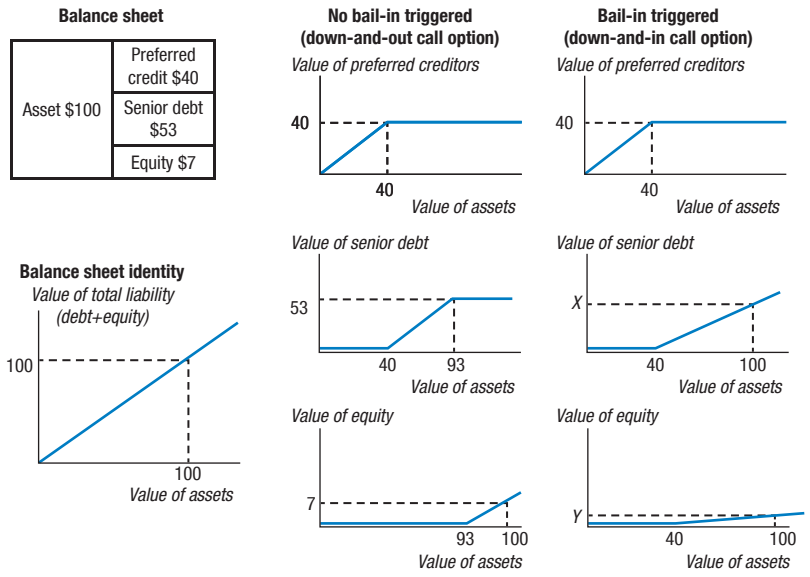
Figure 3.22. Pricing of Liabilities under Bail-in Power



Source: IMF staff.
Note: *X* and *Y* depend on the extent of dilution for existing shareholders when bail-in power is applied. In this exercise, senior debt holders and existing shareholders are assumed to receive new equity in proportion to the market value of their respective claims. Suppose *SenD** and *E** represent the market value of senior debt and equity, respectively, when bail-in kicks in. Senior debt holders receive *SenD**/(*SenD**+*E**) percent of new equity and the rest goes to existing shareholders. The balance sheet identity implies that the total value of assets should be equal to the total value of liabilities, which is the sum of the values of preferred credit, senior debt, subordinated debt, and equity.