

The effects of temporary write-down CoCos on equity prices and CDS spreads

Master Thesis

Chair: Prof. Dr. Steven Ongena

Supervisor: Kuchulain O'Flynn

University of Zurich

Departement of Economics

Institute of Banking and Finance

Author: Thomas Schaad

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Abstract

This thesis examines the effects of the issuances of contingent convertible bonds (CoCos) with a temporary write-down loss absorption mechanism on the issuer's equity and debt holders. For a sample of European CoCo issuances between 2009 and 2017, event study methodology is applied to analyze whether the CoCo issue announcement effects differ between different types of loss absorption mechanisms. The results partially confirm previous empirical findings for a larger sample of CoCo issue announcements as a significant negative reduction in the issuer's CDS spreads on the day of announcement is observed. However, the empirical study does not provide evidence that the selection of the loss absorption mechanism affects equity prices and CDS spreads. Theoretically opposing announcements effects or the immateriality of the effects induced by the selection of the loss absorption mechanism might lead to the insignificant results. Therefore, the thesis can not identify the reasons which would explain the increased preference of banks to meet capital requirements with the issuance of CoCos with a temporary write-down mechanisms.