

Wealth Effect of Public Fund Injections to Ailing Banks: Do Deferred Tax Assets and Auditing Firms Matter?

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[Abstract]

This paper investigates the wealth effect of the public fund injection into Resona Bank on other banks. This paper finds that the injection initially conveyed the auditing firms' strict stance toward deferred tax assets. More importantly, the procedure that the government employed was regarded as the Too-Big-To-Fail policy. Therefore, we are afraid that the Resona injection is counter-productive in the sense that the moral hazard posed to the shareholders of large banks will inevitably be serious and market discipline will become weaker. Unfortunately, the Resona injection will make Japanese banking reform more difficult.

[Key words] Japanese Banks, Public Funds, Too-Big-To-Fail, Tax Efficient Accounting, Deferred Tax Assets

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