Do Mandatory Liquidity Disclosures Foster or Forestall Coordination Failures?

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Resumo/Abstract:
This paper investigates whether mandatory liquidity disclosures can prevent inefficient liquidation of firms with going concern value, such as defaults arising from bank runs or from creditors failing to roll over debt. We find that, compared with an opaque regime, mandatory liquidity disclosures promote rather than prevent coordination failure. We then consider an alternative regime with mandatory disclosure of a borrowers continuation value. As long as potential creditor losses are bounded, the result is the same: compared with an opaque regime, mandatory disclosure of a continuation value promotes runs. Coordination failure can still take place under an opaque regime, but as the risks associated with the liquidation and continuation values increases, opacity makes runs less likely.