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## The Economics of Deferral and Clawback Requirements: An Indirect Tax Approach to Compensation Regulation

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Stockholm School of Economics - Department of Finance; Swedish House of Finance

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### Abstract

This paper proposes an indirect tax approach to derive positive and normative implications of regulatory interference in compensation contracts, focusing on recent mandatory deferral and clawback requirements in the financial sector. Moderate deferral requirements for bonus-pay typically lead to lower bank failure rates by inducing shareholders to incentivize more risk management effort from their managers, whereas stringent deferral requirements achieve the opposite. Additional clawback requirements prevent such backfiring only when competition for managerial talent is high. We characterize the optimal calibration of deferral and clawback requirements depending on the information environment, managers' outside options and their interaction with capital regulation.

**Keywords:** financial regulation, moral hazard, compensation design, clawbacks, bonus deferral, short-termism**JEL Classification:** D86, G28[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID3346439\\_code1194060.pdf?abstractid=2284337&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID3346439\\_code1194060.pdf?abstractid=2284337&mirid=1&type=2\)](#)

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