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Adam Metzler* (ametzler@wlu.ca), 75 University Avenue West, Waterloo, Ontario N2L 3C5, Canada. *Regulatory Concerns Related to CoCo Bonds - Mathematical Modeling.*

A contingent convertible (CoCo) bond begins life as subordinated debt, but converts into common equity when the issuing institution begins to experience financial distress. The rigorous treatment of contingent capital in the academic literature remains in its infancy, and several important questions remain unaddressed. For instance it is not clear (i) whether or not CoCo investors will have incentives to short the issuing institution's stock when conversion is imminent or (ii) how much an objective conversion trigger (i.e. one allowing for regulatory discretion) would add to the cost of contingent capital relative to a purely objective trigger. In this talk we present a structural model that can be used to gain insights into these problems. The model allows for the market price of the firm's stock to temporarily deviate from its fundamental value (incorporating the impact of large scale short-selling) and allows for the conversion time to be the first event time in a Cox process with intensity driven by the firm's asset value (incorporating the uncertainty inherent in a subjective trigger). Valuation of CoCos in the model will be discussed and numerical results, calibrated to balance-sheet data for Canadian institutions, will be presented. (Received January 19, 2015)