

A New Capital Regulation for Large Financial Institutions

[Get access >](#)

Oliver Hart, Luigi Zingales

American Law and Economics Review, Volume 13, Issue 2, Fall 2011, Pages 453–490, <https://doi.org/10.1093/aler/ahr001>

Published: 08 September 2011

Abstract

We design a new capital requirement for large financial institutions (LFIs) that are “too big to fail.” Our mechanism mimics the operation of margin accounts. To ensure LFIs do not default on systemically relevant obligations, we require that they maintain a cushion of equity and junior long-term debt sufficiently great that the credit default swap (CDS) price on the long-term debt stays below a threshold level. If the CDS price moves above the threshold, either LFIs issue equity to bring it down or the regulator intervenes. This mechanism ensures that LFIs are always solvent, while preserving some of the benefits of debt.

© The Author 2011. Published by Oxford University Press on behalf of the American Law and Economics Association. All rights reserved. For permissions, please e-mail: journals.permissions@oup.com.

JEL: [G21 - Banks; Depository Institutions; Micro Finance Institutions; Mortgages](#), [G28 - Government Policy and Regulation](#), [G32 - Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure; Value of Firms; Goodwill](#)

Issue Section: [Articles](#)

You do not currently have access to this article.

Sign in

[Get help with access](#)

Personal account

- Sign in with email/username & password

Institutional access

Sign in through your



- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

[Sign in >](#)

[Register](#)

institution

 [Sign in through your institution >](#)

[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

Institutional account management

[Sign in as administrator](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

A New Capital Regulation for Large Financial Institutions - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

Rental



This article is also available for rental through DeepDyve.