

The Value of Bankruptcy Court in Financial Distress: Evidence from Chinese Bond Market

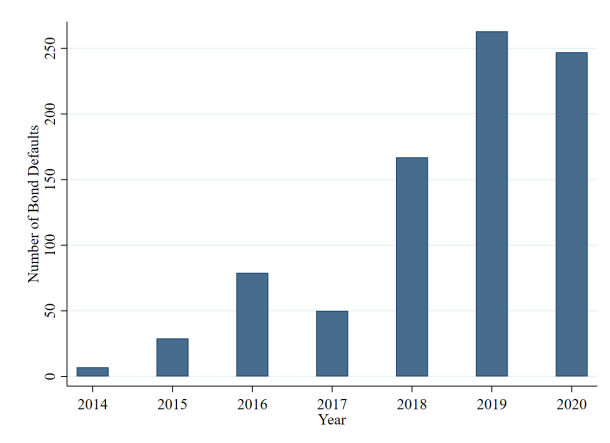
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May 23, 2023

Motivation

- ▶ The Chinese debt market has experienced booms and busts in the last two decades (Amstad and He, 2019).
- ▶ Surge in debt defaults and bankruptcies.



Motivation

- ▶ Bankruptcy institutions play an important role in financial market development and the allocation of resources.
- ▶ The efficiency of bankruptcy resolution has broader implications for Chinese credit market.
- ▶ However, numerous frictions and weak protection of creditors, especially in developing countries
 - ▶ congested courts, lack of specialization, and etc.
- ▶ Lack of judicial independence in China, where government interference is pervasive (Allen et al., 2005; Fan et al., 2013).

Motivation

- ▶ An example of government interference in bankruptcy
 - ▶ Dandong Port: default in 2017, bankrupt in 2019
 - ▶ The court appointed bankruptcy trustees that are politically connected
 - ▶ lack of transparency
 - ▶ violation of absolute priority rule
 - ▶ cram down

Chinese business & finance

China bond investors battle to claim cash after defaults

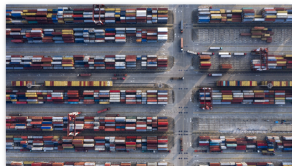
Fund managers complain that courts often side with issuers in disputes



Bond defaults in China are growing, with increasing numbers of borrowers failing to repay creditors' initial investments © Reuters

China Port Defaulter's Bankruptcy Ruling Stirs Up a Storm

- State-led restructuring plan forces steep losses on creditors
- Shareholders also oppose court ruling, debt revamp plan



Photographer: Qilai Shen/Bloomberg

By Bloomberg News

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This paper

- ▶ Research question: how bankruptcy reform in China affects credit market?
 - ▶ focus on bond market: granular data on bond issuance and trading
- ▶ Empirical setting: exploit the staggered introduction of specialized courts compared to civil courts
 - ▶ Better trained judges/subject to less political influence (Li and Ponticelli, 2022)
- ▶ Data:
 - ▶ Bond-level trading data
 - ▶ Case-level data on bankruptcies

Main Findings

- ▶ The specialized courts significantly decrease the bond spreads.
 - ▶ ↓ 17.9 bps, 7.6 % of the average trading spreads
 - ▶ total savings of 2.4 billion \$ per year in interest payments
- ▶ The impact is stronger when ex ante default risk is higher
 - ▶ low-rated bonds and riskier issuers
 - ▶ POEs
 - ▶ cities with lower GDP growth rate or pre-existing local SOE default
 - ▶ after a major default event (Yongmei Group)
- ▶ Mechanisms
 - ▶ improve bankruptcy efficiency:
 - ▶ ↑ reorganizations, ↓ time spent in bankruptcies, ↑ recovery
 - ▶ ↓ government interference in bankruptcies
 - ▶ no change in bond default probability

Related Literature

- ▶ The impact of bankruptcy reform on credit market
 - ▶ Haselmann et al. (2010), Lilienfeld et al. (2012), Gopalan et al. (2016), Rodano et al. (2016), Ponticelli and Alencar (2016), Cerqueiro et al. (2017), Campello et al. (2018), Iverson et al. (2020), Müller (2022), Li and Ponticelli (2022)

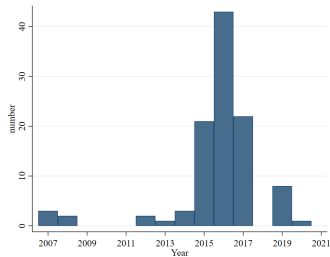
- ▶ Chinese bond market and the role of government on pricing
 - ▶ Ang et al. (2016); Bai et al. (2016); Liu et al. (2017); Amstad and He (2019); Chen et al. (2020); Geng and Pan (2022); Jin et al. (2022); Li et al. (2023)

Institutional Setting

- ▶ 2007: New Enterprise Bankruptcy Law
 - ▶ covers private firms, strengthen creditors' rights, introduce reorganization
 - ▶ court enforcement: political influence
- ▶ Specialized courts introduction: select judges with specialized training
 - ▶ 2007-2017: Specialized tribunals in existing courts (97)
 - ▶ 2019-2020: New specialized courts (9)



Beijing Bankruptcy Court, 2019/01/30



Data

- ▶ Timing on the introduction of specialized courts from the Supreme People's Court, the Ministry of Justice, and local courts.
- ▶ Case-level data on bankruptcies from National Corporate Bankruptcy Information Disclosure Platform.
 - ▶ bankruptcy filings: dates (acceptance, completion), case type, court name, judges, bankruptcy trustee, recovery rate
 - ▶ information on bankrupt firms (i.e. name, location, sector, size, ownership, etc.)
- ▶ Bond-level data from WIND.
 - ▶ Time period: 2012q1-2021q4
 - ▶ Types of bond: medium-term notes (MTN), exchange-traded corporate bonds (CB) and enterprise bonds (EB)
 - ▶ Variables: yield, maturity, issuance amount, security type, market place, rating, ownership, location, sector and financial characteristics

Model Specification

$$y_{bfmt} = \beta * SpecialCourt_{ct} + \gamma * X_{bcft} + \alpha_{pt} + \alpha_{st} + \alpha_f + \epsilon_{bfmt}$$

- ▶ $SpecialCourt_{ct}$ takes a value of 1 if there is a specialized court in city c , and 0 otherwise
- ▶ b bond, f issuer, c registration city of issuer, t time period (in quarter), p province, s sector
- ▶ y_{bfmt} represents spread over benchmark rate, i.e. yield of central govt. bonds with similar maturity
- ▶ X_{bcft} includes:
 - ▶ city: log GDP, govt. deficit-to-GDP ratio
 - ▶ firm: log assets, leverage ratio, ROA, tangibility
 - ▶ bond: log issuance amount, remaining years to maturity
 - ▶ bond category \times time FEs: ownership (LGFV, SOE, POE), market place (interbank, exchange), bond rating (AAA, AA+, others), and security type (MTN, CB, EB).

Baseline Results

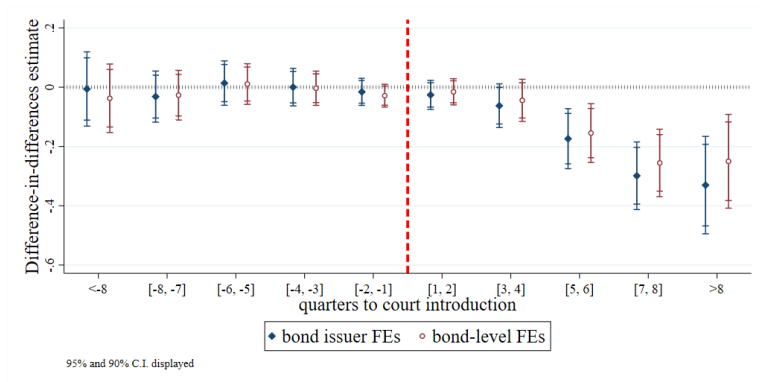
- ▶ The specialized courts decrease the bond spreads by 17.9 bps, representing a 7.6 % reduction.

	Bond Spread _{b,t}					
	(1)	(2)	(3)	(4)	(5)	(6)
SpecialCourt _{c,t}	-0.179*** (0.058)	-0.218*** (0.053)	-0.185*** (0.052)	-0.189*** (0.053)	-0.190*** (0.053)	-0.085** (0.038)
city controls	No	No	Yes	Yes	Yes	Yes
issuer controls	No	No	No	Yes	Yes	Yes
bond controls	No	No	No	No	Yes	Yes
bond issuer FEs	Yes	Yes	Yes	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes	Yes	Yes	Yes
bond category×time FEs	No	Yes	Yes	Yes	Yes	Yes
bond-level FEs	No	No	No	No	No	Yes
R^2	0.548	0.581	0.580	0.583	0.583	0.778
N	166935	166935	165001	163455	163455	161977
Mean of dependent variable	2.362	2.362	2.352	2.348	2.348	2.350

Parallel Trend

- ▶ No pre-trend prior to the court introduction,
- ▶ a sizable reduction in 4 quarters, and remains significant in 8 quarters.

$$y_{bft} = \sum_n \beta_n * D_n SpecialCourt_{ct} + \gamma * X_{bct} + \alpha_{pt} + \alpha_{st} + \alpha_f + \epsilon_{bft}$$



- ▶ Heterogeneity across default risk
 - ▶ bond: low rating
 - ▶ issuer: financial risk, ownership (POE)
 - ▶ city: economic condition (slow growth, local SOE default)
 - ▶ after a major default event
- ▶ Issuer-level outcomes
 - ▶ bond issuance
 - ▶ loan growth and maturity
- ▶ Robustness test
- ▶ Placebo test

Credit Rating

- ▶ Lower spreads in low-rating (below AAA) bonds.

By Bond Initial Rating	Bond Spread _{b,t}	
	(1)	(2)
SpecialCourt _{c,t}	-0.111*** (0.029)	-0.081*** (0.029)
SpecialCourt _{c,t} × D _b (Low Rating)	-0.136*** (0.030)	-0.139*** (0.030)
bond issuer FEs	Yes	Yes
province×time and sector×time FEs	Yes	Yes
bond category×time FEs	Yes	Yes
city controls	No	Yes
issuer, bond controls	No	Yes
<i>R</i> ²	0.581	0.583
<i>N</i>	166935	163455

Financial Risk

- ▶ Lower spreads for issuers with higher financial risk (leverage, interest coverage, and Z-score).

Panel A: By Issuer's Financial Risk Proxy Variable $D_f =$	Bond Spread $_{b,t}$					
	Leverage Ratio		EBITDA/Interest		Altman Z-score	
	(1)	(2)	(3)	(4)	(5)	(6)
SpecialCourt $_{c,t}$	-0.185*** (0.027)	-0.161*** (0.027)	-0.213*** (0.025)	-0.178*** (0.025)	-0.193*** (0.027)	-0.175*** (0.027)
SpecialCourt $_{c,t} \times D_f$ (Medium Risk)	-0.122*** (0.029)	-0.134*** (0.029)	-0.021 (0.028)	-0.038 (0.027)	0.002 (0.027)	-0.009 (0.027)
SpecialCourt $_{c,t} \times D_f$ (High Risk)	-0.103*** (0.036)	-0.088** (0.036)	-0.068** (0.027)	-0.066** (0.026)	-0.123*** (0.034)	-0.105*** (0.034)
financial soundness bins×time FEs	Yes	Yes	Yes	Yes	Yes	Yes
bond issuer FEs	Yes	Yes	Yes	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes	Yes	Yes	Yes
bond category×time FEs	Yes	Yes	Yes	Yes	Yes	Yes
city controls	No	Yes	No	Yes	No	Yes
issuer, bond controls	No	Yes	No	Yes	No	Yes
R^2	0.584	0.588	0.589	0.591	0.583	0.586
N	166455	163455	156324	153821	166156	163244

Ownership

- ▶ The reduction in bond spreads is stronger in POEs, which has implications for resource misallocation (Geng and Pan 2023; Cong et al. 2019; Hsieh and Klenow 2009).

Panel B: By Issuer's Ownership	Bond Spread _{b,t}	
	(1)	(2)
SpecialCourt _{c,t}	-0.097*** (0.023)	-0.055** (0.023)
SpecialCourt _{c,t} × D _f (SOE)	-0.138*** (0.020)	-0.153*** (0.021)
SpecialCourt _{c,t} × D _f (POE)	-0.234*** (0.067)	-0.261*** (0.065)
bond issuer FEs	Yes	Yes
province×time and sector×time FEs	Yes	Yes
bond category×time FEs	Yes	Yes
city controls	No	Yes
issuer, bond controls	No	Yes
R ²	0.581	0.583
N	166935	163455

Local SOE Default

- ▶ Stronger effects in cities with bond defaults by local SOEs.

Panel B	Yield Spread $_{b,t}$	
	(1)	(2)
SpecialCourt $_{c,t}$	-0.123*** (0.020)	-0.126*** (0.020)
SpecialCourt $_{c,t} \times D_c(\text{Post Local SOE Default})$	-0.282*** (0.074)	-0.340*** (0.073)
city's SOE default FEs	Yes	Yes
bond issuer FEs	Yes	Yes
province \times time and sector \times time FEs	Yes	Yes
subcategory \times time FEs	Yes	Yes
city controls	Yes	Yes
issuer, bond controls	No	Yes
R^2	0.582	0.586
N	165001	163455

A Major Default Event – Yongmei Group

- ▶ Stronger effects after the default of Yongmei Group
 - ▶ A state-owned coal miner in Henan defaulting on AAA-rated bonds in Nov. 2020
 - ▶ transferred lucrative assets to other SOEs few days before its default
 - ▶ “huge credit risk”: triggered market-wide concerns on evasion of debt repayment

COAL NOVEMBER 13, 2020 / 3:08 PM / UPDATED 2 YEARS AGO

Chinese state-firm debt defaults trigger market selloff, fears of crisis

By Reuters Staff

3 MIN READ



SHANGHAI, Nov 13 (Reuters) - A Chinese miner that defaulted this week held an emergency creditors' meeting on Friday to address potentially “huge credit risks”, as a series of defaults by top-rated state-owned enterprises (SOEs) sent shockwaves through China's corporate bond market.

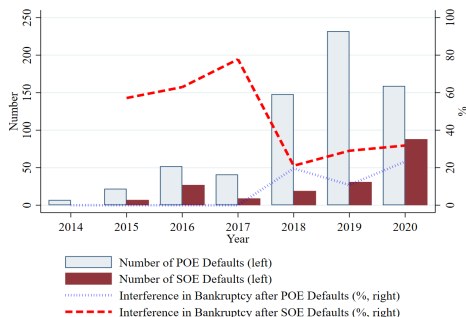
A Major Default Event – Yongmei Group

- ▶ Stronger effects after the default of Yongmei Group

	Bond Spread $_{b,t}$	
	(1)	(2)
SpecialCourt $_{c,t}$	-0.182*** (0.048)	-0.156*** (0.049)
SpecialCourt $_{c,t} \times$ Post-Yongmei	-0.287*** (0.075)	-0.291*** (0.075)
bond issuer FEs	Yes	Yes
province \times time and sector \times time FEs	Yes	Yes
bond category \times time FEs	Yes	Yes
city controls	No	Yes
issuer, bond controls	No	Yes
R^2	0.582	0.584
N	166935	163455

Mechanism

- ▶ Creditor protection can be driven by either loss given default or default probability.
- ▶ Test three potential channels
 - ▶ ↑ bankruptcy efficiency: liquidation v.s. reorganization, recovery rate, time spent in bankruptcy
 - ▶ ↓ government interference: politically-connected bankruptcy trustee
 - ▶ no change in bond default probability



Mechanism

- ▶ ↑ **bankruptcy efficiency**: ↓ liquidation, ↓ time spent in bankruptcy, ↑ recovery ✓
- ▶ ↓ **government interference** in bankruptcy ✓

	Liquidation	Duration	Recovery Rate	Government Interference
	(1)	(2)	(3)	(4)
SpecialCourt _{c,d}	-0.580** (0.242)	-0.777*** (0.223)	0.336** (0.143)	-0.261*** (0.087)
yield at issuance _b	-0.002 (0.013)	-0.026 (0.018)	0.012 (0.015)	0.003 (0.008)
log(issuance amount _b)	-0.022 (0.046)	-0.001 (0.025)	0.033 (0.025)	0.004 (0.022)
time FEs	Yes	Yes	Yes	Yes
city FEs	Yes	Yes	Yes	Yes
sector FEs	Yes	Yes	Yes	Yes
province×year of default	Yes	Yes	Yes	Yes
R^2	0.808	0.857	0.803	0.965
N	349	349	349	349

Bond Issuer Outcomes

- Increase in long-term bonds and loans, consistent with Ponticelli and Alencar (2016) and Gopalan et al. (2016).

	Δ Assets (%)	Δ Debt (%)	Δ Bonds (%)	Bond maturity	Δ Loans (%)	LTloan (%)	Δ Cash(%)	Δ Capex (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
years to court = -1	0.002 (0.007)	0.008 (0.012)	0.014 (0.014)	0.030 (0.020)	-0.004 (0.021)	0.004 (0.007)	-0.037 (0.031)	-0.011 (0.063)
years to court = 0	0.011 (0.008)	0.019 (0.013)	0.044*** (0.015)	0.055* (0.028)	-0.032 (0.025)	0.014 (0.009)	-0.034 (0.028)	0.041 (0.064)
years to court = 1	0.028*** (0.009)	0.043*** (0.015)	0.045*** (0.017)	0.089*** (0.031)	0.049* (0.028)	0.019* (0.010)	0.054* (0.031)	0.139* (0.081)
years to court \geq 2	0.040*** (0.009)	0.077*** (0.016)	0.094*** (0.017)	0.144*** (0.037)	0.054*** (0.021)	0.029*** (0.009)	0.122*** (0.028)	0.139*** (0.048)
bond issuer FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
province \times time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
sector \times time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
issuer, city controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.403	0.347	0.279	0.628	0.159	0.814	0.163	0.085
N	28588	28580	27792	21406	27797	28111	28556	27960

Robustness

- ▶ alternative dependent variables
- ▶ alternative estimation methods
- ▶ different sample filters
- ▶ sample period starts from 2008 or 2014
- ▶ cluster standard errors at an alternative levels
- ▶ regress the panel at issuer-time level
- ▶ use China Development Bank (CDB) bond index as the benchmark
- ▶ use yield to maturity (YTM) as the dependent variable
- ▶ use cities over the provincial boundary
- ▶ control for business environment
- ▶ control for bond liquidity (Bao and Pan, 2013)

Conclusion

- ▶ Specialized courts reduce the cost of bond financing, saving around 2.4 billion dollars in annual interest payments for Chinese corporate bond issuers.
- ▶ This effect is stronger in bonds with higher ex ante default risk.
- ▶ Specialized courts enhance creditor protection by increasing bondholders' recovery values, expediting bankruptcy proceeding and improving judicial independence.
- ▶ Important implication for foreign investors in default resolution.

Appendix

Summary Statistics

Bond-level characteristics

	count	mean	sd	p10	p50	p90
bond spread $_{b,t}$	167045	2.362	1.532	0.878	2.032	4.136
log(issuance amount $_b$)	167045	2.252	0.618	1.609	2.303	2.996
years to maturity $_{b,t}$	167045	3.493	1.987	1.000	3.250	6.250
bond guaranteed	167045	0.228	0.419	0.000	0.000	1.000
medium term note	167045	0.481	0.500	0.000	0.000	1.000
interbank	167045	0.769	0.421	0.000	1.000	1.000
AAA	167045	0.253	0.435	0.000	0.000	1.000
AA+	167045	0.315	0.464	0.000	0.000	1.000

Issuer-level characteristics

	count	mean	sd	p10	p50	p90
size $_{f,t-1}$	165467	10.600	1.161	9.202	10.447	12.294
leverage $_{f,t-1}$	165467	0.571	0.139	0.373	0.590	0.735
ROA $_{f,t-1}$	165467	1.595	1.950	0.173	1.029	3.912
tangibility $_{f,t-1}$	165467	0.162	0.185	0.003	0.083	0.436
LGFVs (soe muni.)	165467	0.186	0.389	0.000	0.000	1.000
non-LGFV SOEs (soe corp.)	165467	0.695	0.460	0.000	1.000	1.000

City-level characteristics

	count	mean	sd	p10	p50	p90
SpecialCourt $_{c,t}$	165114	0.405	0.491	0.000	0.000	1.000
log(GDP $_{c,t-1}$)	165114	8.392	0.922	7.129	8.413	9.606
govt. deficit/GDP $_{c,t-1}$	165114	0.058	0.055	0.006	0.043	0.135

Local Economic Conditions

- Stronger effects in cities with lower GDP growth rate.

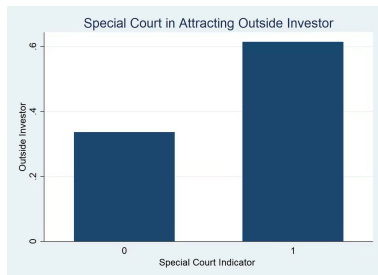
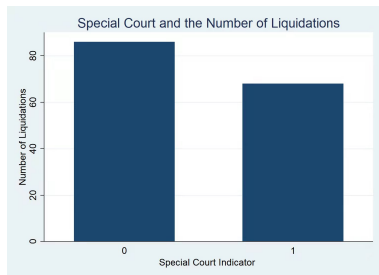
Panel A: By City's Economic Condition Proxy Variable $D_c =$	Bond Spread $_{b,t}$			
	GDP growth $_{b,t-1}$		Deficit/GDP $_{b,t-1}$	
	(1)	(2)	(3)	(4)
SpecialCourt $_{c,t}$	-0.118*** (0.021)	-0.119*** (0.022)	-0.142*** (0.030)	-0.177*** (0.030)
SpecialCourt $_{c,t} \times D_{c,t-1}$ (Weak Condition)	-0.137*** (0.025)	-0.144*** (0.024)	0.011 (0.035)	0.039 (0.035)
city characteristic bin \times time FEs	Yes	Yes	Yes	Yes
bond issuer FEs	Yes	Yes	Yes	Yes
province \times time and sector \times time FEs	Yes	Yes	Yes	Yes
bond category \times time FEs	Yes	Yes	Yes	Yes
city controls	Yes	Yes	Yes	Yes
issuer, bond controls	No	Yes	No	Yes
R^2	0.580	0.584	0.581	0.585
N	164961	163415	165001	163455

Credit Enhancement

Credit Enhancement Proxy $D =$	Bond Spread $_{b,t}$			
	Collateralized		Guaranteed	
	(1)	(2)	(3)	(4)
SpecialCourt $_{e,t}$	-0.090** (0.045)	-0.069 (0.044)	-0.157*** (0.026)	-0.144*** (0.026)
SpecialCourt $_{e,t} \times D(\text{Low Credit Enhancement})$	-0.128*** (0.044)	-0.123*** (0.044)	-0.074*** (0.025)	-0.056** (0.025)
bond issuer FEs	Yes	Yes	Yes	Yes
province \times time and sector \times time FEs	Yes	Yes	Yes	Yes
bond category \times time FEs	Yes	Yes	Yes	Yes
city controls	No	Yes	No	Yes
issuer, bond controls	No	Yes	No	Yes
R^2	0.582	0.584	0.583	0.585
N	166935	163455	166935	163455

Mechanism

- ▶ **Bankruptcy efficiency:** specialized courts are more likely to
 - ▶ initiate reorganization instead of liquidation.
 - ▶ introduce strategic investors to the companies.



Mechanism

- ▶ no change in bond default probability

	Default _{bfc_m}				
	(1)	(2)	(3)	(4)	(5)
SpecialCourt _{c,m}	0.002 (0.006)	0.001 (0.006)	0.007 (0.006)	0.004 (0.006)	0.003 (0.006)
city controls	No	No	Yes	Yes	Yes
issuer controls	No	No	No	Yes	Yes
bond controls	No	No	No	No	Yes
bond issuer FEs	Yes	Yes	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes	Yes	Yes
bond category×time FEs	No	Yes	Yes	Yes	Yes
R^2	0.673	0.696	0.695	0.690	0.691
N	14673	14666	13696	12947	12947
Mean of dependent variable	0.018	0.018	0.017	0.013	0.013

Effects on Bond Issuance Spreads

- ▶ Decrease in bond issuance spreads by 20.4 bps

	Bond Spread $_{b,t}$ at Issuance				
	(1)	(2)	(3)	(4)	(5)
SpecialCourt $_{c,t}$	-0.204*** (0.063)	-0.210*** (0.060)	-0.205*** (0.059)	-0.183*** (0.058)	-0.184*** (0.058)
city controls	No	No	Yes	Yes	Yes
issuer controls	No	No	No	Yes	Yes
bond controls	No	No	No	No	Yes
bond issuer FEs	Yes	Yes	Yes	Yes	Yes
province \times time and sector \times time FEs	Yes	Yes	Yes	Yes	Yes
bond category \times time FEs	No	Yes	Yes	Yes	Yes
R^2	0.816	0.862	0.862	0.862	0.863
N	40034	40032	38932	38347	38347
Mean of dependent variable	1.962	1.961	1.944	1.932	1.932

Robustness Tests

- ▶ Alternative dependent variables, estimation methods, and sample filters

	Median spread	WLS estimate	Excl. new issuance	Excl. obs. with mat. lt. 1q	Excl. csoe	Excl. defaulters	Yangtze River Belt	Yangtze River Delta	Excl. capital cities
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SpecialCourt _{c,t}	-0.185*** (0.052)	-0.166*** (0.052)	-0.144*** (0.050)	-0.191*** (0.053)	-0.185*** (0.055)	-0.206*** (0.054)	-0.258*** (0.079)	-0.221** (0.088)	-0.190*** (0.073)
bond issuer FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
province×time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
sector×time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
city, issuer, bond controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.586	0.567	0.600	0.589	0.589	0.572	0.597	0.606	0.597
N	163455	163455	121177	160203	154380	159940	88028	49833	101274
Mean of dependent variable	2.333	2.196	2.421	2.351	2.380	2.300	2.290	2.174	2.502

Standard Error Clustering

Standard error cluster level	
robust	-0.190*** (0.0127)
issuer	-0.190*** (0.0432)
issuer and time	-0.190*** (0.0567)
issuer-time	-0.190*** (0.0166)
city	-0.190*** (0.0529)
city and time	-0.190** (0.0637)
city-time	-0.190*** (0.0192)
province	-0.190** (0.0593)
province and time	-0.190** (0.0670)
province-time	-0.190*** (0.0248)

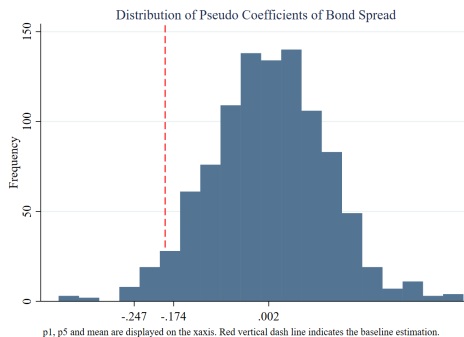
Market Place and Security Type

	Bond Spread $_{b,t}$				
	Market Place		Security Type		
	Exchange Market (1)	Interbank Market (2)	Medium-term Notes (3)	Exchange-Traded Corporate Bonds (4)	Enterprise Bonds (5)
SpecialCourt $_{c,t}$	-0.194*** (0.055)	-0.177*** (0.058)	-0.276*** (0.075)	-0.275*** (0.089)	-0.126** (0.053)
bond issuer FEs	Yes	Yes	Yes	Yes	Yes
province \times time and sector \times time FEs	Yes	Yes	Yes	Yes	Yes
bond category \times time FEs	Yes	Yes	Yes	Yes	Yes
city controls	Yes	Yes	Yes	Yes	Yes
issuer, bond controls	Yes	Yes	Yes	Yes	Yes
R^2	0.692	0.567	0.548	0.741	0.677
N	37705	125583	79156	18215	65859
Mean of dependent variable	2.608	2.269	2.154	2.681	2.489

Placebo Tests

randomization of court location
and introduction time

courts in the nearby cities



Distance from courts to firms

SpecialCourt _{e,t} (50km<dist.<=100km)	-0.0242 (0.0805)
SpecialCourt _{e,t} (100km<dist.<=150km)	-0.0882 (0.0614)
SpecialCourt _{e,t} (150km<dist.<=200km)	-0.0196 (0.0496)
SpecialCourt _{e,t} (200km<dist.<=300km)	0.0344 (0.0695)
SpecialCourt _{e,t} (300km<dist.<=400km)	-0.00926 (0.0557)
SpecialCourt _{e,t} (400km<dist.<=500km)	-0.0790 (0.0641)

Impact on Shareholders

- ▶ Salient reduction in bond spreads, but no effect on equity returns

