The Credibility of Bail-In*

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Abstract

It took fifteen years to build a resolution framework for global systemically important banks. The failure of Credit Suisse in March 2023 was its first test. Swiss authorities bypassed an operationally ready resolution plan that would have imposed losses on Additional Tier 1 (AT1) bonds first, then bail-in-eligible debt. Defying market expectations of a bail-in, they wrote down AT1 bonds in full but left bail-in-eligible creditors whole. We study how this choice reshaped bail-in credibility across Europe, tracing repricing across 94 banks in 22 countries over the following year. AT1 repricing diverged across jurisdictions, tracking the regulatory signal each sent. Bail-in-eligible spreads and CDS subordination premia narrowed uniformly, suggesting markets priced bail-in as less likely. Weaker banks benefited disproportionately, and investor responsiveness to issuer-specific disclosures declined, consistent with reduced market discipline. The expectation that creditors would bear losses was a decade in the making. One episode of forbearance weakened it.

Keywords: Bank resolution, bail-in credibility, AT1 bonds, creditor hierarchy, Credit Suisse.

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1 Introduction

Fifteen years of regulatory reform promised that when banks fail, private creditors, not taxpayers, would bear the losses. A resolution framework was built to deliver on this promise. A promise, however, is only as credible as the willingness to keep it. In March 2023, a failing global bank put that willingness to the test.

Credit Suisse (CS), one of the thirty global systemically important banks, was failing. The resolution framework prescribes an order of loss absorption across creditor classes in such situations. Additional Tier 1 (AT1) bonds, perpetual instruments designed to recapitalize banks at the onset of distress, absorb losses first through write-down or conversion into equity. If distress continues, bail-in-eligible bonds absorb losses next through the process of bail-in during formal resolution. For Credit Suisse, a resolution plan had been developed over years of cross-border coordination, and authorities across jurisdictions had confirmed readiness to execute it (Expert Group Report, 2023; FSB, 2023). Large institutional investors in Credit Suisse debt were pricing in exactly that outcome. Yet Swiss authorities chose a different path. They facilitated an acquisition of Credit Suisse by UBS, backed by public guarantees and emergency liquidity support. CS AT1 bonds were written down in full, but resolution was avoided, so bail-in bonds were left untouched. Within hours, EU and UK authorities moved to reassure their own AT1 markets. In the space of a weekend, bank debt investors received new signals about the willingness of major authorities to resolve a global bank.

We study how these signals reshaped *bail-in credibility*: the perceived willingness of authorities to impose the very losses that fifteen years of reform had promised. Using roughly 700,000 daily bond-level observations from 94 European banks across 22 countries, we trace how investors repriced AT1, bail-in, and senior bonds in the year following the event, and what that repricing reveals about the perceived willingness of authorities to impose losses on each creditor class. The CS episode offers clean conditions for identification: a large and unexpected shock to beliefs about regulatory behavior, with variation across jurisdictions in

the signal that was sent.

We develop a conceptual framework that decomposes bail-in credibility into two margins. The entry margin governs whether AT1 instruments absorb losses at the onset of stress. Because AT1 absorbs losses before bail-in-eligible bonds, any intervention that protects AT1 holders necessarily protects bail-in-eligible bondholders as well. The continuation margin governs what happens next: conditional on AT1 absorbing losses, do authorities proceed with bail-in or provide public support? Changes in AT1 spreads identify shifts in entry-margin credibility directly. Changes in bail-in-eligible bond spreads reflect both margins, because these investors' expected losses depend on whether authorities impose losses on AT1 in the first place and, if they do, on whether they then proceed with bail-in. Comparing the proportional movement of the two tiers around the CS event isolates the continuation margin: If bail-in-eligible spreads move more than implied by the AT1 move, the residual maps to the continuation margin.

We apply this framework to bond repricing measured six to twelve months after the event, where crisis-related liquidity effects and short-run contagion have dissipated. Two findings emerge.

First, entry-margin credibility moved in opposite directions depending on the regulatory signal. In Switzerland, where authorities wrote down AT1 in full, AT1 spreads widened persistently, rising by roughly 11 percent relative to their pre-CS level. In the Eurozone and the United Kingdom, AT1 spreads fell roughly 5 percent below pre-CS levels. Entry-margin credibility declined: markets interpreted the clarifications issued by EU and UK authorities as reducing the likelihood that AT1 instruments would absorb losses in those jurisdictions.

Second, continuation-margin credibility fell everywhere. In every jurisdiction, bail-in-eligible bond spreads tightened over the six to twelve months following the event, and they tightened proportionally more than AT1 spreads. In the Eurozone, bail-in-eligible spreads declined by roughly 13 percent against a 5 percent AT1 decline. In the United Kingdom, the comparison is 14 percent against 5 percent. In Switzerland, the inference requires no

proportional test: AT1 widened while bail-in-eligible spreads tightened, directly implying that the conditional probability of bail-in fell. In each jurisdiction, through different configurations of spread movements, the framework's decomposition points the same way: markets revised downward the probability that authorities would proceed with bail-in. Senior bond spreads showed no meaningful movement anywhere, confirming that the repricing reflects a reassessment of how losses are distributed in resolution, not of whether banks would fail.[1]

CDS markets tell a consistent story. The subordination premium, which measures the additional cost of insuring subordinate versus senior bank debt, narrowed by 8 to 12 percent in every jurisdiction over the six to twelve months following the event. This suggests that in the market's view the distinction between subordinate and senior debt mattered less after the CS event. If bail-in is unlikely to be enforced, subordinate debt is effectively closer to senior debt.

If markets now expect public support rather than bail-in, the immediate question is who benefits. An implicit guarantee is worth more to creditors of banks closer to distress, because those banks are more likely to reach the states where the guarantee matters. The cross-section of repricing around the CS event should reflect this, and it does. In the Eurozone and the United Kingdom, lower-rated banks saw their bail-in-eligible spreads tighten by an additional 52 basis points relative to higher-rated banks, roughly a fifth of the pre-CS average spread. Credit ratings predict this differential repricing; bank size and capitalization do not. The declining credibility of bail-in did not simply reprice systemic importance. It reduced the funding cost penalty for being a weaker bank.

The pricing side is one dimension. The behavioral side is another. If creditors expect public support rather than private loss absorption, their incentive to scrutinize issuer-specific disclosures diminishes. We measure this using bond yield responses to 875 quarterly earnings announcements from 2018 to 2024. For each bond, we strip out common movements within its tier, region, and currency to isolate the issuer-specific component. The absolute change

[1]These estimates are robust to alternative fixed effects specifications, and to excluding the 15 and 30 trading days immediately before the event from the pre-CS sample.

in this excess yield around an announcement captures how attentively investors process news about the individual bank. Post-CS, for bail-in-eligible and senior bonds, this response declined by roughly a third and a half respectively relative to pre-CS levels. For AT1 bonds, no common shift emerged, consistent with the heterogeneous repricing across jurisdictions. Where credibility declined uniformly, so did investor attention.

Our results expose a structural tension at the heart of the resolution framework. Resolution matters most when a large, interconnected bank is in acute distress. Those are also the conditions under which political pressure to avoid it is greatest. The first real test confirmed this tension. Markets registered the signal: if bail-in is unlikely to be enforced, subordinated creditors are partly shielded from losses, and that shield is worth more to banks closer to distress. The funding cost penalty for being a weaker bank shrinks. Market discipline weakens where it is needed most.

Creditors who expect to be made whole have little reason to discipline the banks they lend to. Disclosure requirements and loss-absorbing capital work in tandem only when investors have reason to act on the information they receive. A resolution framework that lacks credibility undermines the very pillar of the regulatory architecture that depends on private investors paying attention.

Literature and Contribution. We provide the first empirical assessment of how a G-SIB crisis reshaped market beliefs about the resolution framework built specifically for such institutions. The prior literature documents a gradual strengthening of bail-in credibility through the 2010s. Berndt et al. (2025) show that market-implied bailout probabilities for US GSIBs fell significantly since the GFC. Schäfer et al. (2016) study bail-in events in Cyprus, the Netherlands, and elsewhere, finding that actual loss imposition raised credibility more effectively than legislation alone. In European bond markets, Cutura (2021), Lewrick et al. (2019), and Cerasi and Galfrascoli (2023) document rising bail-in risk premia as the regulatory framework matured. These advances were driven by legislative milestones and smaller domestic failures. The architecture built specifically for globally systemic banks,

including Total Loss-Absorbing Capacity requirements, mandatory resolution planning, and cross-border Crisis Management Groups, remained untested until March 2023.[2] Our results show that a single episode of forgoing resolution at a G-SIB, when the framework demanded it, set back this trajectory.

A separate contribution is conceptual. The existing literature measures bail-in credibility as if loss-absorbing capital were a single undifferentiated layer. In practice, the post-GFC framework created a hierarchy of distinct tiers that are sequentially linked: AT1 absorbs losses before bail-in-eligible debt, so beliefs about one tier shape expected losses at the next. Reading bail-in bond spreads in isolation cannot distinguish whether a change reflects a shift in the likelihood that authorities impose losses on AT1, a shift in the likelihood that they proceed with bail-in afterwards, or both. Our framework decomposes bail-in credibility into entry-margin and continuation-margin components, and the data confirm that this distinction matters: the same event shifted the two margins in opposite directions in Switzerland, and by different magnitudes in the Eurozone and the United Kingdom.

Who benefits most from this erosion connects to a long-standing literature. The too-big-to-fail literature documents that implicit guarantees reduce funding costs for banks that enjoy them (Gandhi and Lustig, 2015; Gandhi et al., 2020; Acharya et al., 2016). This resonates with the classic idea that value of a government guarantee on bank liabilities is isomorphic to a put option on bank assets, increasing in proximity to insolvency. When a credibility shock raises the perceived probability of public support, banks closer to the exercise boundary gain the most (Merton, 1977). Our cross-sectional results confirm this logic in the bail-in setting. Following the CS event, lower-rated banks experienced the largest tightening in bail-in-eligible spreads, consistent with the Merton put being most valuable for banks closest to distress.

Finally, we show that the credibility decline reduced not just risk premia but investor attention itself. Flannery and Sorescu (1996) and Hett and Schmidt (2017) show that in-

[2]The Financial Stability Board called the Credit Suisse crisis "the first real test at a larger scale of the international resolution framework" (FSB, 2023).

vestor monitoring tracks the credibility of loss imposition: subordinated debt yields became sensitive to bank risk during the 1980s as US regulators demonstrated willingness to let creditors absorb losses, weakened during the GFC bailouts, and recovered after Dodd-Frank. That pattern took decades of enforcement to build. Our findings show that a single episode of forbearance at a G-SIB was sufficient to weaken monitoring incentives that years of reform had cultivated. We also advance the measurement of market discipline. The existing literature tests whether spreads respond to risk (Flannery and Sorescu, 1996; Sironi, 2003; Hett and Schmidt, 2017; Lewrick et al., 2019). We test whether investors actively process new information when it arrives, using the issuer-specific component of bond yield responses around quarterly earnings announcements. As Blankespoor et al. (2020) emphasize, disclosure processing is an active economic choice: investors engage with issuer-level information only when expected payoffs justify the cost (Grossman and Stiglitz, 1980). When bail-in credibility falls, so does the incentive to pay that cost.

Structure. The remainder of the paper proceeds as follows. Section 2 describes the post-crisis loss-absorption regime, the Credit Suisse episode, and the regulatory signals it generated across jurisdictions. Section 3 develops a two-stage framework that maps yield spread movements to shifts in market beliefs about loss absorption and public support at distinct margins of the creditor hierarchy. Section 4.1 describes the data and empirical strategy. Section 5 presents the results: baseline and geographic repricing estimates, CDS-based corroboration, cross-sectional heterogeneity by bank health, and evidence on investor discipline around earnings announcements. Section 6 concludes.

2 Institutional Setting

2.1 The Post-Crisis Loss-Absorption Regime

The Global Financial Crisis exposed severe deficiencies in banks' ability to absorb losses privately. Taxpayer-funded rescues followed. In response, Basel III introduced a hierarchy of loss-absorbing capital designed to ensure that private investors, not the public, bear losses when banks fail.

Basel III requires banks to hold at least 8 percent of risk-weighted assets as total regulatory capital. Of this, at least 4.5 percent must be Common Equity Tier 1, the highest-quality and most loss-absorbent form. Globally systemically important banks face additional CET1 buffer requirements reflecting their systemic importance.[3]

Below CET1, three classes of debt form a layered loss-absorption structure. Our empirical analysis focuses on these three classes and the pricing of the boundaries between them.

Additional Tier 1 (AT1) bonds are perpetual contingent convertible instruments designed to recapitalize banks while still a going concern. Losses on AT1 bonds take the form of conversion into equity or complete write-down, depending on the contractual terms. Two triggers can activate these losses. The first is mechanical: AT1 bonds convert or are written down if the bank's CET1 ratio breaches a predefined threshold, typically set at 5.125 or 7 percent.[4] The second is discretionary: regulators can impose losses on AT1 if they determine that the bank is approaching non-viability.

Above AT1 in the capital structure is a layer designed to absorb losses in resolution. For simple banking structures, this layer consists of Tier 2 bonds: fixed-maturity subordinated instruments that bear losses at regulatory discretion through write-down or conversion, after

[3] G-SIBs are also subject to Total Loss-Absorbing Capacity (TLAC) requirements, typically set between 16–20 percent of risk-weighted assets. Instruments that count toward regulatory capital may also count toward TLAC. Banks that need additional coverage may issue senior unsecured bonds to fill the gap.

[4] AT1 bonds with a 5.125 percent threshold are commonly referred to as low-trigger instruments; those with a 7 percent threshold as high-trigger.

AT1 capital is depleted. Unlike AT1, T2 bonds lack mechanical triggers.

For large banking groups, the resolution layer is broader. These groups typically operate through a holding company (*holdco*) that owns one or more operating bank subsidiaries (*opco*). A senior bond issued by the holdco is contractually senior at the holdco level, but its holders lack a direct claim on subsidiary assets. Servicing depends on dividends and intra-group flows that are available only after each subsidiary has met its own external liabilities. In resolution, regulators channel losses upward to the holdco first. These bonds are therefore structurally subordinated to senior bonds issued at the operating-bank level, despite carrying the same contractual seniority label. For banks without a holdco structure, contractual subordination clauses achieve the same economic effect (Lewrick et al., 2019).

Both T2 bonds and structurally subordinated senior bonds absorb losses in resolution before operating-company senior debt is touched, consistent with the TLAC framework (FSB, 2015). We group them together and refer to the combined class as bail-in bonds. Senior unsecured bonds, as used throughout this paper, refers to operating-company senior debt, which ranks above the entire bail-in layer and bears losses only after all subordinated capital is exhausted.

Our empirical analysis thus works with three categories: AT1 bonds, bail-in bonds, and senior unsecured bonds. The conceptual framework in Section 3 maps each to a distinct stage of the loss-absorption hierarchy.

2.2 Credit Suisse as a Test of the Regime

The collapse of Credit Suisse marked a pivotal test for the post-crisis resolution regime. As a global systemically important bank (G-SIB) with CHF 531 billion in total assets, its failure represented, according to the Financial Stability Board, "the first real test at a larger scale of the international resolution framework" established after the Global Financial Crisis (FSB, 2023). The FSB also described this as "the most significant failure since 2008." Over a decade of detailed resolution planning, loss-absorbing capital requirements, and cross-border

coordination mechanisms were brought to bear on this single, highly visible event.

Credit Suisse's distress had implications well beyond Switzerland. The bank operated prominently in global wealth management, investment banking, and cross-border financial markets. Investors closely watched the regulatory response, interpreting it as a signal of how authorities would handle future crises involving similarly complex institutions.

The crisis itself unfolded following prolonged deterioration rather than as a sudden disruption. Persistent governance issues, strategic missteps, and credit-rating downgrades plagued the bank for several years. In October 2022, Credit Suisse faced severe liquidity stress with daily deposit outflows reportedly between CHF 12 and 15 billion, yet it remained adequately capitalized and maintained substantial liquidity buffers (FSB, 2023). The situation worsened significantly in March 2023, triggered by heightened market sensitivity due to turmoil in the US banking sector. A decisive moment occurred on March 15 when the chairman of Credit Suisse's largest shareholder publicly ruled out further capital injections. Despite an immediate CHF 50 billion liquidity backstop from the Swiss National Bank (SNB), deposit outflows accelerated sharply. By Sunday, March 19, FINMA formally determined that Credit Suisse had reached the point of non-viability on liquidity grounds (FSB, 2023).

At this critical juncture, Swiss authorities chose against activating resolution mechanisms. Under resolution, losses would typically have been imposed on shareholders, AT1 holders, and holders of bail-in bonds. Instead, the authorities facilitated a going-concern acquisition of Credit Suisse by UBS, supported by extensive public interventions and emergency legislation. As part of this package, Credit Suisse's AT1 bonds amounting to roughly CHF 16 billion in nominal value were written down completely. The Swiss government provided UBS with a CHF 9 billion second-loss guarantee on a portfolio of Credit Suisse assets, covering losses beyond the initial CHF 5 billion to be absorbed by UBS itself. Additionally, substantial public-sector liquidity backstops were extended by the SNB, totaling up to CHF 100 billion (FSB, 2023). These measures significantly increased potential taxpayer exposure, which persisted until the guarantee's termination in August 2023.

2.3 Market Expectations Versus Regulatory Action

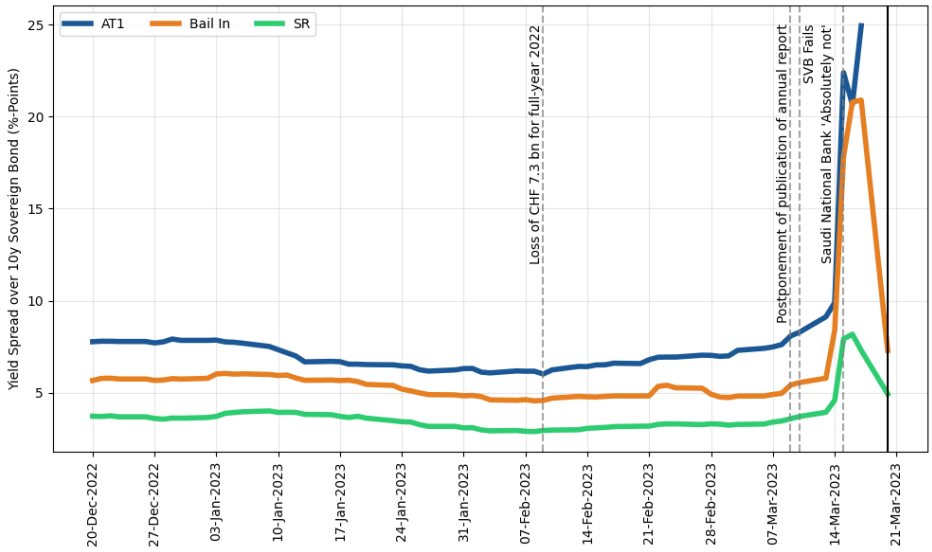
The regulatory response differed starkly from market expectations. Although Swiss authorities ultimately decided against resolution, it must be emphasized that resolution was far from a mere theoretical possibility. Extensive preparations had placed FINMA and international authorities in a position to immediately execute a Single Point-of-Entry (SPE) bail-in plan if that option had been selected. Since mid-2022, FINMA had intensified crisis management efforts, closely coordinating with authorities from key jurisdictions. Valuations for bail-in purposes were completed as recently as in March 2023. Final resolution documentation was distributed to relevant jurisdictions outside of Switzerland too by the weekend of March 18–19, confirming operational readiness for immediate implementation (FSB, 2023).

The decision against the prepared bail-in notably contradicted market expectations. Swiss authorities justified bypassing the resolution plan by citing concerns about broader market instability and doubts about the market's acceptance of a recapitalized standalone bank. However, the FSB explicitly rejected claims that resolution was impractical, emphasizing that resolution was viable yet deliberately avoided (FSB, 2023). Interviews conducted by the FSB in July 2023 revealed that large global investors had strongly anticipated a resolution outcome with losses imposed according to the creditor hierarchy. These investors attributed Credit Suisse's problems primarily to long-standing internal issues rather than broader market turmoil. Similarly, many private market participants and foreign authorities reported to the Swiss Expert Group on Banking Stability that they considered the contagion risks less severe than Swiss authorities had assessed (Expert Group Report, 2023).

Figure 1 corroborates these investor expectations. In the days leading to the resolution weekend, yield spreads on Credit Suisse's AT1 and bail-in bonds surged dramatically to around 30 percentage points. Senior unsecured spreads increased modestly.

Several features of this repricing are notable. First, AT1 and bail-in spreads widened sharply and moved in tandem into the resolution weekend. In the relatively calm part of the

Figure 1: Credit Suisse Bond Yield-Spreads Pre-Merger



This figure displays the weighted average yield spreads (over the 10-year sovereign yield) of Credit Suisse's outstanding AT1, bail-in, and senior unsecured bonds in the months preceding the UBS merger, announced on March 19, 2023. For the bail-in and senior series, we restrict to issues with at most four years of remaining maturity to keep duration broadly comparable in this yield-spread plot. Along with the merger, regulators announced a complete write-down of all Credit Suisse AT1 instruments, while bail-in bonds remained untouched. Trading resumed on Monday, March 20, 2023.

sample, AT1 traded around 7–8 pp while bail-in traded around 5–6 pp. At the peak, AT1 rose to about 25 pp and bail-in to about 21 pp. This co-movement is consistent with investors assigning meaningful probability to a resolution in which losses would fall on subordinated instruments.

Second, senior unsecured spreads widened much less. They moved from roughly 3–4 pp to a peak around 8 pp. The fact that spread widening was concentrated in AT1 and bail-in, with a smaller move in senior, fits a repricing driven by expected resolution treatment across the capital structure rather than a uniform shift in compensation across all unsecured claims.

Third, the announcement led to a significant reversal in the spreads of bail-in bonds. Bail-in spreads, which had spiked to around 21 pp, fell sharply to roughly 7–8 pp by the end of the window. This reversal in spreads suggests that the initial spike was largely driven by fears of imminent bail-in under resolution, which were subsequently alleviated by the news about the going-concern acquisition. Similarly, senior spreads, which had increased to about

8 pp, eased to around 5 pp.

2.4 Broader Regulatory Signals and Market Expectations Beyond Switzerland

The full write-down of Credit Suisse's AT1 instruments had immediate cross-border implications. Authorities in the EU and UK swiftly clarified their own approaches to AT1 and bail-in bonds, stating explicitly that AT1 instruments would only bear losses after equity was fully written down.[5]

These clarifications were aimed at AT1 markets. But they may have carried broader implications for expectations about loss imposition.

Consider what markets observed in a matter of a few hours. Swiss authorities avoided a prepared resolution and instead provided substantial public support. AT1 holders absorbed losses, but bail-in bondholders did not. Then EU and UK authorities issued statements emphasizing that in their jurisdictions, AT1 would absorb losses only after equity was fully exhausted. These statements concerned AT1 directly. But AT1 ranks junior to bail-in bonds in the capital structure.

The combination of signals creates a potential channel for expectation updating. If authorities in Switzerland revealed reluctance to use resolution even when feasible, and if authorities elsewhere simultaneously clarified protections for instruments junior to bail-in bonds, markets may have drawn inferences about bail-in credibility more broadly. The reasoning would be straightforward: if even deeply subordinated instruments receive regulatory attention and protection in stressed conditions, then senior loss-absorbing instruments may be even less likely to face losses in practice.

Whether markets updated expectations in this way is an empirical question. But the

[5]SRB, EBA, and ECB Banking Supervision statement on the announcement on 19 March 2023 by Swiss authorities, available at https://www.srb.europa.eu/en/content/srb-eba-and-ecb-banking-supervision-statement-announcement-19-march-2023-swiss-authorities; Bank of England Statement: UK creditor hierarchy, available at https://www.bankofengland.co.uk/news/2023/march/boe-statement-uk-creditor-hierarchy.

institutional setting provides the necessary conditions. The policy actions were unexpected. They occurred in a concentrated time window. They pertained directly to instruments designed to absorb losses. And they differed in ways that allow for cross-jurisdictional comparison. This creates an opportunity to examine how yields on loss-absorbing instruments responded and to assess whether the signals from March 2023 shifted perceptions of bail-in credibility and implicit public support.

3 Conceptual Framework

In this section we develop a framework for interpreting bank debt spreads as signals of bail-in credibility. We model crisis resolution as a two-stage tree, with loss absorption and public support as competing outcomes at each stage. The framework specifies what spread movements can and cannot tell us about market beliefs.

The three creditor classes are defined in Section 2.1: AT1 bonds, bail-in bonds, and senior unsecured bonds. We reserve the term "bail-in" for the action of imposing losses on bail-in bondholders, distinct from the instrument class itself. We use "public support" broadly to denote any intervention that prevents losses from falling on private creditors. This includes direct fiscal support and arranged transactions, such as mergers with loss protection, that shield creditors in economic substance. For creditor pricing, the relevant feature is that public support truncates losses at some point in the capital structure.

3.1 Crisis tree and probability parameters

Let p denote the probability that a bank enters a *loss-absorption-relevant crisis*: a state in which the loss-absorption hierarchy becomes relevant. This definition is broader than "resolution" in the regulatory sense. It includes going-concern situations where AT1 triggers may activate before any formal resolution determination. States in which the bank remains far from distress fall under $1 - p$.

Figure 2 depicts the resolution tree. Conditional on crisis, outcomes branch across two stages. At each stage, three paths compete: private loss absorption, public support, or stabilization without either. We focus on beliefs about how crises are handled, not on the level of p itself.

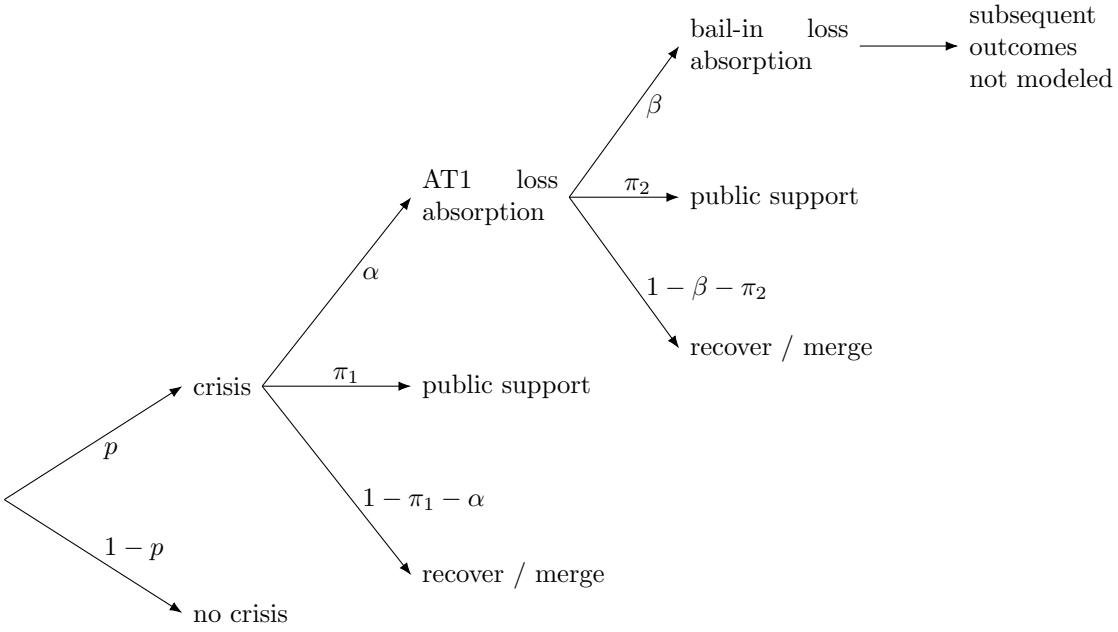


Figure 2: Crisis-resolution tree with staged public support and loss absorption

Stage 1: AT1 at risk. Conditional on a loss-absorption-relevant crisis, three mutually exclusive outcomes can occur.

With probability α, AT1 instruments absorb losses through write-down or conversion. We interpret α as the probability that crisis management begins with private loss absorption at the AT1 layer.

With probability π_1, authorities provide early public support that protects AT1 holders.

With probability $1 - \pi_1 - \alpha$, the bank achieves recovery through internal measures or a private transaction. Neither AT1 holders nor the public purse bear losses.

Stage 2: bail-in-eligible debt at risk. A bank may fail to recover even after AT1 writedown. If distress continues, bail-in-eligible debt becomes next in line. Conditional on entering Stage 2, three outcomes again arise.

With probability β, authorities proceed with bail-in once AT1 has been exhausted, and bail-in-eligible debt absorbs losses.

With probability π_2, authorities provide public support that protects bail-in-eligible creditors.

With probability $1 - \beta - \pi_2$, the bank stabilizes through self measures or an arranged transaction. Bail-in-eligible creditors avoid losses without public funds.

Senior unsecured debt enters our analysis as a reference tier. We do not model outcomes beyond bail-in-eligible loss absorption.

Probability of bail-in-eligible loss. Conditional on a loss-absorption-relevant crisis, bail-in-eligible debt absorbs losses only if two conditions hold: (i) the crisis begins with AT1 loss absorption, and (ii) authorities proceed with bail-in at Stage 2. The probability is

$$\Pr(\text{BI loss} \mid \text{crisis}) \;=\; \alpha\,\beta. \tag{1}$$

Two margins of public support. Public support can occur at two points in the tree. We call these the *entry margin* and the *continuation margin*, and define a corresponding notion of credibility for each.

The entry margin governs whether crisis management begins with AT1 loss absorption or with early public support. High entry-margin credibility corresponds to high α and low π_1: markets expect AT1 to bear losses first. Low entry-margin credibility is the reverse.

The continuation margin governs whether authorities proceed with bail-in or provide public support once bail-in-eligible debt is next in line. High continuation-margin credibility corresponds to high β and low π_2: markets expect bail-in to proceed. Low continuation-margin credibility is the reverse.

The two margins differ in scope. Public support at Stage 1 protects both AT1 holders and bail-in creditors: if authorities intervene before AT1 is touched, the crisis never reaches Stage 2. Public support at Stage 2 protects only bail-in creditors. Bail-in creditors therefore

benefit from public support at either margin. AT1 holders benefit only from public support at the entry margin.

When we refer to *bail-in regime credibility* without qualification, we mean the composite belief that private creditors will bear losses as the regulatory framework prescribes, encompassing both margins.

3.2 From spreads to beliefs

We observe yield spreads on AT1 and bail-in-eligible debt before and after the CS event. We want to learn whether the event changed market beliefs about loss absorption and public support. The framework provides structure for this inference. We do not estimate a structural pricing model, so we cannot pin down levels of α, β, π_1, or π_2. But spread changes around the event can identify changes in these probabilities, and hence changes in credibility at each margin. At each stage of the tree, three outcomes compete: loss absorption, public support, and private recovery. Spread changes could reflect movements in any of these. To interpret spread changes as informative about credibility, we assume that the probability of private recovery did not change around the CS event:

$$\Delta(1 - \pi_1 - \alpha) = 0 \quad \Longrightarrow \quad \Delta\pi_1 = -\Delta\alpha, \tag{2}$$

$$\Delta(1 - \beta - \pi_2) = 0 \quad \Longrightarrow \quad \Delta\pi_2 = -\Delta\beta. \tag{3}$$

Private recovery depends on franchise value, asset quality, and buyer availability. The CS episode contained no information about these factors. What the event revealed was how authorities respond when a G-SIB fails: willingness to write down AT1, tolerance for public support, and the conditions under which bail-in proceeds.

Section 2 documents this information content. Regulators outside Switzerland reinforced the signal by issuing statements clarifying their own resolution hierarchies. The entire episode was a test of regulatory preferences, not a revision of bank fundamentals.

Under these assumptions, a shift toward loss absorption mirrors a shift away from public support. A rise in α implies a fall in π_1; a rise in β implies a fall in π_2. We can speak interchangeably of rising loss-absorption probability and falling public-support probability.

Consider first the entry margin. AT1 spreads reflect the probability of loss absorption at Stage 1. An AT1 holder loses only if the bank enters crisis and authorities impose AT1 losses; early public support and private recovery both leave her whole. AT1 spread changes therefore identify $\Delta\alpha$. If AT1 spreads widen, markets have revised α upward. Under equation (2), a rise in α implies a fall in π_1 of equal magnitude: higher entry-margin credibility. Tightening implies the reverse.

Now consider the continuation margin. A bail-in creditor loses only if AT1 absorbs losses first and authorities then proceed with bail-in. From equation (1), the probability of loss equals $\alpha\beta$. Since AT1 repricing identifies $\Delta\alpha$, the question is whether bail-in-eligible repricing reflects only this pass-through or also a change in β.

When AT1 and bail-in-eligible spreads move in opposite directions, inference is unambiguous. Suppose AT1 spreads widen while bail-in-eligible spreads tighten. AT1 widening implies α rose. A rise in α alone would widen bail-in-eligible spreads: more crises reach Stage 2, raising the probability of bail-in. For bail-in-eligible spreads to tighten despite higher α, β must have fallen enough that the product $\alpha\beta$ declined. This would imply that entry-margin credibility rose while continuation-margin credibility fell. The reverse pattern (AT1 tightening with bail-in-eligible widening) implies α fell and β rose.

When both spreads move in the same direction, direction alone does not pin down change in continuation credibility, $\Delta\beta$. Suppose both tighten. AT1 tightening tells us α fell: fewer crises are characterized by AT1 loss absorption. Bail-in-eligible tightening tells us the product $\alpha\beta$ fell: bail-in creditors face lower expected losses. But this decrease in expected losses could arise through two channels. First, a fall in α means fewer crises reach Stage 2, shielding bail-in creditors from potential loss even if β is unchanged. Second, a fall in β means that conditional on reaching Stage 2, authorities are less likely to proceed with bail-in. Both channels tighten

bail-in-eligible spreads. To isolate $\Delta\beta$, we compare percentage spread changes across the two tiers.

From equation (1), the percentage change in bail-in loss probability decomposes as:

$$\%\Delta\beta \;\approx\; \%\Delta \Pr(\text{BI loss}) - \%\Delta\alpha. \tag{4}$$

Since AT1 spread changes identify $\Delta\alpha$ and bail-in-eligible spread changes reflect $\Delta(\alpha\beta)$:

$$\%\Delta\beta \;\approx\; \%\Delta S^{BI} - \%\Delta S^{AT1}. \tag{5}$$

When both spreads tighten, bail-in-eligible tightening that exceeds AT1 tightening in percentage terms implies β fell: continuation-margin credibility declined alongside entry-margin credibility. When both tighten by similar proportions, β did not move: the decline in bail-in-eligible spreads reflects only the pass-through from lower α. Table 1 summarizes the inference logic for all four combinations of spread movements.

Table 1: Inference from Joint Repricing Patterns

Case	ΔS^{AT1}	ΔS^{BI}	Entry credibility (α)	Continuation credibility (β)
1	$+$	$+$	$\uparrow$	$\uparrow$ if $\%\Delta S^{BI} > \%\Delta S^{AT1}$, otherwise $\downarrow$
2	$+$	$-$	$\uparrow$	$\downarrow$
3	$-$	$+$	$\downarrow$	$\uparrow$
4	$-$	$-$	$\downarrow$	$\downarrow$ if $\%\Delta S^{BI} < \%\Delta S^{AT1}$, otherwise $\uparrow$

Notes: ΔS^k denotes the change in spread for tier k between post-CS and pre-CS windows. Entry credibility refers to market beliefs that AT1 will absorb losses before public support intervenes (high α, low π_1). Continuation credibility refers to market beliefs that bail-in will proceed once AT1 is exhausted (high β, low π_2). For Cases 1 and 4, continuation credibility follows the condition shown in the table.

4 Empirical Analysis

4.1 Data and Setup

Our sample spans March 20, 2022 to March 20, 2024, centered on the Credit Suisse–UBS merger announcement. The symmetric 365-day window before and after the event allows comparison of steady-state pricing conditions while capturing the full adjustment path. We partition the post-period into three windows: short (0–30 days), medium (31–180 days), and long (181–365 days). The short window isolates immediate market reaction. The medium window captures information processing and gradual adjustment. The long window identifies whether repricing persists or mean-reverts.

We restrict the sample to European banks. Three considerations motivate this choice. First, regulatory homogeneity under the EU's Bank Recovery and Resolution Directive provides a common baseline for resolution expectations. Switzerland operates under a comparable framework, facilitating cross-border comparison. Second, European banks constitute the core of global AT1 and bail-in debt markets, offering the deepest liquidity and most continuous pricing. Third, the CS event's transmission operated through European supervisory and resolution frameworks; EU and UK authorities issued clarifying statements within hours of the Swiss announcement, creating natural variation in regulatory signaling.

The sample includes only fixed-rate bonds. Floating-rate notes embed mechanical spread volatility from reference rate resets, typically tied to three- or six-month Euribor, causing their spreads to move with monetary policy expectations and term premium shifts unrelated to the CS event (Guedes and Pinto, 2023). Including them would introduce measurement error into our dependent variable.

We also exclude observations from the final 365 days before maturity. Bonds approaching redemption trade less frequently, compressing liquidity and distorting spread estimates (Gilchrist and Zakrajšek, 2012; Eom et al., 2004). A regulatory rationale reinforces this

choice: under TLAC rules, bonds with less than one year to maturity lose eligibility as loss-absorbing instruments (Lewrick et al., 2019). Their spreads therefore reflect a different regulatory status than the one we aim to measure.

We exclude all Credit Suisse bonds. Its AT1 instruments were written down to zero and ceased to exist. Remaining bonds were assumed by UBS, so their post-event spreads reflect issuer substitution from a failing bank to a stronger acquirer rather than reassessment of loss-absorption expectations.

We obtain daily yield-to-maturity data from LSEG Workspace (formerly Refinitiv). For each bond, we compute yield spreads over the 10-year sovereign benchmark corresponding to the bond's principal currency. Sovereign spreads absorb macro factors common across instruments, including policy rate changes.

We use cash-bond yield spreads as our primary outcome because they are the market price of credit risk at each creditor layer—and therefore the marginal funding cost banks face in that tier. A large literature establishes that secondary-market pricing of bank debt is risk-sensitive and informative about expected creditor losses (e.g., Flannery and Sorescu, 1996; Billett et al., 1998). In the European resolution setting, cash-bond spreads price bail-in risk across creditor ranks (Lewrick et al., 2019; Lindstrom and Osborne, 2020). For AT1 instruments specifically, yields are the natural measure because no liquid, standardized single-name CDS contract exists on AT1 claims; the CoCo literature accordingly uses yield levels and CoCo–subordinated yield spreads to study conversion and write-down risk (Fiordelisi et al., 2020). For bail-in and senior layers, where single-name CDS contracts trade, we complement the cash-bond analysis with CDS spreads as a robustness check. Cash-bond spreads can contain nondefault components tied to liquidity and trading frictions (Longstaff et al., 2005; Chen et al., 2007), and CDS prices can lead cash spreads in price discovery (Blanco et al., 2005). The CDS-based tests help separate credit risk repricing from these confounds.

Table 2 reports the sample composition. The final dataset contains 2,036 bonds from 94 banks across 22 countries, distributed across AT1, bail-in-eligible, and senior tiers. Table

A.2 in appendix presents pre-CS event descriptive statistics that would be useful in putting our results on spread changes in perspective.

Table 2: Summary Statistics: Banks and Bonds

	N	N (Switzerland)	N (Eurozone)	N (UK)	N (Others)
Total Banks	94	7	57	20	10
– Banking Groups	84	6	53	15	10
Total Bonds	2,036	267	1,203	492	74
– AT1 Bonds	214	28	124	47	15
– Bail-In Bonds	721	62	427	207	25
– Senior Bonds	1,101	177	652	238	34

The dataset includes bonds from European banks, defined as those in the Eurozone, United Kingdom, Switzerland and Others (European Union, non-Eurozone). The sample is restricted to fixed-coupon bonds not maturing within the next year. Spreads are calculated as bond yield minus sovereign 10-year bond yield.

4.2 Empirical Strategy

The conceptual framework requires estimates of the level and direction of spread changes for each capital tier around the CS event. If AT1 spreads widened, entry-margin credibility rose. If bail-in spreads tightened despite AT1 widening, continuation-margin credibility fell. The magnitude comparison between tiers pins down the residual change in β. Our regression design recovers these tier-specific spread changes while isolating the CS event from contemporaneous shocks.

We estimate:

$$S_{i,t} \;=\; \mu_i \;+\; \sum_{w} \lambda_w \, Post_{w,t} \;+\; \sum_{k \neq \text{SR}} \sum_{w} \gamma_{k,w} \, \mathbf{1}[\text{Tier}_i = k] \cdot Post_{w,t} \;+\; \boldsymbol{\delta}' \mathbf{X}_t \;+\; \varepsilon_{i,t} \qquad (6)$$

where i indexes bonds (ISINs), t indexes trading days, $k \in \{\text{AT1}, \text{BI}\}$ denotes capital tier, and $w \in \{\text{short}, \text{medium}, \text{long}\}$ indexes the three post-event windows defined in Section 4.1. The dependent variable $S_{i,t}$ is the yield spread of bond i over the 10-year sovereign benchmark of its principal currency. μ_i denotes bond fixed effects. $\mathbf{X}_t$ is a vector of time-varying macro

controls. Standard errors are clustered at the bank level.

The coefficients λ_w measure the average spread change for senior bonds in window w relative to the pre-event period. The interaction terms $\gamma_{k,w}$ measure how AT1 and bail-in repricing differs from senior repricing in each window. The total repricing of tier k in window w is $\lambda_w + \gamma_{k,w}$; for senior bonds, it is λ_w. We recover these total effects using marginal effects evaluated at means, which map directly to the ΔS^k objects objects in Table 1.

Bond fixed effects absorb all time-invariant characteristics of each instrument: issuer identity, coupon, currency, governing law, trigger level, loss-absorption mechanism, maturity, and initial credit rating. Identification is within-bond: the same instrument's spread before the event is compared to its spread after. Cross-sectional differences in bond design or issuer quality cannot confound the estimates.

The macro controls $\mathbf{X}_t$ consist of the VIX index and the iTraxx Europe Financials Senior 5-year CDS spread. Both capture aggregate risk repricing unrelated to the CS event. This matters because the event window overlaps with significant stress in US regional banks—the failures of Silicon Valley Bank (March 10) and Signature Bank (March 12) and the ongoing distress at First Republic. These episodes moved risky asset prices broadly. Without controlling for aggregate conditions, estimated spread changes would conflate CS-specific repricing with generalized flight from bank risk. The VIX absorbs equity-market volatility common across sectors. The iTraxx Financials Senior CDS index absorbs repricing of senior bank credit risk driven by system-wide concerns, which is precisely the component we wish to net out from subordinated spread movements.

A natural alternative would replace the macro controls with date fixed effects. We do not adopt this specification as our baseline for a specific reason. Date fixed effects absorb all common time variation, including the post-event indicators. The regression would then identify only *relative* repricing across tiers—how much more AT1 widened than senior, for instance—but not the *level* of repricing for any tier. The framework's inference requires signed magnitudes for each tier: whether AT1 spreads widened or tightened, and

by how much bail-in spreads moved in percentage terms relative to AT1. The macro-control specification preserves these tier-level estimates while removing the dominant source of confounding variation. We verify robustness to date fixed effects where the relevant test is the tier differential $\gamma_{k,w}$ rather than the total effect.

Clustering at the bank level accounts for the correlation structure in the data. Bonds issued by the same bank share common fundamentals and resolution expectations. A repricing shock to one bank's AT1 is not independent of the repricing of its bail-in or senior bonds, nor of bonds from the same banking group issued under different legal entities. Bank-level clustering allows for arbitrary within-bank correlation across instruments and over time.

5 Results

5.1 Full-Sample Repricing

Table 3 reports estimated spread changes by capital tier across the three post-event windows. All estimates are total effects from equation (6), evaluated at means.

AT1 spreads widened by 107 basis points in the short run, an increase of roughly 21 percent relative to a pre-CS mean of 502 basis points (Table A.2). The effect attenuated to 53 basis points in the medium window and turned modestly negative in the long run (-15 basis points). Bail-in spreads followed a different trajectory. The short-run increase was small (7 basis points, significant at the 5 percent level) and statistically indistinguishable from zero in the medium window. In the long run, bail-in spreads tightened by 31 basis points, a decline of roughly 13 percent relative to their pre-CS mean of 247 basis points. Senior spreads showed no economically meaningful movement in any window.

The temporal dynamics differ across tiers in a way that informs interpretation. AT1 spreads show a large initial reaction that decays, consistent with short-run contagion and uncertainty gradually giving way to a more measured reassessment. Bail-in spreads show the opposite profile: a negligible short-run response followed by progressive tightening. This di-

Table 3: Baseline Absolute Post-CS Spread Changes

	Short term (1)	Medium term (2)	Long term (3)
AT1	1.067***	0.530***	-0.154**
	(0.139)	(0.116)	(0.075)
Bail-In	0.073**	-0.047	-0.309***
	(0.032)	(0.034)	(0.053)
Senior	0.049	0.099**	0.018
	(0.040)	(0.048)	(0.051)
Fixed Effects	This regression uses bond fixed effects.		
Observations	The number of observations is 695,714.		
Controls	VIX, iTraxx		
Within R-squared	0.192		

Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.
This table reports absolute repricing for each combination of bond type, region and time window, computed at the mean values of the control variables (VIX, iTraxx Fin Senior).

vergence suggests that the forces driving AT1 and bail-in repricing are distinct. We return to this point after examining the geographic decomposition, which sharpens the interpretation considerably.

5.2 Geographic Heterogeneity

To examine cross-jurisdictional variation, we augment equation (6) by interacting capital tier with region:

$$S_{i,t} \;=\; \mu_i \;+\; \sum_{k}\sum_{r}\sum_{w} \gamma_{k,r,w}\, \mathbf{1}[\text{Tier}_i = k] \cdot \mathbf{1}[\text{Region}_i = r] \cdot Post_{w,t} \;+\; \boldsymbol{\delta}'\mathbf{X}_t \;+\; \varepsilon_{i,t} \qquad (7)$$

where $r \in \{\text{Eurozone}, \text{Switzerland}, \text{United Kingdom}, \text{Others}\}$. The coefficients $\gamma_{k,r,w}$ measure the spread change for tier k in region r during window w, again recovered as marginal effects evaluated at means.

The full-sample estimates aggregate over jurisdictions whose regulators sent distinct signals. Section 2 documented that EU and UK authorities issued clarifications within hours of the Swiss announcement, stating that in their jurisdictions AT1 instruments would bear

losses only after equity was fully exhausted. These statements were directed at AT1 markets, but Section 2 raised the possibility that they carried broader implications for expectations about loss imposition. Table A.3 and Figure 3 decompose the repricing by jurisdiction.

AT1 repricing. Swiss AT1 spreads widened substantially across all three windows: 171 basis points in the short run, 126 in the medium run, and 44 in the long run, all significant at the 1 percent level. On a pre-CS mean of 416 basis points, the long-run effect represents a persistent increase of roughly 11 percent.

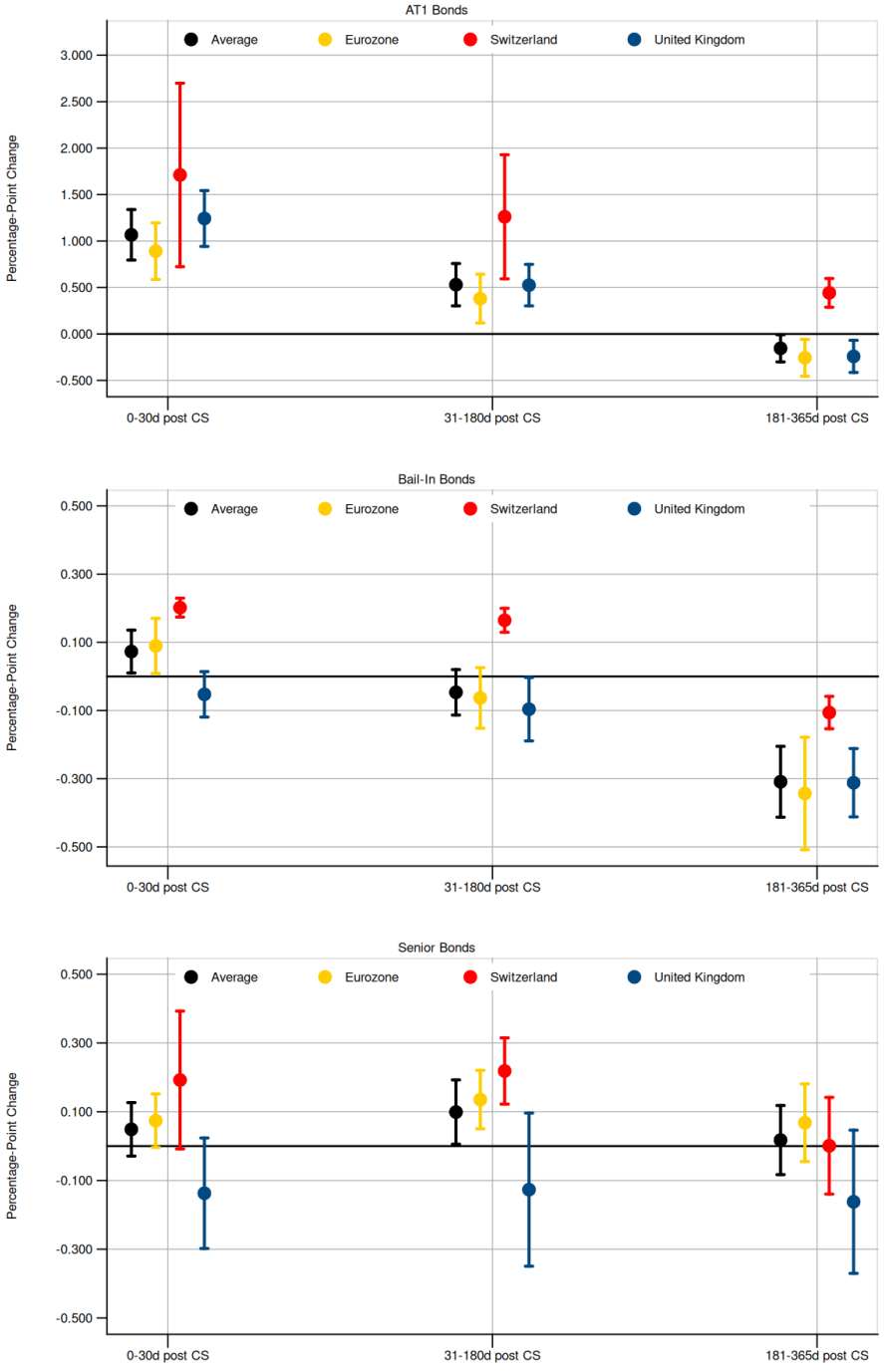
Eurozone and UK AT1 spreads followed a qualitatively different path. Both widened sharply in the short run (89 and 124 basis points respectively), consistent with initial contagion and uncertainty. But by the long-run window, both had tightened below pre-CS levels: -26 basis points in the Eurozone and -24 in the United Kingdom, both significant at the 5 percent level. Relative to pre-CS means of 521 and 515 basis points, these represent declines of roughly 5 percent.

The contrast is stark. Short-run AT1 widening was common across all jurisdictions. But only in Switzerland, where authorities wrote down AT1 in full, did the widening persist. In the Eurozone and the United Kingdom, where authorities issued clarifications regarding the conditions under which AT1 would bear losses, long-run AT1 spreads fell below pre-event levels.

Bail-in repricing. In Switzerland, bail-in spreads widened in the short and medium windows (20 and 17 basis points, both significant at the 1 percent level) before tightening modestly in the long run (-11 basis points). This time path—initial widening followed by tightening—is distinct from other jurisdictions.

In the Eurozone, bail-in spreads showed a small initial increase (9 basis points), followed by tightening that deepened in the long run (-34 basis points, significant at the 1 percent level). In the United Kingdom, bail-in spreads were negative from the first window and reached -31 basis points in the long run. In both jurisdictions, the deepening of bail-in tightening over time mirrors the pattern in the full sample.

Figure 3: Absolute Bond Repricing



This figure illustrates the marginal effects of the Credit Suisse event on AT1, Bail-In, and Senior bond spreads across different regions (Aggregate, Eurozone, Switzerland, United Kingdom) and time periods (short-term: 0-30 days, medium-term: 31-180 days, long-term: 181-365 days post-event). Each point represents the average change in bond spreads, with vertical bars indicating 95% confidence intervals. The analysis is based on a fixed effects regression model with ISIN fixed effects to control for time-invariant bond characteristics and includes controls for market factors such as VIX and iTraxx Fin Senior.

Senior spreads. Senior bond spreads show no statistically significant or economically meaningful movement in any jurisdiction or window. This is economically expected. Senior creditors bear losses only after all loss-absorbing capacity above them is fully exhausted. Pre-CS, the probability of that outcome was already very low. Senior spreads averaged 137 basis points, compared with 502 for AT1 and 247 for bail-in (Table A.2). The CS event shifted beliefs about how the first two stages of the loss-absorption hierarchy are managed. Changes in α and β have at most a second-order effect on senior expected losses because they perturb a probability that was near zero to begin with.

The non-response also provides a useful diagnostic. If the estimated repricing reflected a revision in the perceived probability of bank insolvency, all unsecured tiers would move, roughly in proportion to their loss-given-default. The concentration of repricing in AT1 and bail-in, with senior flat, confirms that markets were reassessing how losses are distributed in resolution, not whether European banks would fail.

5.3 Interpreting the Repricing: What Changed?

Before mapping the results to the conceptual framework, we clarify which estimates bear on credibility. Credibility, as defined in Section 3, refers to market beliefs about how authorities will handle future crises. Such beliefs reflect assessments of durable policy disposition. They do not shift every few months.

The short and medium windows capture adjustment dynamics: the immediate market reaction to the CS event, liquidity disruption in bank bond markets, and gradual information processing as investors assessed the implications of regulatory statements across jurisdictions. These dynamics are informative about the mechanism of repricing, but they conflate the signal about regulatory preferences with transitory forces that dissipate over time.

The long-run estimates (181–365 days post-event) are better suited for credibility inference. By this window, crisis-related liquidity effects had normalized. Investors had time to evaluate whether the signals from Swiss, EU, and UK authorities reflected durable policy

shifts or crisis-specific expedients. Spreads that remain shifted 6–12 months after the event, during a period of broadly stable conditions, reflect steady-state pricing.

We now apply the inference logic of Table 1 to the long-run estimates.

Switzerland. Swiss AT1 spreads widened by 44 basis points in the long run, an increase of roughly 11 percent relative to a pre-CS mean of 416 basis points. Bail-in spreads moved in the opposite direction, tightening by 11 basis points, or roughly 6 percent of their pre-CS mean of 189 basis points. This combination places Switzerland in Case 2 of Table 1, where inference is unambiguous without a further test.

The AT1 widening indicates that α rose. Markets priced a higher probability that Swiss AT1 instruments would absorb losses in future crises. A rise in α alone would also widen bail-in spreads, because more crises reach Stage 2. For bail-in spreads to tighten despite higher α, the conditional probability of bail-in, β, must have fallen by enough to reduce the product $\alpha\beta$. Entry-margin credibility rose. Continuation-margin credibility fell.

The Swiss bail-in time path reinforces this reading. In the short and medium windows, bail-in spreads widened by 20 and 17 basis points respectively. This is consistent with the pass-through channel: the sharp rise in α initially pushed bail-in spreads upward even as β was declining. By the long-run window, the decline in β had dominated, pulling bail-in spreads below their pre-CS level.

Eurozone and United Kingdom. In both jurisdictions, AT1 and bail-in spreads tightened in the long run. This is Case 4 in Table 1, where the direction of continuation-margin credibility change requires a percentage comparison.

Eurozone bail-in spreads tightened by roughly 13 percent of their pre-CS mean (-34 basis points on 268 basis points). AT1 spreads tightened by roughly 5 percent (-26 on 521). The pattern in the United Kingdom is similar: bail-in tightened by roughly 14 percent (-31 on 225), AT1 by roughly 5 percent (-24 on 515). In both cases, bail-in spreads tightened proportionally more than AT1 spreads. Applying equation (5), β fell.

The AT1 tightening indicates that α declined. Markets priced a lower probability that

AT1 instruments would absorb losses in these jurisdictions, consistent with the clarifications issued by EU and UK authorities. A fall in α reduces the probability that crises reach Stage 2, which alone would tighten bail-in spreads. But bail-in tightened proportionally more than AT1, so the pass-through from lower α does not fully account for the bail-in decline. Both margins of credibility fell: markets priced lower probability of AT1 loss absorption and, conditional on reaching Stage 2, lower probability of bail-in.

A common pattern. The direction of entry-margin credibility change depends on the jurisdiction: it rose in Switzerland and fell in the Eurozone and the United Kingdom, reflecting the distinct regulatory signals each jurisdiction sent. Continuation-margin credibility, by contrast, declined uniformly. Whether AT1 loss absorption became more likely or less likely, markets revised downward the probability that authorities would proceed with bail-in once AT1 was exhausted. This uniformity suggests that the CS episode conveyed information about the willingness to impose losses on bail-in creditors that is not specific to any single jurisdiction's regulatory response.

Robustness with bond and date fixed effects: So far, our baseline has used macro controls rather than date fixed effects to preserve tier-level estimates. Table A.4 verifies that the cross-tier patterns survive when date fixed effects replace the macro controls. In this specification, all common time variation is absorbed, so the estimates are differentials relative to senior bonds. The baseline results (columns 1–3) confirm that AT1 repriced significantly more than senior in the short run and that bail-in tightened significantly more than senior in the long run. The geographic decomposition (columns 4–6) preserves the key patterns. Swiss AT1 differentials remain large and positive across all windows. Eurozone and UK AT1 differentials turn negative in the long run. Bail-in differentials are negative and significant in the long run across all jurisdictions. The conclusions drawn from the macro-control specification do not depend on the choice of time controls.

Robustness against pre-event stress contamination. One concern with the baseline estimates is that the pre-CS period includes the final days of acute banking stress. If spreads

were temporarily elevated in the days before the merger announcement, the long-run tightening could partly reflect normalization from a stressed reference point rather than a genuine repricing. We address this by re-estimating the baseline and geographic specifications after dropping the 15 and 30 trading days immediately preceding the event. Table A.7 reports the long-run estimates. The results are stable. Bail-in coefficients change by less than one basis point across all specifications. The geographic pattern is similarly unchanged: Swiss AT1 widening persists, Eurozone and UK tightening in both AT1 and bail-in remains, and senior spreads remain flat everywhere. The long-run estimates are not sensitive to the inclusion of the pre-event stress period.

5.4 Bail-in Credibility and CDS Subordination Premium

The yield-based results could in principle reflect bond-specific liquidity effects rather than belief revision. CDS markets offer a check. CDS contracts are standardized, trade on common documentation, and are less susceptible to the idiosyncratic liquidity frictions that affect individual bonds. If the narrowing of the gap between subordinate and senior instruments appears in CDS as well, the finding is unlikely to be a bond-market artifact.

Our CDS dataset, obtained from IHS Markit, contains daily observations at the contract level. Each contract represents a unique combination of bank, tier, and currency. Spreads are averaged across restructuring clause types within each contract. Following Berndt et al. (2025), we focus on contracts with a five-year maturity, which are the most liquid. We classify CDS tiers following the same economic logic as in the bond analysis. For banks with holding-company structures, operating-company senior CDS is classified as senior, while both holding-company senior and holding-company subordinated CDS are classified as subordinate. For banks without this separation, senior CDS is classified as senior and subordinated CDS as subordinate. This classification captures the same structural subordination that governs loss allocation in resolution. The dataset covers 334 contracts across 55 banks. Table 4 reports the distribution of contracts across regions and tiers, and Table A.5 reports

pre-CS summary statistics.

Table 4: Summary Statistics: CDS Contracts

	N	N (Switzerland)	N (Eurozone)	N (UK)	N (Others)
Banks with CDS	55	2	34	11	8
Total CDS Contracts	334	20	179	99	36
– Senior	154	7	87	37	23
– Subordinate	180	13	92	62	13

The dataset includes CDS contracts from European banks, defined as those in the Eurozone, United Kingdom, Switzerland and Others (European Union, non-Eurozone).

No AT1-specific CDS contracts exist, so the two-margin decomposition from the bond analysis cannot be replicated here. The relevant test is narrower: whether the gap between subordinate and senior CDS spreads changed after the CS event. We call this gap the *subordination premium*. A decline indicates that markets reduced the additional compensation they demanded for bearing losses in resolution relative to senior creditors. This is the CDS analogue of declining continuation-margin credibility.

The regression specification parallels the bond analysis but uses contract and date fixed effects. Date fixed effects absorb all common time variation, providing tighter controls than the parsimonious macro variables in the yield regressions. The cost is that tier-level spread changes are no longer identified. But with only two tiers, tier-level changes are not the object of interest. The subordination premium is a differential, and date fixed effects are well suited to estimate it. We recover the total premium change for each region by combining the base subordinate-senior differential with region-specific interactions, using linear combinations with appropriate standard errors.

Table 5 reports the results. In the full sample, the subordination premium is unchanged in the short and medium windows but declines by 8.1 basis points in the long run. The geographic decomposition reveals a pattern consistent with the yield findings. In Switzerland, the premium widened sharply in the short run by 35 basis points, then declined in the long run by 5.5 basis points. Relative to a pre-CS subordination premium of roughly 48 basis points (the difference between subordinate and senior means in Table A.5), this long-run decline

represents a narrowing of about 12 percent. In the Eurozone and the United Kingdom, the long-run declines were larger: 11.1 and 7.3 basis points, or roughly 11 and 8 percent of their respective pre-CS premia. Neither jurisdiction showed meaningful short-run movement.

Table 5: Subordination Premium Changes by Region

	Short term	Medium term	Long term
Regression 1: Baseline			
All Regions	0.031	-0.018	-0.081**
	(0.034)	(0.033)	(0.033)
Regression 2: Geographic Heterogeneity			
Others	0.082	0.146	-0.030
	(0.069)	(0.109)	(0.113)
Switzerland	0.350***	0.027	-0.055***
	(0.095)	(0.023)	(0.013)
UK	-0.017	-0.033	-0.073**
	(0.044)	(0.036)	(0.033)
Eurozone	0.013	-0.027	-0.111*
	(0.036)	(0.053)	(0.059)
Fixed Effects:	Contract and date fixed effects for both regressions.		
Observations:	N = 149,681 for both regressions.		
Within R-squared:	Regression 1: 0.004; Regression 2: 0.039		

Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$. The post-CS time windows for this regression are defined as follows: Short: 0-30 days; Medium: 31-180 days; Long: 181-365 days post-CS. The coefficients for Regression 2 are derived from linear combinations of the triple interaction terms, isolating regional subordination premium changes across short-, medium-, and long-term windows, net of contract and date fixed effects. Coefficients and standard errors are reported in terms of percentage-points.

The long-run subordination premium declined in every jurisdiction. Subordinate CDS spreads moved closer to senior spreads, indicating that markets reduced the additional compensation for bail-in risk. This convergence, estimated with date fixed effects in a market with minimal bond-specific liquidity frictions, corroborates the yield-based finding that continuation-margin credibility fell across the European banking sector.

5.5 Who Benefits from Declining Credibility?

A regime-wide decline in bail-in credibility does not affect all banks equally. Banks in weaker health are closer to the states where resolution becomes relevant, so their creditors stand to gain more from an increase in perceived public support. If the post-CS spread tightening reflects a genuine credibility shift, it should be concentrated among banks that were in weaker health on the eve of the event.

We test this prediction by interacting pre-CS bank health with the post-event repricing. The analysis uses Eurozone and UK banks, where the baseline identified a common direction: both AT1 and bail-in spreads tightened in the long run. Switzerland is excluded because Swiss AT1 moved in the opposite direction, and the Swiss sample is dominated by a single large bank with insufficient cross-sectional variation. We measure bank health using pre-CS credit ratings, which aggregate multiple dimensions of vulnerability into a single measure that investors observe and act on. Banks rated at or below BB or equivalent across rating agencies (Table A.1) are classified as low-rated. We estimate, separately for AT1 and bail-in bonds:

$$S_{i,t} \;=\; \mu_i \;+\; \phi_t \;+\; \sum_{w} \theta_w \,\text{LowRating}_i \cdot Post_{w,t} \;+\; \varepsilon_{i,t} \tag{8}$$

where μ_i and ϕ_t denote bond and date fixed effects respectively. LowRating_i equals one if the issuing bank's pre-CS rating falls at or below BB. The coefficients θ_w measure whether lower-rated banks repriced differently from higher-rated banks in each post-event window. Date fixed effects absorb all common time variation. Bond fixed effects absorb the LowRating main effect. Identification comes from the interaction of pre-existing bank health with the post-event indicators.

Table 6 reports the results. In the long run, spreads of lower-rated banks tightened by an additional 53 basis points for AT1 and 52 basis points for bail-in, relative to higher-rated banks. Both estimates are economically large. The bail-in coefficient represents roughly a

fifth of the average pre-CS bail-in spread in these jurisdictions.

Table 6: Heterogeneity in Rating Categories

	(1) AT1 Bonds	(2) Bail-In Bonds
Low Rating × Short	-0.139	0.314**
	(0.249)	(0.129)
Low Rating × Medium	-0.199	-0.139
	(0.165)	(0.107)
Low Rating × Long	-0.528***	-0.518***
	(0.146)	(0.170)
Constant	5.229***	2.435***
	(0.020)	(0.012)
Bond FE	Yes	Yes
Date FE	Yes	Yes
Within R-squared	0.0183	0.0374
Observations	64988	203073

Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

A specification that adds CET1 ratios and bank size to the interaction (Table A.6) sharpens this finding. The rating coefficients remain similar in magnitude and significance. CET1 and size interactions are largely insignificant. This distinction matters. If bank size drove the gradient, the result would point to a too-big-to-fail channel: larger banks receive implicit support because their failure is systemically costly. But size is insignificant. What predicts the repricing is the bank's credit rating, which captures proximity to distress. The market is not pricing systemic importance. It is pricing the likelihood that a bank enters the states where public support becomes relevant.

The short-run estimates provide a further contrast. For bail-in, the short-run interaction is positive: lower-rated banks initially widened by 31 basis points more than higher-rated banks. During the acute stress period, markets differentiated more across bank health. By the long run, the sign reverses and lower-rated banks tighten more. The spread gap between weak and strong banks narrowed. This compression is the pricing counterpart of reduced market discipline. Pre-CS, the market charged a penalty for weaker fundamentals. Post-CS, that penalty shrank. We examine the behavioral side of this reduced discipline in Section 5.6.

5.6 Does Declining Credibility Reduce Investor Discipline?

Spread compression between weak and strong banks is the pricing side of reduced market discipline. The behavioral side is whether investors pay less attention to issuer-specific news. If bail-in credibility declined, bondholders who expect public support rather than private loss absorption have less reason to scrutinize quarterly disclosures. Earnings disappointments and capital shortfalls carry smaller consequences for creditors who believe they will be made whole. We test this by measuring how sharply bond yields respond to earnings announcements before and after the CS event.

For each bond i on trading day t, we define the excess yield as:

$$\widetilde{Y}_{i,t} \;=\; Y_{i,t} \;-\; Y_{i,t}^{\text{index}} \tag{9}$$

where $Y_{i,t}$ is the yield of bond i and $Y_{i,t}^{\text{index}}$ is the yield of a matched benchmark index constructed from bonds of the same tier, region, and currency. This differencing removes common yield movements within each tier-region-currency cell, isolating the bond-specific component. Around each earnings announcement, we compute the absolute change in excess yield over a one-day window. Taking absolute values captures the intensity of the response regardless of its direction. A bond whose yield moves sharply on announcement day, whether up or down, is held by investors who are paying attention. A bond whose yield barely moves is not.

Our sample covers 1,035 earnings announcements by European banks from 2018 to 2024, obtained from LSEG Workspace. Table 7 reports the distribution across regions. The three-year pre-CS period provides a stable baseline against which to measure post-event changes. Table A.8 reports average absolute excess yield responses by tier and region in the year before the event. AT1 bonds show the largest pre-CS responses (5.3 basis points on average), consistent with their greater sensitivity to issuer-specific risk, followed by bail-in (4 basis points) and senior (2.6 basis points).

Table 7: Summary Statistics: Event Study

	N	N (Switzerland)	N (Eurozone)	N (UK)	Others
Total Events	1,035	77	665	145	148
– Pre-CS	762	57	497	101	107
– Post-CS	273	20	168	44	41

The dataset includes events from European banks, defined as those in the Eurozone, United Kingdom, Switzerland and Others (European Union, non-Eurozone).

We estimate:

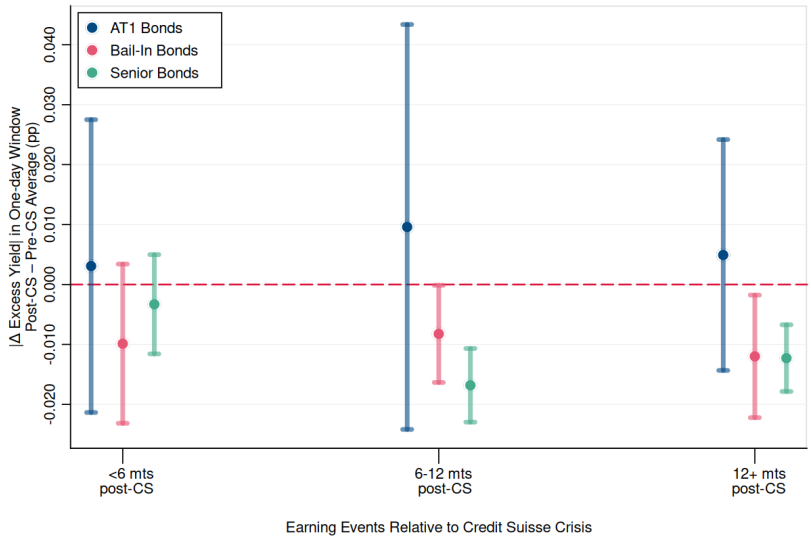
$$|\Delta \widetilde{Y}_{i,e}| \;=\; \mu_i \;+\; \sum_{k} \sum_{w} \eta_{k,w}\, \mathbf{1}[\text{Tier}_i = k] \cdot Post_{w,e} \;+\; \varepsilon_{i,e} \tag{10}$$

where e indexes earnings announcements, k indexes capital tiers, and w indexes post-event windows (less than 6 months, 6–12 months, and 12 or more months after the CS event). Bond fixed effects μ_i absorb all time-invariant bond and issuer characteristics. The excess yield construction already removes common tier-region-currency movements, so the dependent variable captures bond-specific responses by design. The coefficients $\eta_{k,w}$ measure how the absolute yield response of tier k in post-event window w differs from its pre-CS average. Standard errors are clustered at the bank level.

Figure 4 reports the results. For AT1 bonds, the post-CS response does not differ from the pre-CS average in any window. The confidence intervals are wide, indicating considerable heterogeneity across issuers. This is consistent with the baseline finding that AT1 repricing moved in opposite directions across jurisdictions. The full-sample average reflects offsetting effects rather than a common shift.

For bail-in and senior bonds, the pattern is different. Both show a decline in the magnitude of the earnings response that deepens over time. In the long run (12 or more months post-CS), the average absolute excess yield response falls by roughly 1.2 basis points for both tiers. Relative to pre-CS means of 4 basis points for bail-in and 2.6 for senior (Table A.8), these represent declines of nearly one-third and nearly one-half respectively. Investors in these tiers became substantially less responsive to issuer-specific news. Confidence intervals

Figure 4: Post-CS Change in Response to Earnings Announcements vs. Pre-CS Average



The figure plots the difference between the absolute responses to earnings announcements for AT1, Bail-In, and Senior bonds in different post-CS periods compared to the average response in the three-year pre-CS window. The estimates come from regressions where the dependent variable is the absolute change in excess yield, $|\Delta$ Excess Yield$|$, measured as the difference between the excess yield on the day of the earnings announcement (t+0) and the day before ($t-1$). The specification includes interactions between bond type indicators and period dummies reflecting time intervals before and after the CS event. Excess yield is defined as the bond's yield minus the yield of a matching index, where the index is constructed as the weighted average yield of bonds within the same bond type (AT1, Bail-In, or Senior), economic region (developed or developing), and currency. This structure mirrors the Bloomberg Global Contingent Capital Bond Index but separates AT1 and bail-in instruments and includes both developed and developing markets. Regressions include bond fixed effects, and standard errors are clustered at the bank level.

are narrower than for AT1, indicating that the decline is broadly shared across issuers.

The asymmetry between AT1 and bail-in mirrors the pricing results. Continuation-margin credibility declined uniformly across jurisdictions. The behavioral consequence is correspondingly uniform: bail-in bondholders respond less to issuer-specific news. Entry-margin credibility moved in opposite directions depending on the regulatory signal. The behavioral consequence is correspondingly heterogeneous: AT1 investors in some jurisdictions became more attentive while others became less so, producing no shift on average.

The decline in senior bond discipline requires separate comment. In the baseline yield analysis, senior spreads showed no measurable movement. The two findings are not contradictory. Senior expected loss was already near zero before the CS event. A further reduction in the probability of losses reaching senior creditors is too small to register in yield levels.

But the incentive to monitor does not depend on the yield level. If the entire loss-absorption buffer above senior is now perceived as more likely to be backstopped, the probability that adverse issuer-specific news translates into senior losses fell. The monitoring incentive responds to this probability even when the yield level does not.

6 Conclusion

Our results show that when authorities chose not to resolve a failing G-SIB despite having a ready plan, markets revised their beliefs about bail-in accordingly. Spreads on bail-in-eligible bonds tightened, CDS subordination premia narrowed, weaker banks benefited disproportionately, and investor attention to issuer-specific disclosures declined. These shifts show no sign of reversal through the end of our sample, a full year after the event. Credit Suisse no longer exists. The beliefs its crisis handling created do. Building bail-in credibility required a decade of legislative reform, cross-border coordination, and demonstrated enforcement at smaller banks. Our results suggest that a single episode of forbearance at the resolution framework's first major test was enough to set it back. If credibility is easier to lose than to earn, each future G-SIB crisis carries an asymmetric risk: the framework has more to lose than to gain.

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Appendices

A Definition Issuer and Issue Ratings

For our analysis, we obtain rating data for both, issuers (i.e. the company issuing a given security), as well as issues (i.e. a given security). From LSEG Data, we obtain this rating data from the big three rating companies, Moody's, Standard and Poor and Fitch. Each of rating companies, use a scale with 22 different entries in order to assign a rating to a firm or security. Since each rating company's scale has exactly 22 points, we convert the alphabetical ratings into a numerical rating. In a next step, for each issuer or security, we compute the average of all the available numerical ratings. Note that not always a rating from all the three rating companies is available. In these cases, our average numerical rating simply consists of the mean of all the available ratings. Finally, we combine multiple numerical rating values into four broad rating grades. This assignment of rating grades can be observed in Table A.1.

Table A.1: Credit Ratings Mapping with Aggregated Grades

Moody's Rating	**S&P Rating**	**Fitch Rating**	**Numerical Value**	**Rating Grade**
Aaa	AAA	AAA	22	High Rating
Aa1	AA+	AA+	21	
Aa2	AA	AA	20	
Aa3	AA-	AA-	19	
A1	A+	A+	18	
A2	A	A	17	
A3	A-	A-	16	
Baa1	BBB+	BBB+	15	
Baa2	BBB	BBB	14	Low Rating
Baa3	BBB-	BBB-	13	
Ba1	BB+	BB+	12	
Ba2	BB	BB	11	
Ba3	BB-	BB-	10	
B1	B+	B+	9	
B2	B	B	8	
B3	B-	B-	7	
Caa1	CCC+	CCC+	6	
Caa2	CCC	CCC	5	
Caa3	CCC-	CCC-	4	
Ca	CC	CC	3	
C	C	C	2	
D	D	D	1	

B Additional Tables

Table A.2: Bond Yield Spreads: Pre-CS Averages

	Full Sample	Switzerland	Eurozone	UK	Others
AT1 Bonds	5.02	4.16	5.21	5.15	4.51
	(1.34)	(1.32)	(1.34)	(1.26)	(0.92)
Bail-In Bonds	2.47	1.89	2.68	2.25	2.20
	(1.45)	(0.57)	(1.66)	(1.03)	(1.52)
Senior Bonds	1.37	0.97	1.41	1.58	1.04
	(0.87)	(0.55)	(0.92)	(0.77)	(0.74)

The table shows the means and standard deviations (in parentheses) of bond yield spreads for different capital tiers across various regions in a 1-year horizon before March 19th 2023.

Table A.3: Geographic Heterogeneity: Absolute Post-CS Spread Changes

	Short term (1)	Medium term (2)	Long term (3)
AT1×Eurozone	0.891***	0.381***	-0.256**
	(0.155)	(0.134)	(0.101)
AT1×Others	0.872***	0.589***	-0.028
	(0.271)	(0.133)	(0.061)
AT1×Switzerland	1.712***	1.261***	0.443***
	(0.504)	(0.341)	(0.079)
AT1×United Kingdom	1.243***	0.526***	-0.241**
	(0.153)	(0.114)	(0.088)
Bail-In×Eurozone	0.089**	-0.063	-0.343***
	(0.041)	(0.045)	(0.084)
Bail-In×Others	0.416	0.077	-0.168**
	(0.294)	(0.059)	(0.059)
Bail-In×Switzerland	0.202***	0.165***	-0.106***
	(0.014)	(0.018)	(0.024)
Bail-In×United Kingdom	-0.053	-0.096**	-0.312***
	(0.034)	(0.047)	(0.051)
Senior×Eurozone	0.074*	0.135***	0.068
	(0.040)	(0.043)	(0.058)
Senior×Others	0.126	0.231	0.044
	(0.142)	(0.151)	(0.169)
Senior×Switzerland	0.192*	0.219***	0.001
	(0.102)	(0.049)	(0.072)
Senior×United Kingdom	-0.137	-0.127	-0.162
	(0.082)	(0.114)	(0.106)
Bond FE	Yes	Yes	Yes
Date FE	No	No	No
Controls	VIX, iTraxx	VIX, iTraxx	VIX, iTraxx
Within R-squared	0.204	0.204	0.204
N Observations	695,714	695,714	695,714

Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$. This table reports absolute repricing for each combination of bond type, region and time window, computed at the mean values of the control variables (VIX, iTraxx Fin Senior).

Table A.4: Relative Repricing with Geographic Heterogeneity

	Regression 1: Baseline			Regression 2: Geographic Heterogeneity		
	Short term (1)	Medium term (2)	Long term (3)	Short term (4)	Medium term (5)	Long term (6)
AT1	1.018***	0.434***	-0.173*			
	(0.146)	(0.132)	(0.107)			
Bail-In	0.035	-0.132**	-0.309***			
	(0.049)	(0.057)	(0.076)			
Senior	-	-	-			
AT1×Eurozone				0.811***	0.245	-0.328**
				(0.181)	(0.169)	(0.150)
AT1×Others				0.790***	0.448***	-0.100
				(0.271)	(0.136)	(0.083)
AT1×Switzerland				1.636***	1.121***	0.366***
				(0.505)	(0.340)	(0.102)
AT1×United Kingdom				1.178***	0.399***	-0.302***
				(0.159)	(0.128)	(0.111)
Bail-In×Eurozone				0.022	-0.193***	-0.403***
				(0.068)	(0.070)	(0.108)
Bail-In×Others				0.361	-0.035	-0.207**
				(0.294)	(0.072)	(0.081)
Bail-In×Switzerland				0.142***	0.045	-0.155**
				(0.041)	(0.046)	(0.061)
Bail-In×United Kingdom				-0.079	-0.191***	-0.340***
				(0.055)	(0.063)	(0.076)
Senior×Eurozone				-	-	-
Senior×Others				0.037	0.080	-0.036
				(0.148)	(0.157)	(0.179)
Senior×Switzerland				0.129	0.092	-0.064
				(0.120)	(0.068)	(0.092)
Senior×United Kingdom				-0.207**	-0.265**	-0.225
				(0.089)	(0.119)	(0.120)
Fixed Effects	Bond and date fixed effect for both regressions.					
Observations	The number of observations is 709,002 for both regressions.					
Within R-squared	Baseline Regression: 0.0513			Geographic Heterogeneity Regression: 0.0673		

Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.
This table reports relative repricing for each combination of bond type and region versus Eurozone Senior bonds, computed at the mean values of the control variables (VIX and iTraxx Fin Senior).

Table A.5: CDS Spreads: Pre-CS Averages

	Full Sample	Switzerland	Eurozone	UK	Others
Senior	0.872	0.731	0.975	0.737	0.675
	(0.755)	(0.162)	(0.936)	(0.240)	(0.323)
Subordinate	1.601	1.207	1.957	1.181	1.316
	(1.296)	(0.350)	(1.657)	(0.447)	(0.404)

The table shows the means and standard deviations (in parentheses) of CDS spreads for different capital tiers across various regions in a 1-year horizon before March 19th 2023.
Coefficients and standard errors are reported in terms of percentage-points.

Table A.6: Heterogeneity in Eurozone and UK Repricing

	(1) AT1 Bonds	(2) Bail-In Bonds
Low Rating × Short	0.019	0.267**
	(0.272)	(0.121)
Low Rating × Medium	-0.141	-0.218
	(0.124)	(0.135)
Low Rating × Long	-0.413***	-0.492**
	(0.107)	(0.192)
CET1 × Short	-0.033	0.004
	(0.037)	(0.026)
CET1 × Medium	-0.045*	0.028
	(0.026)	(0.028)
CET1 × Long	-0.026	0.037
	(0.017)	(0.035)
Total assets × Short	0.177	0.010
	(0.139)	(0.059)
Total assets × Medium	0.105	-0.039
	(0.079)	(0.051)
Total assets × Long	0.178**	0.089
	(0.073)	(0.068)
Constant	3.144***	1.573
	(1.072)	(0.971)
Bond FE	Yes	Yes
Date FE	Yes	Yes
Within R-squared	0.0367	0.0491
Observations	63156	195591

Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A.7: Repricing Estimates After Excluding Pre-CS Stress Period (Long-Term Effects)

	Baseline		Geographic Heterogeneity	
	(i) Excl. $E-15$	(ii) Excl. $E-30$	(iii) Excl. $E-15$	(iv) Excl $E-30$
AT1	-0.149*	-0.156**		
	(0.077)	(0.076)		
Bail-In	-0.304***	-0.300***		
	(0.053)	(0.055)		
Senior	0.019	0.035		
	(0.052)	(0.053)		
AT1×Eurozone			-0.252**	-0.258**
			(0.105)	(0.104)
AT1×Others			-0.026	-0.032
			(0.056)	(0.051)
AT1×Switzerland			0.454***	0.453***
			(0.076)	(0.079)
AT1×United Kingdom			-0.244***	-0.258***
			(0.087)	(0.085)
Bail-In×Eurozone			-0.346***	-0.343***
			(0.088)	(0.091)
Bail-In×Others			-0.159**	-0.144**
			(0.058)	(0.060)
Bail-In×Switzerland			-0.101***	-0.093***
			(0.023)	(0.023)
Bail-In×United Kingdom			-0.290***	-0.290***
			(0.050)	(0.052)
Senior×Eurozone			0.073	0.091
			(0.058)	(0.059)
Senior×Others			0.049	0.065
			(0.174)	(0.178)
Senior×Switzerland			0.005	0.016
			(0.068)	(0.067)
Senior×United Kingdom			-0.183*	-0.172
			(0.107)	(0.108)
Fixed Effects	VIX, iTraxx	VIX, iTraxx	VIX, iTraxx	VIX, iTraxx
Observations	685,586	671,848	685,586	671,848
Within R-squared	0.192	0.196	0.205	0.209

Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.
Coefficients are margins that estimate spread changes at the long-term (181-365 days post event) window.

Table A.8: Event Study Absolute Excess-Yields: Pre-CS Averages

	Full Sample	Switzerland	Eurozone	UK	Others
AT1 Bonds	0.053	0.052	0.052	0.055	0.050
	(0.098)	(0.077)	(0.080)	(0.153)	(0.059)
Bail-In Bonds	0.040	0.036	0.044	0.033	0.032
	(0.085)	(0.048)	(0.104)	(0.044)	(0.072)
Senior Bonds	0.026	0.018	0.026	0.037	0.024
	(0.041)	(0.016)	(0.042)	(0.054)	(0.036)

The table shows the means and standard deviations (in parentheses) of absolute values of excess yields in a one-day window around earnings events for different capital tiers across various regions in a 1-year horizon before March 19th 2023.