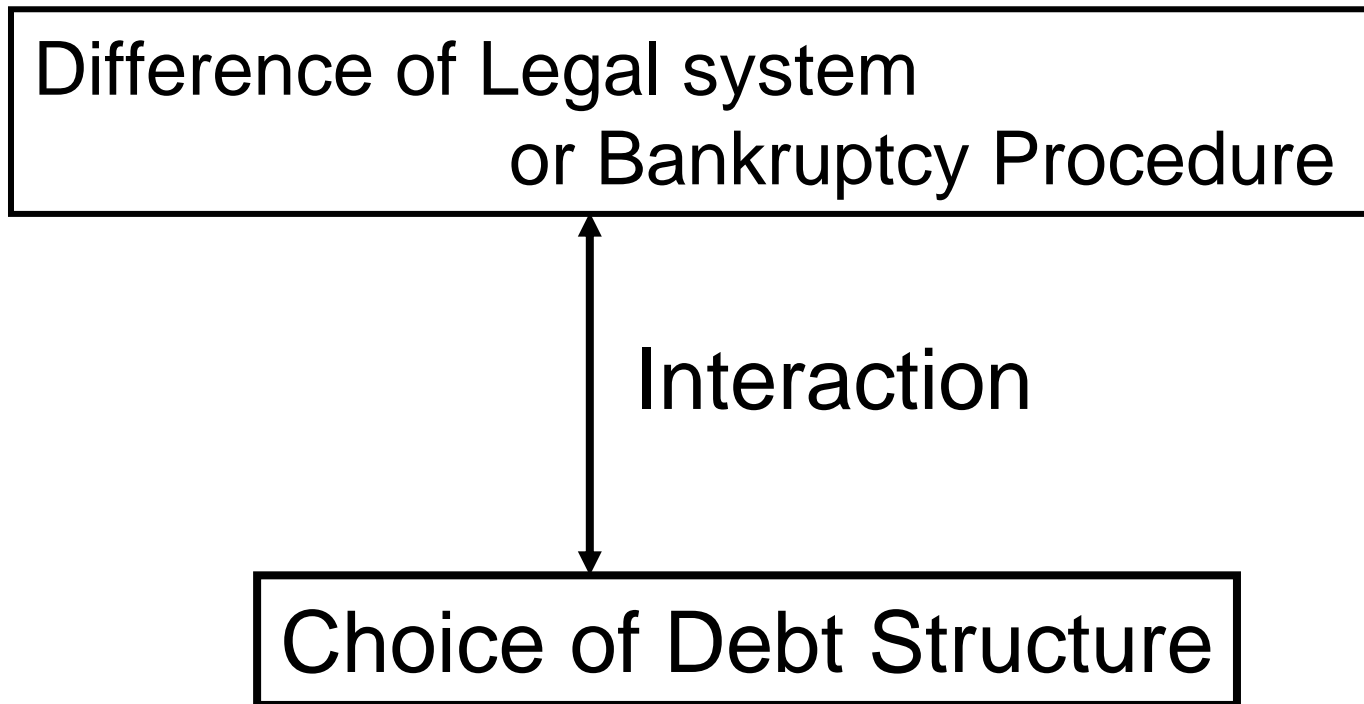
UK system: Contract-driven system

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?