The study of bankruptcy and also other related fields such as financial regulation will benefit greatly from empirical data on the level of creditor recoveries in bankruptcy, by claim type and instrument type (e.g. senior secured loan versus subordinated bond). How much creditors recover on their claims ought to be an important metric by which the "success" of any procedure or development in the bankruptcy process is judged.

One reason that the analysis of creditor recoveries in big case bankruptcies is gaining increasing importance is the onset of the financial crisis. First, recovery rates constitute a key variable underlying accurate estimation of banks' capital adequacy requirements. The amount of capital that banks must put aside to cover their expected and unexpected losses must logically include both the incidence of defaults and severity of losses. Second, accounting standards on fair value measurement, including FAS 157, now require that market participant assumptions for Level 3 inputs (unobservable inputs for an asset or liability) include assumptions on non-performance risk. This means that credit risk should be incorporated in a fair value estimate of financial instruments, through the calculation of expected loss which is calculated using probability of default and recovery rates.

There is, however, a research gap in the empirical research relating to recovery rates. First, little work has been done which synthesizes research from the perspective of bankruptcy law with empirical modeling by finance scholars. Second, most current models for recovery rates mainly tie pre-petition characteristics to the recovery rates. Intervening events and procedures during the bankruptcy process and post-petition financial statement items (e.g., from the Schedules of Assets and Liabilities, Statement of Financial Affairs or financial statements appended to Disclosure Statements) potentially affect bankruptcy outcomes, and thus recovery rates. Third, the analysis of creditors recoveries has traditionally been confined to an examination of factors pertaining to the debtor, and there is little attention given to the creditor identity, type or credit facility characteristics.

I would be very interested in hearing from conference participants as to how the Bankruptcy Research Database might be used to generate data to undertake this study, and whether there are additional variables which might be useful to consider in this piece of empirical research.