Law Enforcement and Cost of Debt: Evidence from China

Abstract: Using the staggered introduction of regional specialized debt recovery courts as a quasi-natural experiment, we estimate the causal effect of law enforcement on financing cost of corporate bonds in China. With primary market issuing data, we show that the introduction of specialized courts reduces issuers' bond financing cost by 15%. The analysis of secondary market trading data confirms the results that the yield spreads of existing bonds reduce significantly. Exploring regional-, firm- and bond-level heterogeneity, we find the effects to be much stronger when ex-ante default risk is high. Our case-level analyses further support that enforcement cost reduction in debt dispute resolution is a channel for the reduction of cost of bond. Our paper has important policy implications in light of the recent bond default wave in China, suggesting that creditors protection through highly efficient law enforcement is important for bond market development and will eventually benefit bond issuers as well.

I. Introduction

The Fifth Plenary Session of the 19th Central Committee of the Communist Party of China pointed out that the economic and social development during the "14th Five-Year Plan" period should focus on promoting high-quality development, aiming to improve the socialist market economic system, build a high-standard of market system, promote the reform of the property rights system and the market-based allocation of production factors, and reform and improve the fair competition system so as to make the market players more vibrant. On December 6, 2021, General Secretary Xi Jinping delivered a speech at the 35th collective study on building a socialist rule of law system with Chinese characteristics of the 19th Central Political Bureau, stating that it is necessary to "comprehensively deepen the reform of the rule of law, coordinate the promotion of the system of legal norms, the implementation system of the rule of law, the supervision system of the rule of law and the construction of the intra-party legal system", and speed up legislation in key areas including risk prevention.[1] In August 2021, the People's Bank of China, the National Development and Reform Commission, the Ministry of Finance, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued a document stating that it is necessary to improve the legal system of the bond market, ensuring the legalized settlement of bond defaults, and promoting the high-quality development of the corporate credit bond market.[2]

So, could the enhancement in legal system benefit the high-quality development of the bond market? In order to answer this question, this paper conducts a quasi-natural experiment on the basis of over 100 regional bankruptcy tribunals across China. We identify the causality according to the time when a regional bankruptcy tribunal is established, and investigate the impact of the establishment of regional bankruptcy tribunals on local corporate bond financing. This paper sheds light on the role of the legal system in the high-quality development of the bond market.

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[1] ["Adhere to the path of socialist rule of law with Chinese characteristics, and better promote the construction of the socialist rule of law system with Chinese characteristics" , "Qiushi" Issue 4, 2022.].

[2] [Guiding Opinions on Promoting High-quality Development of the Reform and Opening up of the Corporate Credit Bond Market, August 2021.]

The practice of specialized bankruptcy trials in China started in Shenzhen, Guangdong Province. In December 1993, the first corporate liquidation and bankruptcy tribunal was established in the Shenzhen Intermediate People's Court. However, before the implementation of the *Enterprise Bankruptcy Law of the People's Republic of China* (hereinafter referred to as the new *Enterprise Bankruptcy Law*) enacted in 2007, most corporate bankruptcy cases in China were mandated by the government. During the subprime mortgage crisis, the Chinese government launched a series of economic stimulus policies, which caused serious overcapacity and "zombification" in some industries after the crisis. At the end of 2015, the CPC Central Committee put forward the work plan for promoting supply-side reform, removing excess capacity, and disposing of zombie enterprises, stressing that “more emphasis should be placed on using market mechanisms, economic means, and legal measures to resolve excess capacity, strengthen policy guidance and improve the exit mechanism of enterprises”, and “it is necessary to speed up the handling of bankruptcy liquidation cases so as to make preparation for the implementation of market-oriented bankruptcy procedures in accordance with the law”. This work deployment injected new impetus into the reform of China's bankruptcy trial system to a certain extent. In June 2016, the Supreme People's Court issued the *Work Plan on Establishing Liquidation and Bankruptcy Tribunals in Intermediate People's Courts*[3], requiring the intermediate people's courts of municipalities, provincial capitals and sub-provincial cities to set up liquidation and bankruptcy tribunals. 97 liquidation and bankruptcy tribunals and 9 independently operating bankruptcy courts have been established nationwide until June 2020.

This paper conducts a quasi-natural experiment on the establishment of regional bankruptcy tribunals, and applies the difference-in-differences (DID) method to investigate the impact of the establishment of regional bankruptcy tribunals on the financing cost of corporate bonds (including short-term financing bills, medium-term notes, corporate bonds and enterprise bonds) issued during the period from 2014 to 2020. We find that the establishment of a bankruptcy tribunal has reduced corporate bond issuance spreads significantly at the 1% level by 0.241%, which is equivalent to 15.5% of the average bond issuance spread during the sample period, indicating that this effect is of great economic significance. In view of the possible endogenous problem in the establishment of bankruptcy tribunals, we have added the fixed effect of bond issuer to the regression to mitigate the concerns of omitted issuer-level variables that do not change with time. In addition, we also adopt the method of staggered DID based on the difference in the establishment time of the bankruptcy tribunals and the results remain robust. The above findings manifest that the enhancement of legal system, especially the enhancement of law enforcement system, is beneficial to corporate bond issuers and can significantly reduce the issuer's debt financing costs.

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[3] [Intermediate People's Courts will set up Liquidation and Bankruptcy Tribunals, http://world.hebnews.cn/2016-08/12/content_5732083.htm.]

In the primary bond market, there is only one observation for each bond. In order to solve the possible endogenous problem of bond issuance and further identify the causal effect between the establishment of bankruptcy tribunal and bond spreads, we use the data of issued bonds in the secondary market to analyze the changes in spreads of issued bonds before and after the establishment of bankruptcy tribunals so as to explore the impact of bankruptcy tribunal establishment on corporate bond financing costs. We find that bankruptcy tribunal establishment has significantly reduced bond trading spreads, and this result remains robust across standard error estimates clustered at other levels, alternative variables and estimation methods, and a range of sub-sample regressions. We have also conducted a placebo test using the stock return of a sub-sample of listed companies among bond issuers and have found that, after the establishment of a regional bankruptcy tribunal, the stock return did not change significantly while the bond trading spread of the listed sub-sample decreased drastically. It can be seen that the bankruptcy tribunal's role in reducing bond financing costs is largely attributable to the enhanced creditor protection, which is in line with expectation.

Considering the protection of creditors by the regional bankruptcy tribunal is more important when bond default occurs, we expect that the effect of the regional bankruptcy tribunal in reducing the bond spread is more significant in the case of higher default risk. We identify the ex-ante default risks by city, issuer, and bond heterogeneous characteristics. The results show that the role of bankruptcy tribunals is more pronounced in cities with low GDP growth rates, high fiscal deficits, and historical bond defaults events; more pronounced in private and SOE bonds than chengtou bonds; and more pronounced in non-guaranteed bonds and bonds with low credit ratings. The results of the heterogeneity test are in line with the expectation.

In order to further clarify the channels for the establishment of regional bankruptcy tribunals to protect creditors, this paper reviews all the bankruptcy cases with bond defaults from 2014 to 2021, as well as the bankruptcy cases of the Peking University Founder Group, and in this way we analyze how bankruptcy tribunals can improve the efficiency of bankruptcy and reorganization, and consequently reduce the cost of bond financing. We find that bankruptcy tribunals could come up with appropriate restructuring and bankruptcy procedures for distressed enterprise groups, and that they restructure and repay investors' corresponding claims in a market-oriented manner. Compared with civil tribunals, bankruptcy cases handled by bankruptcy tribunals are more likely to enter reorganization proceedings, introduce strategic investors, and realize parent-subsidiary merger bankruptcy. These trial methods are of great significance to improving the efficiency of bankruptcy reorganization, improving the creditor's repayment rate, maintaining fairness and justice in bankruptcy repayment and, as a consequence, can realize the legal protection of the interests of creditors.

There are three stands of literature related to this paper. The first strand of literature focuses on the impact of the enhancement in legal system. Li and Ponticelli (2022) compared the bankruptcy tribunals and ordinary courts in terms of the time taken to handle bankruptcy liquidation cases, and found that bankruptcy tribunals could shorten the case trial time by 36%, proving that the specialization of bankruptcy tribunals could improve legal efficiency. Lilienfeld et al. (2012) and Gopalan et al. (2016) carried out quasi-natural experiments on the establishment of fast-track tribunals for debt disputes in India and found that the establishment of this specialized tribunal made lenders more willing to lend and demand for less collateral. Meanwhile, the borrowing companies adjusted their debt maturity structure accordingly, leveraging more long-term and less short-term debt. Similar to these studies, this paper also analyzes the impact brought by China's specialized tribunals in operation. Unlike the existing literature, this paper contributes by directly analyzing its impact on bond market spreads, thereby providing direct evidence that the enhancement in legal system can reduce borrowers' financing costs.

The second strand of literature focuses on bond financing costs in China. Existing research on China’s bond market mainly examines the impact of credit ratings on financing costs (He and Jin, 2010; Wang and Zhang, 2013; Chenet al., 2021), the impact of customer concentration on secondary market transaction spreads (Wang and Gao, 2017) and how policy uncertainty affects transaction spreads (Luo and She, 2015), etc. This paper has creatively analyzed, for the first time ever, how enhanced creditor protection can reduce the secondary market spread of bonds and the issuance cost in the primary market.

The third strand of literature focuses on defaults in the Chinese bond market. Hu et al. (2021) found that bond defaults have negative spillover effects at the industry level. Jin et al. (2021) studied the impact of bond defaults on corporate investment. Liu et al. (2021) showed that the negative spillover effect of bond issuance default was more remarkable in the "disorderly default" that exceeded market expectations. This paper manifests that the enhancement in the legal system and the improvement of investor protection can effectively alleviate the negative effects of bond default.

This paper conveys two policy implications. One is for the high-quality development of the bond market. The report of the 19th National Congress of the Communist Party of China proposed to "increase the proportion of direct financing and promote the healthy development of the multi-level capital market". By the end of 2021, the total China's bond market hit 130.4 trillion yuan, and the bond market has become an increasingly important channel for Chinese companies to raise funds. However, since 2020, the unexpected defaults of bonds, typically "Yongmei" and "China Fortune Land Development", have taken the market by shock and sparked a debate in the market on "debt escaping and revoking". This paper shows that specialized and efficient debt default trials and the enhancement of creditor protection can effectively improve enterprises’ fund-raising capabilities. Therefore, this paper suggests that the practice of establishing specialized bankruptcy tribunals can be further promoted across the country.

The second implication is for bond issuers. The results of this paper show that even in cities where defaults of bonds have occurred, the establishment of specialized tribunals can still significantly reduce bond spreads, which fully demonstrates that protecting the interests of creditors is beneficial to debt financing entities. Therefore, the practice of "debt escaping and revoking" conducted by "Yongmei" is absolutely unadvisable. Only by protecting the interests of creditors, efficiently handling debt disputes, and respecting market rules, can borrowers be accepted by investors in the debt market.

The rest of this paper is organized as follows: the second part introduces the institutional background; the third part covers the research hypothesis, models and variables; the fourth part provides a summary of the empirical test results; the fifth part analyzes the influence channels; and the sixth part provides the conclusions and policy recommendations.

II. Institutional Background

In the past decade, China's bankruptcy system has undergone two major changes: First, China began implementing a new bankruptcy law in 2007, aimed at strengthening the protection of creditors. Then in the decade of 2007-2017, many cities introduced tribunals specializing in bankruptcy trials. In this section, we will elaborate on the aforementioned two major changes in the bankruptcy system.

1. Bankruptcy law and traditional civil courts

Before 2007, the implementation of bankruptcy in China was mainly based on the *Enterprise Bankruptcy Law of the People's Republic of China (for Trial Implementation)* promulgated in 1986 (hereinafter referred to as the old *Enterprise Bankruptcy Law*). The old *Enterprise Bankruptcy Law* was promulgated during the transition period from the planned economy system to the market economy system, and the scope of application mainly covered state-owned enterprises: the old *Enterprise Bankruptcy Law* stipulated that secured creditors had priority in the order of repayment, followed by enterprise employees, taxation and general unsecured creditors (art. 32). Subsequently, in the 1990s, the State Council issued two decrees that prioritized the payment of job placement fees and other benefits for employees of bankrupt SOEs over secured creditors (Booth, 2008), giving priority to the interests of government and enterprise employees in bankruptcy liquidation, so as to maintain social stability.

In 2007, the *Enterprise Bankruptcy Law of the People's Republic of China* (hereinafter referred to as the new *Enterprise Bankruptcy Law*) was officially implemented, which has had an important impact on the protection of China's creditors' rights. The scope of application of the new *Enterprise Bankruptcy Law* has been expanded from state-owned enterprises to all incorporated enterprises, instead of being classified in terms of ownership, degree of openness and business scope, etc.

The old *Enterprise Bankruptcy Law,* which was piloted in 1986, consisted of only 43 articles, whereas the number of articles in the new *Enterprise Bankruptcy Law* has increased to 136. In addition to the increase in the length of the clauses, the new *Enterprise Bankruptcy Law* has obvious innovations and breakthroughs in legislative concepts and institution formulation compared with the old *Enterprise Bankruptcy Law*: First, the new *Enterprise Bankruptcy Law* specifies that secured creditors have priority over corporate employees in the bankruptcy procedures and should be repaid with specific property used as security (section 109). Second, the new *Enterprise Bankruptcy Law* introduces new reorganization procedures (Chapter 8). In addition, the 2007 reform of the bankruptcy system also pointed out that companies in severe financial distress can bypass restructuring and directly enter liquidation proceedings, thereby shortening the bankruptcy process and assisting creditors to obtain higher repayment rates.

Although the new *Enterprise Bankruptcy Law* has clearly stipulated the bankruptcy procedures of enterprises, traditional civil courts still face many challenges in the process of bankruptcy enforcement. Bankruptcy cases often involve a complex set of laws and multi-party interests, and many local civil courts lack sufficient resources to deal with the various disputes in bankruptcy cases. The surge in civil cases, the limited number of judges, and the lack of specialized training for bankruptcy judges have all made the bankruptcy process extremely lengthy and cumbersome.

2. Establishment of a specialized bankruptcy tribunal

In December 1993, the Shenzhen Intermediate People's Court in Guangdong Province took the lead in establishing the Company Liquidation and Bankruptcy Tribunal, which was the first in China and set a precedent for the specialization of bankruptcy trials. From 1994 to 2006, the Shenzhen Intermediate Court accepted and handled a total of 534 bankruptcy cases of various types [4]. After the implementation of the new *Enterprise Bankruptcy Law* in 2007, the Shenzhen Intermediate Court Bankruptcy Tribunal, which is operating within the existing civil courts, has been copied by local courts in Henan, Shanxi, Shandong, Chongqing and other provinces and cities, and expanded to places nationwide.

In October 2014, the Fourth Plenary Session of the Eighteenth Central Committee of the Communist Party of China was held. This was the first time in the history of the Communist Party of China that the basic strategy for comprehensively advancing the rule of law has been studied and deployed in a plenary session. In November 2014, the Supreme People's Court formulated a proposal to establish bankruptcy tribunals nationwide. Subsequently, in order to implement the work deployment of the Central Committee of the Communist Party of China on promoting supply-side structural reform and disposing of zombie enterprises in accordance with the law by the end of 2015, the Supreme People's Court issued the *Work Plan on Establishing a Liquidation and Bankruptcy Tribunal in the Intermediate People's Court* in June 2016 (hereinafter referred to as the *Work Plan*). The work plan clearly states that the municipalities directly under the central government should designate that at least one intermediate people’s court establish a liquidation and bankruptcy tribunal, that the intermediate people's court based in provincial capitals and sub-provincial cities establish a liquidation and bankruptcy tribunal, and that the local higher people’s court in provinces, prefectures and cities should make overall arrangements after comprehensively considering various factors and decide in conjunction with the provincial-level institutional establishment department whether the intermediate people’s courts of the remaining places should establish a liquidation and bankruptcy tribunal. The work plan also defines the "two-step" plan in relation to the establishment of the bankruptcy tribunal, which requires the intermediate people's courts of four municipalities, capital cities and sub-provincial cities in 11 provinces, including Hebei, Jilin, Jiangsu, and Zhejiang, to complete the establishment of liquidation and bankruptcy tribunals by the end of July 2016, while the intermediate people's courts of other provincial capital cities and sub-provincial cities must complete the work by the end of December 2016. As of December 2017, a total of 97 liquidation and bankruptcy tribunals had been established across the country, and almost every province had at least one liquidation and bankruptcy tribunal.

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[4] Shenzhen Intermediate Court successfully held a symposium on corporate liquidation and bankruptcy trials, https://www.sohu.com/a/210341031_689962.

Figure 1 reports the number of bankruptcy cases accepted and handled by Chinese courts. In response to the subprime mortgage crisis, the Chinese government has introduced a series of economic stimulus policies, which have also given rise to the expansion of debt and shadow banking. After the subprime mortgage crisis, some industries experienced severe overcapacity and "zombification". The number of corporate bankruptcies has risen rapidly since 2013, and various types of debt defaults by private enterprises, state-owned enterprises and local government financing platforms have emerged one after another (Jin et al., 2020; Amstad and He, 2020; 2021). These default events have tested the ability of Chinese bankruptcy institutions to handle bankruptcy, exposed the limitations of traditional courts in the implementation of the new bankruptcy law in 2007, and enhanced the need for specialized judicial institutions to handle bankruptcy cases.

The Liquidation and Bankruptcy Tribunal mainly addresses the problems of long trial periods and imperfect trial working mechanisms of bankruptcy cases in the following three aspects:

First, the Liquidation and Bankruptcy Tribunal attaches importance to the professional quality of the judges. New judges with outstanding professional skills are the key to improving the quality and efficiency of judicial decisions. It can be seen from the bankruptcy documents that about two-thirds of the judges hired by the newly established professional courts are newly appointed judges, rather than transferred from the traditional civil court to the bankruptcy tribunals. Even when hiring judges within civil courts, the bankruptcy tribunal has made it clear in hiring that judges need to have "outstanding experience in liquidation and corporate insolvency cases."

Second, the Supreme People's Court actively promotes the informatization of bankruptcy trials. In August 2016, the National Enterprise Bankruptcy and Reorganization Case Information Platform was officially launched. As of the end of July 2017, the platform had published more than 17,600 documents, and the number of visits to the platform had reached more than 51.44 million, which greatly increased the transparency and credibility in terms of handling bankruptcy cases. In order to address the issue of cases where creditors are numerous and it is hard to meet altogether physically, the courts across the country have also held online creditors’ meetings and effectively saved costs in bankruptcy proceedings and sped up the process of bankruptcy cases. The Bankruptcy Tribunal has established a complete set of process management systems to improve the efficiency of handling bankruptcy cases through the monitoring and management of bankruptcy case filing, case division, trials and other nodes.

Third, the Supreme People's Court actively promotes the establishment of a "Unified coordination mechanism for handling bankruptcy" between the government and the court, so as to protect state-owned assets, maintain financial security, and provide employee placement and reemployment guarantees and non-public economic protection throughout the bankruptcy process. It is helpful to coordinate various interest disputes in the process of bankruptcy cases trial, thereby speeding up the trial process of bankruptcy cases.

In January 2019, the Shenzhen Bankruptcy Court was officially inaugurated. This is the first specialized bankruptcy tribunal in the country that operates independently outside the existing civil courts. Since then, the construction of specialized bankruptcy courts in China has begun to shift from setting up liquidation and bankruptcy trials under the civil courts to establishing specialized bankruptcy courts that operate independently. As of June 2020, in addition to Shenzhen, eight major cities including Beijing, Shanghai, Tianjin, Guangzhou, Wenzhou, Hangzhou, Chongqing, and Nanjing have also established independent specialized bankruptcy tribunals.

The bankruptcy tribunals involved in the empirical test of this paper includes the above-mentioned two modes, namely, the liquidation and bankruptcy tribunals under the existing civil courts and the independently operated specialized bankruptcy tribunals.

III. Hypotheses Development and Data

1. Hypotheses development

The bankruptcy process of an enterprise usually involves a series of complex laws and the interests of multiple parties. The extent to which the debt funds lent to the enterprise can be recovered is the core interest of the creditor when the enterprise is in financial distress and is reflected in the bond price. Compared with general civil courts, local bankruptcy tribunals have a more specialized team of judges in the handling of bankruptcy cases, a higher degree of informatization and transparency in the handling of bankruptcy cases, and a stronger ability to coordinate the interests of all parties. The improved quality and efficiency of handling bankruptcy cases have strengthened the protection of the interests of creditors of financially distressed enterprises, thereby helping to reduce the cost of corporate debt financing. Accordingly, we propose the hypothesis H1.

H1: The establishment of local bankruptcy tribunals will lead to lower corporate bond spreads.

Additionally, the degree of protection of creditors' interests in the process of enterprise bankruptcy has a greater impact on the cost of debt financing when the debt default risk faced by creditors is high. Considering that creditor protection will be enhanced by the establishment of local bankruptcy tribunals, we propose the hypothesis H2.

H2: The bond spread reduction effect caused by the establishment of the local bankruptcy tribunal is more pronounced when the default risk is higher.

2. Econometric Models and Variables

In response to the above hypotheses, this paper adopts the DID method to explore the impact of the establishment of bankruptcy tribunals on the financing cost of corporate bonds through the changes in corporate bond spreads before and after the establishment of bankruptcy tribunals from 2014 to 2020. The econometric model of this paper is as follows:

$$y_{bfct} = \beta * SpecialCourt_{ct} + \gamma * X_{bcft} + \alpha_t * \alpha_p + \alpha_t * \alpha_s + \alpha_f + \epsilon_{bfct} \qquad (1)$$

Where *b* represents the bond, ***f*** represents the bond-issuing enterprise, and *c* represents the prefecture-level city where the bond-issuing enterprise is located[5] . t represents each quarter in the sample period, p represents the province where the bond issuer is located, and s represents the industry of the bond issuer. y_{bfct}represents the corporate bond spread: for the primary market, it is measured by the difference between the issuance rate of corporate bonds and the yield of CDB bonds of the same term; for the secondary market, we first calculate the difference between corporate bonds and CDB bonds of the same term on each trading day, and then use the average difference between daily yields in each quarter as the measure of corporate bond spread. $SpecialCourt_{ct}$is a dummy variable for whether the city where the issuing company is located has a bankruptcy tribunal established. X_{bfct} is a control variable, including size, leverage ratio, ROA of the issuer and $\log(\text{issuance amount})$, years to maturity, local GDP, and fiscal deficit ratio $(\text{govt. deficit/GDP})$. $\alpha_t * \alpha_p$, $\alpha_t * \alpha_s$ and α_f represent province-time, industry-time, and bond-issuing firm fixed effects respectively. $\epsilon_{bfct}$is the residual error. β is the core regression coefficient, which reflects the change in the corporate bond spread before and after the establishment of the local bankruptcy tribunal. [6] We expect the coefficient to be significantly negative, meaning that the establishment of a bankruptcy tribunal can reduce the cost of debt financing for firms.

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[5] As the observations on the tribunals in the municipalities directly under the central government were not accurate to the district-level administrative units in the municipalities, the effect will be absorbed by the fixed effect of province-time in the model, so we excluded the samples of the four municipalities from our sample population. However, we also separately performed estimation on the samples of the municipalities and found that the results did not change significantly.

[6] We added a province-time fixed effect into the model and, therefore, the coefficient represents relative changes in corporate bonds before and after the bankruptcy tribunal was established versus the corporate bonds issued in those areas without bankruptcy tribunals in the same province.

Table A1 and Table 1 report the descriptive statistics of the variables involved in the empirical test of the primary market and the secondary market respectively. In Table A1, the average issuance yield of newly issued bonds during the sample period was about 1.601%, the average issuance period was about 2.802 years, and the average logarithm of the issuance amount was about 20.368. Among these newly issued bonds, short-term financing bills (commercial papers), medium-term notes and corporate bonds accounted for 45.4%, 19.6% and 27.2% respectively, and more than 70% of the bonds were issued in the interbank market. During the sample period, bonds issued by local government financing platforms and general state-owned enterprises accounted for 84.6% of all newly issued bonds, and the average leverage ratio of bond issuers reached 60.4%. The average ROA was only 1.5%.

IV. Empirical Results

1. Primary market

(1) Basic results

Table 2 reports the impact of bankruptcy tribunal establishment on bond issuance spreads in the primary market. According to the estimated results in column (1) of Table 2, the establishment of a bankruptcy tribunal reduced the corporate bond issuance spread by 0.241%, which is equivalent to 15.5% of the average bond issuance spread during the sample period, and this effect was statistically significant at the 1% level. In the regression of columns (2) to (5) of Table 2, we further controls the bond and issuer characteristics, as well as the fiscal and economic conditions of the issuer's city. We can see that the impact of bankruptcy tribunals on reducing the bond spread at issuance on the primary market remains significant.

(2) Robustness test

a. Exclusion of samples of new issuers: We have controlled for the characteristics of bond issuers, fixed effects in the basic regression. But considering that the qualifications of bond issuers may change before and after the establishment of the bankruptcy tribunal, we further deleted the samples of enterprises that started to issue bonds after the bankruptcy tribunal was established in Columns (1) to (2) of Table A2, and only focused on the existing bond issuers and the changes in bond issuance spreads before and after the bankruptcy tribunal was established. It can be seen that the bankruptcy tribunal’s impact in lowering bond spreads at issuance on the primary market still holds.

b. Exclusion of short-term financing bills: Considering that the short-term financing bills issued by enterprises are generally short-term and the default risk is relatively low, we excluded short-term financing bills in columns (3) to (4) of Table A2, and only kept the regression samples of medium-term notes, corporate bonds and enterprise bonds. The conclusion still holds and we can see that the establishment of a bankruptcy tribunal can reduce the issuance cost of corporate bonds.

c. Self-selection issue of the establishment of a bankruptcy tribunal: We have controlled for the city GDP, fiscal deficit, and city fixed effects in the basic regression. However, considering that the establishment of a local bankruptcy tribunal may have self-selection issue, that is, whether a bankruptcy tribunal is established in a certain region, and the establishment time of the bankruptcy tribunal may be affected by some unobservable local factors, we further controlled for the interaction between a dummy variable indicating whether a city has established a bankruptcy tribunal in the sample period and the time fixed effect. The result in columns (5) to (6) of Table A2 remains robust that bankruptcy tribunal establishment helps reduce the cost of corporate debt financing.

(3) Parallel trends

In figure A4, we estimated the change in bond spreads at issuance over several quarters before and after the establishment of a bankruptcy tribunal. We found that the gap of bond issuance cost between jurisdictions with bankruptcy tribunals and that without bankruptcy tribunals decreases before the establishment of the bankruptcy tribunal; this decreasing trend ended after the establishment of the tribunal and the difference between the issuance costs of the two no longer showed a significant change. A reasonable explanation for this result is that, after the establishment of the tribunal, local riskier issuers were more capable of participating in new bond issuance or issuing riskier bonds. Due to market participation and exits, the results of the primary market may be affected by certain endogenous factors. Therefore, in order to further identify the causal effect between the establishment of the bankruptcy tribunal and the bond spread, we use the issued bonds in the secondary market to explore the impact of the establishment of the bankruptcy tribunal on the financing cost of corporate bonds through the change in the spread of the issued bonds before and after the establishment of the bankruptcy tribunal.

2. Secondary market

(1) Basic results

Table 3 reports the impact of bankruptcy tribunal establishment on bond secondary market spreads. According to the estimated results in column (1) of Table 3, the bond trading spread in the secondary market decreased by 0.147% after the bankruptcy tribunal was established, which is equivalent to 7.7% of the average trading spread during the sample period. The effect was statistically significant at the 1% level. After controlling for the financial and economic status of the issuer’s city, the issuer’s financial status, and the bond issuance amount and duration in columns (2) to (5) of Table 3, the conclusion still holds that the establishment of the bankruptcy tribunal has reduced the financing cost of corporate bonds.

In addition, we examined the parallel trends in the impact of bankruptcy tribunal establishment on bond financing costs by estimating the change in bond spreads for several quarters before and after bankruptcy tribunal establishment in Table A3. It can be seen that the effect of the establishment of the bankruptcy tribunal on reducing corporate bond spreads was not significant before the establishment of the tribunal and in the first two quarters after the establishment of the tribunal; within 3 to 4 quarters after the establishment of the tribunal, the effect of the bankruptcy tribunal on reducing corporate bond spreads was was marginally significant at the 10% statistical level; the reducing effect of corporate bond spreads was statistically significant at the 1% level five quarters after the tribunal was established.

(2) Robustness test

a. Alternative standard errors estimation, variables and estimation methods: In columns (1) to (2) of Table 4, Table A4 and Table A8, we can see that the effect of bankruptcy tribunals on helping to reduce the bond spread remains robust when we: used the median of the quarterly bond spread as the dependent variable; use the weighted least squares estimation in which the weight is the bond issuance; used standard error estimates clustered at other levels; used the mean or median of the bond yield to maturity within the quarter as the dependent variable.

In Table A7, we ran the secondary market regression in the issuer level. Specifically, we used the average of the issuer's bond trading spreads in the secondary market as the dependent variable. It can be seen that the effect of bankruptcy tribunal establishment on reducing bond spread still existed at the issuer level. The corresponding parallel trend test is shown in Figure A2. It can be seen that the effect of the bankruptcy tribunal on significantly reducing the bond spread only existed one year after the establishment of the bankruptcy tribunal, which is also consistent with the basic results of the secondary market.

b. Sample deletion: In column (3) of Table 4, we excluded the newly issued bonds after the establishment of the bankruptcy tribunal, focusing on the change in the spread of exiting bonds before and after the establishment of the local bankruptcy tribunal. The regression coefficient of the court’s establishment was still statistically significant at the 1% level; in column (4) of Table 4, we excluded bonds with maturity shorter than 1 quarter, and we can see that the basic result of the secondary market still holds.

Considering the local bankruptcy tribunal's territory limitations, we excluded central government-controlled SOEs from the regression in column (5) of Table 4, and only kept local state-owned and private enterprises. We can see that the effect of bankruptcy tribunals on reducing bond spread still exists. In column (6) of Table 4, we removed the samples of issuers which have defaulted, and found that the regression coefficient of bankruptcy tribunal establishment on bond spreads was still statistically significant at the 1% level. We also pay attention to corporate bonds in the Yangtze River Economic Belt, the Yangtze River Delta region and non-provincial capital cities in columns (7) to (9) of Table 4. We can see that the effect of bankruptcy tribunals on reducing bond spreads still holds in these sub-samples.

c. Placebo test: In Table 5, we used a sub-sample of listed companies among bond issuers and used the stock price yields of listed bond issuers as the dependent variable to conduct a placebo test. It can be seen that the establishment of the local bankruptcy tribunal has no significant effect on the stock return in the listed sub-sample, instead, it has a significant negative impact on the bond spread in the listed sub-sample. Further in Figure 3, we estimated the changes in bond spreads and stock return of listed issuers in several quarters before and after the establishment of the bankruptcy tribunal. We found that there were no significant changes in stock returns, whether before or after the establishment of the bankruptcy tribunal, while bond spreads fell significantly after the bankruptcy tribunal was established. It means that the establishment of the bankruptcy tribunal mainly reduced the cost of bond financing by strengthening the protection of creditors and had no significant impact on the equity yield.

d. Controlling for the bond fixed effects: In Table A6, we further controlled the bond fixed effects, thereby reducing the concerns of omitted variables at the bond level that do not change with time. We found that after controlling for the bond fixed effect, the effect of bankruptcy tribunal establishment on bond spreads was still significantly negative at the 1% level. Additionally, we controlled for the bond fixed effects in the parallel trend test in Figure A1, and we found that the significant decline in bond spreads only began to appear one year after the bankruptcy tribunal was established, which is alsoconsistent with the basic results.

(3) Heterogeneous effects of default risk

The above empirical results consist with the prediction of Hypothesis H1, that is, after the establishment of the local bankruptcy tribunal, the cost of bond financing for enterprises decreased significantly. Next, we explored the heterogeneity of the impacts of the local bankruptcy tribunal establishment on bond financing costs under different default risks from the perspectives of the characteristics of issuers and bonds, and the financial and economic status of issuers' cities.

a. Issuer and bond characteristics: In Panel A of Table 6, we classified corporate bonds into private enterprise bonds, state-owned enterprise bonds and chengtou bonds according to the nature of bond issuers. Overall, after the establishment of the local bankruptcy tribunal, the interest rate spreads of private enterprise bonds, state-owned enterprise bonds and chengtou bonds all dropped significantly, and the effect on the private enterprise bonds and state-owned enterprise bonds was significantly stronger than that on the chengtou bonds. Based on theresults in column (3), the establishment of the local bankruptcy tribunals caused higher drops in the interest spread of state-owned enterprise bonds and private enterprise bonds by 0.196% and 0.166% respectively than that of chengtou bonds, and the above differences were statistically significant at the 1% and 5% levels respectively. In Figure 4, we found that the spreads of private enterprise bonds, state-owned enterprise bonds and chengtou bonds did not change significantly before the establishment of the bankruptcy tribunal; however, in a year after establishment of the bankruptcy tribunal, the spreads of all three types of bonds declined, and the spreads of private enterprise bonds and state-owned enterprise bonds have declined more significantly than the chengtou bonds. Compared with chengtou bonds, private enterprise bonds and state-owned enterprise bonds have lower implicit guarantees and higher default risks. Therefore, the reducing effect of local bankruptcy tribunals is more pronounced for private enterprise bonds and state-owned enterprise bonds.

In Panel B of Table 6, we classify corporate bonds into high-rated bonds and low-rated bonds based on whether the bonds were initially rated AAA or not. It can be seen that the effect of the establishment of the bankruptcy tribunal on reducing the financing cost of corporate bonds mainly existed in low-rated bonds, and this effect was not significant in high-rated bonds. In addition, in Figure 4, we found that the spreads of high-rated bonds declined in three quarters after establishment of the bankruptcy tribunal, while the spreads of low-rated bonds did not change significantly before and after the establishment of the bankruptcy tribunal. In Panel C of Table 6, we classified corporate bonds into guaranteed and non-guaranteed bonds based on whether the bonds were guaranteed or not. We found that spreads of both guaranteed and non-guaranteed bonds declined significantly after the local bankruptcy tribunal was established, and the spreads of non-guaranteed bonds declined more significantly than that of guaranteed bonds. The default risks of lower-rated bonds and non-guaranteed bonds were relatively high, and thus the hypothesis H2 is confirmed that the effect of the establishment of regional bankruptcy tribunals on reducing bond spreads is more pronounced in the case of higher default risk.

b. Regional fiscal and economic conditions: In Table 7, we classified cities with low GDP, high fiscal deficit ratio, and historical bond defaults as cities with high default risk, and the remaining cities as cities with low default risk. We next explored the heterogeneity of the impacts of bankruptcy tribunal establishment on corporate bond spreads with different default risks. Based on the results in columns (1) and (2) of Panel A in Table 7, we found that after the establishment of the regional bankruptcy tribunal, the bond spreads in cities with lower GDP declined a little more than those in cities with higher GDP, but this difference was only significant at 10% level. In column (3) of Panel A of Table 7, we further considered about the difference in issuer’s ownership. It can be seen that regardless of high or low regional GDP, the effect of reducing bond spreads caused by the establishment of regional bankruptcy tribunals was more pronounced in private enterprises. This result is also consistent with that in Panel A of Table 6, which also implies that the establishment of regional bankruptcy tribunals is of great importance in addressing the financial constraints of private enterprises.

Panel B of Table 7 reports the heterogeneity of the effect of bankruptcy tribunals on corporate bond spreads in regions with different fiscal deficits. It can be seen that the effect of bankruptcy tribunals on reducing corporate bond spreads is more pronounced in cities with higher fiscal deficits than in cities with lower fiscal deficit rates, although the difference between the two was not statistically significant. We also considered about the difference in issuer’s ownership, and it can be seen that after the establishment of local bankruptcy tribunals, the spreads of bonds issued by private enterprises in areas with higher fiscal deficits fell most significantly. In Panel C of Table 7, we found that the effect of bankruptcy tribunal establishment on reducing corporate bond spreads is more pronounced in areas with historical bond defaults events. Overall, the regression results in Table 7 are consistent with the prediction of the hypothesis H2 , that is, in the case of a higher default risk, the establishment of a bankruptcy tribunal plays a more prominent role in strengthening creditor protection and reducing debt financing costs.

V. Channel of the impact

The above empirical test results demonstrate that the establishment of the bankruptcy tribunal has brought about a significant decrease in the financing cost of corporate bonds, and this effect is more significant when the default risk is high. Next, this paper reviewed the overall handling of bankruptcy cases with bond defaults from 2014 to 2021 and the bankruptcy handling of Peking University Founder Group, and analyzed how the bankruptcy tribunal can improve the efficiency of bankruptcy and reorganization, and ultimately reduce the cost of bond financing.

1. Handling bankruptcy cases with bond default

We accurately matched bond default data from 2014 to 2021 with information on corporate bankruptcy and reorganization cases across the country, and used the matched samples to analyze how the specialization of bankruptcy handling has delivered more efficient bankruptcy solutions. The case information of enterprise bankruptcy and reorganization comes from the "National Enterprise Bankruptcy Information Disclosure Platform", which is an online platform launched by the Supreme People's Court in 2016 to facilitate creditors and debtors to monitor bankruptcy case information in a timely manner, such as creditor meetings, reorganization plans, and asset disposals. For each case, the online platform reports the name of the company that filed for bankruptcy, the name of the court that tried the case, the current status of the case, and the province, sector, size, and ownership category of the bankrupt enterprises.

Firstly, we classified bankruptcy cases into two types, namely, liquidation and reorganization. As shown in Figure A5, bankruptcy tribunals deal with fewer cases going into liquidation than civil courts do. Existing bankruptcy studies (Bris et al., 2006) show that going straight into liquidation generally leads to lower creditor satisfaction rates and relatively lower asset disposal efficiency. Figure A6 shows that the bankruptcy tribunal will bring more cases into bankruptcy reorganization proceedings, thereby increasing the creditor's settlement rate.

Secondly, we also discussed the effect of specialized bankruptcy tribunals on the efficiency of bankruptcy resolution by rescuing distressed enterprises in bankruptcy cases. It can be seen from Figure A7 that the bankruptcy tribunal is more likely to introduce strategic investors and increase the probability of a successful final reorganization. Funds from strategic investors can partially alleviate the debt repayment problems of distressed enterprises. In bankruptcy tribunal cases, more than 60% of debt default enterprises successfully introduced strategic investors within a year. In typical civil courts, only 34% of defaulting enterprises resolved their debt issues through new investors. Therefore, the ability to introduce new strategic investors is a key factor for the success of the reorganization, which relies on the bankruptcy judges' specialized knowledge and industry experience in saving distressed enterprises.

In addition, due to the complexity of bankruptcy subjects in China, usually the parent company and several subsidiaries default at the same time. As can be seen in Figure A8, a specialized bankruptcy tribunal will increase the chances of putting together the parent company and the subsidiary in time of bankruptcy, thereby increasing the repayment rate of more creditors and realizing the fairness of bankruptcy. It can be seen that with the increase in the number of corporate debt defaults and bankruptcy cases in recent years, the specialization of bankruptcy tribunals plays an important economic and social role in efficiently resolving China's debt crisis and preventing systemic risks.

2. Bankruptcy case analysis of Peking University Founder Group

Through the bankruptcy and reorganization case of Peking University Founder Group, we analyzed the impact of the bankruptcy case handling pathways on the bankruptcy resolution efficiency. The Founder Group went into distress after aggressive entry into technology, finance, commodities, healthcare and real estate. At the end of 2019, the company's onshore and offshore debt totaled about 250 billion yuan ($38.5 billion), which made it China's largest US Dollar debt defaulter in nearly 20 years. In July 2021, the Beijing No. 1 Intermediate People's Court approved Founder Group's complete reorganization plan, which would involve a consortium of strategic investors, including Ping An, taking over Founder Group's profitable division in the name of a new entity. Secured creditors would be paid in full, while the unprofitable sectors would be placed in a new trust company that would likely be liquidated.

The bankruptcy reorganization process led by the bankruptcy tribunal and the bankruptcy administrator accelerated handling of the Founder Group's reorganization and maximized the recovery of the group's best assets. It took 581 days from the first default of Founder Group to the court’s approval of the reorganization plan, far less than the average of 679 days; the cash recovery rate of Founder Group’s unsecured creditors reached at least 31.4%, while the average was only 23.7%. The efficiency of bankruptcy tribunal enforcement has also had a positive impact on the bond market: Founder bonds traded at around 40% of their face value in Hong Kong, and their recovery rate was nearly 30% higher than that of unsecured creditors in mainland China. This also shows that bankruptcy enforcement efficiency can improve recovery rates.

Figure A9 presents the specific court process of the bankruptcy and reorganization of Founder Group:

(1) On February 19, 2020, the Beijing No. 1 Intermediate People's Court ruled to accept the reorganization case of Peking University Founder Group Co., Ltd. and designated the liquidation team of Peking University Founder Group Co., Ltd. as the administrator of Peking University Founder Group Co., Ltd. on that day. The liquidation group is composed of the People's Bank of China, the Ministry of Education, the Beijing Regulatory Bureau of the China Banking and Insurance Regulatory Commission and the relevant departments of the Beijing Municipal Government.
(2) In order to facilitate the reorganization of Founder Group, the administrator of Peking University Founder Group Co., Ltd. publicly announced the decision to introduce strategic investors on April 20, 2020, and the deadline for registration was May 6, 2020. The introduction of strategic investors aimed to complete the reorganization of Founder Group, effectively integrate industrial resources, optimize the structure of assets and liabilities, corporate governance structure and personnel structure, and safeguard the legitimate interests of all creditors.

(3) According to the regulations of the Beijing No. 1 Intermediate Court, on April 21, 2020, the creditors of Peking University Founder Group Co., Ltd. should declare their claims to the administrator of Peking University Founder Group Co., Ltd. prior to the deadline.

(4) According to the *Enterprise Bankruptcy Law of the People's Republic of China* and other regulations, Beijing No. 1 Intermediate Court held the first creditors' meeting at 9:30 am on April 30, 2020 through the National Enterprise Bankruptcy Information Disclosure Platform. Creditors who declared their claims in accordance with the law had the right to participate in the creditors' meeting.

(5) On July 31, 2020, the Beijing No. 1 Intermediate Court ruled that Peking University Founder Group Co., Ltd., Founder Industrial Holdings Co., Ltd., Peking University Medical Industry Group Co., Ltd., and Peking University Founder Information Industry should carry out substantive merger and reorganization, based on the application of the administrator of Peking University Founder Group Co., Ltd. On the same day, the manager of Peking University Founder Group Co., Ltd. was appointed as the manager of the substantive merger and reorganization.

(6) September 4, 2020 was the original deadline for the declaration of creditor claims of Founder Industry Holdings Co., Ltd., Peking University Medical Industry Group Co., Ltd., Peking University Founder Information Industry Group Co., Ltd., and Peking University Resources Group Co., Ltd. However, due to the impact of the Covid-19 pandemic, some creditors had not yet fully resumed work, and the work related to the declaration of claims was affected. Therefore, in order to effectively protect the legitimate rights and interests of creditors, the deadline for declaration of claims was extended to October 4, 2020.

(7) According to the *Enterprise Bankruptcy Law of the People's Republic of China* and other regulations, Beijing No. 1 Intermediate Court held the first meeting on the substantive merger and organization of creditors of Peking University Founder Group Co., Ltd., Founder Industrial Holdings Co., Ltd., Peking University Medical Industry Group Co., Ltd., Peking University Founder Information Industry Group Co., Ltd., and Peking University Resources Group Co., Ltd. through the National Enterprise Bankruptcy Information Disclosure Platform at 9:30 a.m. on October 22, 2020. Creditors who declared their claims in accordance with the law had the right to participate in the creditors' meeting.

(8) When the deadline for introducing strategic investors expired, a total of 29 prospective investors had signed up. After several rounds of competitive selection, the consortium composed of Zhuhai Huafa Group Co., Ltd. (on behalf of Zhuhai State-owned Assets), China Ping An Insurance (Group) Co., Ltd., and Shenzhen SDG Group Co., Ltd. was finally determined on January 29, 2021. as Founder Group’s investor for restructuring purpose.

(9) On April 30, 2021, the administrator signed the *Restructuring Investment Agreement* with the

consortium and its designated entities, and it took effect on that day. Based on the *Restructuring Investment Agreement* and related documents, the administrator formulated a draft reorganization plan and submitted it to the Beijing No. 1 Intermediate Court.

(10) According to the *Enterprise Bankruptcy Law of the People's Republic of China* and other regulations, Beijing No. 1 Intermediate Court held the second creditors meeting and investors meeting on the substantive merger and reorganization of Founder Industry Holdings Co., Ltd., Peking University Medical Industry Group Co., Ltd., Peking University Founder Information Industry Group Co., Ltd., and Peking University Resources Group Co., Ltd. at 9:30 a.m. on May 28, 2021 through the National Enterprise Bankruptcy Information Disclosure Platform. Creditors or contributors who declared their claims in accordance with the law had the right to participate in this meeting. At the meeting, the *Reorganization Plan (Draft) of Five Companies including Peking University Founder Group Co., Ltd.* was voted and approved, and the administrator submitted an application to the Beijing No. 1 Intermediate Court to for approval of the reorganization plan.

(11) On July 5, 2021, Beijing No. 1 Intermediate Court approved the reorganization plan of Peking University Founder Group Co., Ltd., Founder Industrial Holdings Co., Ltd., Peking University Medical Industry Group Co., Ltd., Peking University Founder Information Industry Group Co., Ltd., and Peking University Resources Group Co., Ltd. , and terminated its substantive merger and reorganization procedure.

(12) According to the reorganization plan of the five companies including Founder Group, within one month from the date when the China Banking and Insurance Regulatory Commission officially approved the major equity investment of China Ping An Life Insurance Co., Ltd. and the Anti-Monopoly Bureau of the State Administration of Market Regulation approved the concentration of operators , Zhuhai Huafa Group Co., Ltd. (on behalf of Zhuhai State-owned Assets) and Ping An Life paid a one-off investment of RMB 20.000 billion to the account designated by the administrator in a ratio of 3:7. On August 11, 2021, the Anti-Monopoly Bureau of the State Administration for Market Regulation approved Ping An Life to implement concentration of business operators. On January 30, 2022, the China Banking and Insurance Regulatory Commission approved the application of Ping An Life's major equity investment in New Founder Group.

The key to the success of the Founder Group's reorganization case was to centralize the entire bankruptcy and reorganization process under one administrator. It can be said that the handling of bankruptcy cases has a direct impact on the success of bankruptcy reorganization. Inefficient reorganization procedures have plagued Chinese enterprises for a long time and make investors and creditors who invest in non-performing enterprises struggle in dilemma. How to further improve the efficiency of bankruptcy procedures is an important issue in the ongoing market-oriented reform of bankruptcy. In recent years, a series of default events have occurred in China's bond market. Whether investors can be restructured and repaid in a market-oriented manner will directly affect future bond issuance and pricing. Therefore, a more transparent, open and fair bankruptcy reorganization process can help to increase investor confidence in the bond market.

VI. Conclusions and Policy Implications

This paper conducts a quasi-natural experiment on the establishment of the local bankruptcy tribunal, and explores the impact of rule of law on the financing cost of bond market through DID method. The research in this paper shows that the establishment of regional bankruptcy tribunals can significantly reduce the issuer's bond financing costs, and this effect is more pronounced when the default risk is higher. Further analysis on the handling of bankruptcy cases with bond defaults and the bankruptcy case of Peking University Founder Group shows that efficiency improvements in the bankruptcy handling process is the key pathway for the bankruptcy tribunal to reduce the cost of corporate bond financing.

The research of this paper conveys the following two policy implications. The first point is how to promote the high-quality development of the bond market. The report of the 19th National Congress of the Communist Party of China proposed to "increase the proportion of direct financing and promote the healthy development of the multi-level capital market". By the end of 2021, China's bond market reached 130.4 trillion yuan, representing a year-on-year increase of 14.1%. The bond market has become an increasingly important source for direct financing of Chinese enterprises. Back in March 2014, the "11 Chaori Bond" defaulted, representing that the rigid payment of China's bond market had been broken and hence becoming an important step along the path of development of China's bond market. However, since 2020, the unexpected default of bonds represented by "Yongmei" and "China Fortune Land Development" has caused serious market panic. Specifically, "Yongmei" is a provincial-level state-owned enterprise with an AAA rating, and its asset transfer for free operation before default has triggered discussions in the market about "debt escape and cancellation". Avoiding "debt escape and cancellation" in the case of breaking the rigid payment is an important part of the high-quality development of the bond market. The research of this paper shows that specialized and efficient debt default handling and legal strengthening of creditor protection can effectively ease the financing difficulties of enterprises and promote the high-quality development of the bond market.

The second point pertains to bond issuers. The research in this paper shows that even in cities where defaults have occurred, the establishment of specialized tribunals can still significantly reduce bond spreads, which fully demonstrates that protecting the interests of creditors is beneficial to debt financing entities. Therefore, the practice of "debt escape and cancellation" represented by "Yongmei" is absolutely inadvisable. Only by fully protecting the interests of creditors, efficiently handling debt disputes, and fully respecting market rules, can borrowers be recognized by investors in the debt market.

Table 1：Summary Statistics

Bond characteristics						
	count	mean	sd	p10	p50	p90
yield spread$_{b,t}$	123955	1.916	1.600	0.573	1.468	3.821
log(issuance amount$_b$)	123955	6.864	0.609	6.174	6.908	7.601
years to maturity$_{b,t}$	123955	3.462	1.969	1.000	3.250	6.250
bond guaranteed	123955	0.160	0.367	0.000	0.000	1.000
medium term note	123955	0.452	0.498	0.000	0.000	1.000
interbank	123955	0.752	0.432	0.000	1.000	1.000
bond rating notch	123955	2.133	1.061	1.000	2.000	3.000

Issuer characteristics						
	count	mean	sd	p10	p50	p90
size$_{f,t-1}$	123454	10.544	1.134	9.183	10.397	12.208
leverage$_{f,t-1}$	123454	0.569	0.141	0.369	0.586	0.735
ROA$_{f,t-1}$	123454	3.060	2.683	0.685	2.292	6.478
soe muni.	123454	0.594	0.491	0.000	1.000	1.000
soe corp.	123454	0.273	0.446	0.000	0.000	1.000

City characteristics						
	count	mean	sd	p10	p50	p90
SpecialCourt$_{c,t}$	119110	0.416	0.493	0.000	0.000	1.000
log(GDP$_{c,t-1}$)	119110	17.596	0.898	16.358	17.613	18.793
govt. deficit/GDP$_{c,t-1}$	119110	0.056	0.053	0.005	0.041	0.129

Table 2: Regional Court and Bond Yield Spread at Issuance, Baseline Regression

Notes: This table reports the result of the following model specification:

$$y_{bfct} = \beta \text{SpecialCourt}_{ct} + \gamma X_{bfct} + \alpha_t + \alpha_f + \varepsilon_{bfct}$$

where dependent variable y_{bfct} is the yield spread of newly-issued bond b of issuer f in t. If the city c, where the bond issuer f is located, establishes the bankruptcy court at time t_0, then for any $t \geq t_0$, the key independent variable SpecialCourt_{ct} equals 1; for any $t < t_0$, SpecialCourt_{ct} equals 0. α_t stands for the time fixed effects, α_f stands for the bond issuer fixed effects. X_{bfct} includes bond-level, issuer-level and city-level control variables. Column (2)-(5) contain province-time fixed effects, sector-time fixed effects, and issuer nature-time fixed effects (private-owned enterprises, regular state-owned enterprises, municipal corporations), market place-time fixed effects (interbank or exchange market), security type-time fixed effects (medium-term notes, enterprise bonds, corporate bonds or short-term commercial paper), and rating bin-time fixed effects (AAA, AA+, or others) as the subcategory-time fixed effects. Standard errors are clustered at city level.

	Yield $\text{Spread}_{b,t}$ at Issuance				
	(1)	(2)	(3)	(4)	(5)
$\text{SpecialCourt}_{c,t}$	-0.241***	-0.156***	-0.147***	-0.123**	-0.119**
	(0.063)	(0.050)	(0.049)	(0.048)	(0.047)
$\log(\text{GDP}_{c,t-1})$			-0.157	-0.110	-0.117
			(0.177)	(0.162)	(0.154)
govt. deficit/$\text{GDP}_{c,t-1}$			2.875**	3.340**	3.301**
			(1.369)	(1.340)	(1.312)
$\text{size}_{f,t-1}$				-0.097**	-0.078**
				(0.038)	(0.037)
$\text{leverage}_{f,t-1}$				0.942***	0.923***
				(0.150)	(0.149)
$\text{ROA}_{f,t-1}$				-3.528***	-3.650***
				(0.771)	(0.760)
log(issuance amount_b)					-0.065***
					(0.012)
years to $\text{maturity}_{b,t}$					-0.081***
					(0.007)
bond issuer FEs	Yes	Yes	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes	Yes	Yes
subcategory×time FEs	No	Yes	Yes	Yes	Yes
R^2	0.788	0.837	0.837	0.838	0.842
N	28132	28132	27311	26536	26536
Mean of dependent variable	1.551	1.551	1.538	1.512	1.512

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 3: Regional Court and Bond Yield Spread in Secondary Market, Baseline Regression

Notes: This table reports the results of the following model specification:

$$y_{bfct} = \beta \text{SpecialCourt}_{ct} + \gamma X_{bfct} + \alpha_t + \alpha_f + \varepsilon_{bfct}$$

where dependent variable y_{bfct} is the average yield spread of bond b in quarter t. If the city c, where the bond issuer f is located, establishes the bankruptcy court at time t_0, then for any $t \geq t_0$, the key independent variable SpecialCourt_{ct} equals 1; for any $t < t_0$, SpecialCourt_{ct} equals 0. α_t stands for the time fixed effects, α_f stands for the bond issuer fixed effects. X_{bfct} represents a series of bond-level, issuer-level and city-level control variables. Column (2)-(5) include province-time fixed effects, sector-time fixed effects, issuer nature-time fixed effects (private-owned enterprises, regular state-owned enterprises, municipal corporations), market place-time fixed effects (interbank or exchange market), security type-time fixed effects (medium-term notes, enterprise bonds, corporate bonds), and bond rating bin-time fixed effects (AAA, AA+, or others) as the subcategory-time fixed effects. Standard errors are clustered at city level.

	Yield Spread$_{b,t}$				
	(1)	(2)	(3)	(4)	(5)
SpecialCourt$_{c,t}$	-0.147***	-0.200***	-0.176***	-0.178***	-0.181***
	(0.053)	(0.049)	(0.048)	(0.048)	(0.048)
log(GDP$_{c,t-1}$)			-0.208	-0.130	-0.129
			(0.329)	(0.312)	(0.311)
govt. deficit/GDP$_{c,t-1}$			4.454***	4.431***	4.388***
			(1.319)	(1.286)	(1.286)
size$_{f,t-1}$				-0.146*	-0.147*
				(0.083)	(0.084)
leverage$_{f,t-1}$				0.518**	0.509**
				(0.206)	(0.204)
ROA$_{f,t-1}$				-0.078***	-0.077***
				(0.012)	(0.012)
log(issuance amount$_b$)					0.010
					(0.037)
years to maturity$_{b,t}$					-0.033***
					(0.010)
bond issuer FEs	Yes	Yes	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes	Yes	Yes
subcategory×time FEs	No	Yes	Yes	Yes	Yes
R^2	0.525	0.562	0.564	0.566	0.567
N	123838	123838	118991	118514	118514
Mean of dependent variable	1.915	1.915	1.906	1.902	1.902

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4: Regional Court and Bond Yield Spread in Secondary Market, Robustness Test

Notes: This table reports the results of a range of robustness tests. Column (1) uses median rather than mean to calculate the dependent variable. Column (2) uses bond issuance amount as the weight and estimates the model via WLS method. Column (3) excludes the new bond issuance after the court establishment. Column (4) excludes the observations whose remaining maturity is equal to or less than 1 quarter. Column (5) excludes all bonds that are issued by central-government-owned enterprise (csoe). Column (6) excludes all the bonds that are issued by bond defaulters. Column (7) keeps the observation from the provinces that are along the Yangtze River. Column (8) keeps the observation from the three provinces that belongs to Yangtze River Delta, including Anhui, Jiangsu and Zhejiang. Column (9) excludes the observation from all capital cities. This model includes the full set of control variables and fixed effects. Standard errors are clustered at city level.

	Median spread	WLS estimate	Excl. new issuance	Excl. obs. with mat. l.t. 1q	Excl. csoe	Excl. defaulters	Yangtze River Belt	Yangtze River Delta	Excl. capital cities
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
$\text{SpecialCourt}_{c,t}$	-0.175***	-0.145***	-0.196***	-0.182***	-0.189***	-0.189***	-0.199***	-0.167**	-0.177***
	(0.047)	(0.050)	(0.048)	(0.048)	(0.050)	(0.049)	(0.068)	(0.079)	(0.067)
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	0.568	0.544	0.592	0.571	0.567	0.545	0.543	0.545	0.587
N	118514	118514	90691	116176	112519	115429	63689	36613	74586
Mean of dependent variable	1.884	1.746	1.880	1.900	1.928	1.839	1.831	1.749	2.020

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 5: Placebo Test

Notes: This table reports the results of placebo tests. Colume (1)-(2) estimate the baseline model using the bonds issued by the subsample of listed companies. Colume (3)-(4) replace the original dependent variable with the equity return. The bond issuers are all listed before 2014. The equity return is defined as $R_{f,t} = \frac{P_t - P_{t-1}}{P_{t-1}} \times 400$, where P_t is the closing price by the end of quarter t

subsample of listed companies	Yield Spread$_{b,t}$		Equity Return$_{s,t}$	
	(1)	(2)	(3)	(4)
SpecialCourt$_{c,t}$	-0.390***	-0.288***	0.229	1.940
	(0.107)	(0.101)	(2.367)	(2.857)
log(GDP$_{c,t-1}$)		-0.436		-13.671
		(1.129)		(12.797)
govt. deficit/GDP$_{c,t-1}$		7.263*		-2.703
		(3.831)		(66.467)
size$_{f,t-1}$		-0.276		-9.003***
		(0.188)		(2.273)
leverage$_{f,t-1}$		1.719**		23.183***
		(0.699)		(7.704)
ROA$_{f,t-1}$		-0.101***		0.028
		(0.019)		(0.171)
log(issuance amount$_b$)		0.114		
		(0.082)		
years to maturity$_{b,t}$		-0.095***		
		(0.023)		
lag equity return $R_{s,t-1}$				-0.103***
				(0.010)
bond issuer FEs	Yes	Yes	Yes	Yes
province×time sector×time FEs	Yes	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes	Yes
R^2	0.669	0.686	0.489	0.495
N	13158	12710	14084	13672
Mean of dependent variable	2.184	2.176	7.861	8.638
S.D. of dependent variable	2.042	2.035	95.891	96.323

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6: Heterogenous Effect on Yield Spread by Issuer's and Security's Characteristic

Notes: This table shows the heterogenous effect on yield spread by issuer's and security's characteristic. Panel A defines dummy variables by whether the nature of bond issuer is private owned enterprise (poe), regular state-owned enterprise (soe corp.), or municipal company (soe muni.), and then interacts these dummies with the key variable SpecialCourt$s_{c,t}$. Similarly, Panel B explores the heterogeneity by whether the bond's initial rating is AAA or below, Panel C by whether the bond gets guaranteed or not.

Panel A	Yield Spread$_{b,t}$		
	(1)	(2)	(3)
β_1 SpecialCourt$_{c,t}$ × D_i(soe muni.)	-0.115***	-0.090***	
	(0.022)	(0.023)	
β_2 SpecialCourt$_{c,t}$ × D_i(soe corp.)	-0.272***	-0.276***	-0.196***
	(0.037)	(0.037)	(0.043)
β_3 SpecialCourt$_{c,t}$ × D_i(poe)	-0.437***	-0.392***	-0.166**
	(0.074)	(0.073)	(0.070)
bond issuer FEs	Yes	Yes	Yes
city-time FEs	No	No	Yes
province×time and sector×time FEs	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes
city controls	No	Yes	Yes
issuer, bond controls	No	Yes	Yes
R^2	0.563	0.567	0.607
N	123838	118514	117898
p-value: $\beta_1 - \beta_2$=0		0.000	
p-value: $\beta_2 - \beta_3$=0		0.145	

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

(continued)

Panel B	Yield Spread$_{b,t}$		
	(1)	(2)	(3)
β_1 SpecialCourt$_{c,t}$ × D_b(high rating)	-0.081** (0.037)	-0.049 (0.037)	
β_2 SpecialCourt$_{c,t}$ × D_b(low rating)	-0.229*** (0.023)	-0.213*** (0.024)	-0.216*** (0.044)
bond issuer FEs	Yes	Yes	Yes
city-time FEs	No	No	Yes
province×time and sector×time FEs	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes
city controls	No	Yes	Yes
issuer, bond controls	No	Yes	Yes
R^2	0.562	0.567	0.607
N	123838	118514	117898
p-value: $\beta_1 - \beta_2$=0		0.000	

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

(continued)

Panel C	Yield Spread$_{b,t}$		
	(1)	(2)	(3)
β_1 SpecialCourt$_{c,t}$ × D_b(guaranteed)	-0.157*** (0.032)	-0.125*** (0.032)	
β_2 SpecialCourt$_{c,t}$ × D_b(non-guaranteed)	-0.212*** (0.022)	-0.194*** (0.022)	-0.064** (0.032)
bond issuer FEs	Yes	Yes	Yes
city-time FEs	No	No	Yes
province×time and sector×time FEs	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes
city controls	No	Yes	Yes
issuer, bond controls	No	Yes	Yes
R^2	0.563	0.568	0.608
N	123838	118514	117898
p-value: $\beta_1 - \beta_2$=0		0.024	

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 7: Heterogenous Effect on Yield Spread by City's Characteristic

Notes: This table shows the heterogenous effect on yield spread by city's characteristic. Panel A defines the dummy variable of high (low) GDP by whether a city's GDP in the intial year is above (below) the sample median, and the dummies are interacted with the key variable SpecialCourt$_{c,t}$. Similarly, Panel B defines the dummy variable of high (low) deficit by whether a city's deficit (govt. expense minus govt. income, and then divided by lag city GDP) in the intial year is above (below) the sample median. Panel C creates a new variable named defaulted$_{c,t}$: it takes 1 if any bond default event has occured in city c by quarter t, and is 0 otherwie. And by whether the court establishment in city precedes its initial default event, if there is any, we can construct three dummy variables, all of them interacted with the key variable SpecialCourt$_{c,t}$.

Panel A	Yield Spread$_{b,t}$		
	(1)	(2)	(3)
β_{high} SpecialCourt$_{c,t}$ × D_c(high GDP)	-0.061*	-0.072**	
	(0.031)	(0.032)	
β_{low} SpecialCourt$_{c,t}$ × D_c(low GDP)	-0.120***	-0.144***	
	(0.026)	(0.026)	
$\beta_{high,soe}$ SpecialCourt$_{c,t}$ × D_{ci}(high GDP, soe)			-0.031
			(0.031)
$\beta_{high,poe}$ SpecialCourt$_{c,t}$ × D_{ci}(high GDP, poe)			-0.289***
			(0.093)
$\beta_{low,soe}$ SpecialCourt$_{c,t}$ × D_{ci}(low GDP, soe)			-0.120***
			(0.026)
$\beta_{low,poe}$ SpecialCourt$_{c,t}$ × D_{ci}(low GDP, poe)			-0.310***
			(0.078)
bond issuer FEs	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes
city controls	Yes	Yes	Yes
issuer, bond controls	No	Yes	Yes
R^2	0.563	0.566	0.566
N	117952	117488	117488
p-value: $\beta_{high} - \beta_{low}$=0		0.072	
p-value: $\beta_{high,soe} - \beta_{low,soe}$=0			0.026
p-value: $\beta_{high,soe} - \beta_{high,poe}$=0			0.006
p-value: $\beta_{low,soe} - \beta_{low,poe}$=0			0.018
p-value: $\beta_{high,poe} - \beta_{low,poe}$=0			0.841

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

(continued)

Panel B	Yield Spread$_{b,t}$		
	(1)	(2)	(3)
β_{high} SpecialCourt$_{c,t}$ × D_c(high deficit)	-0.162*** (0.031)	-0.190*** (0.031)	
β_{low} SpecialCourt$_{c,t}$ × D_c(low deficit)	-0.186*** (0.029)	-0.191*** (0.029)	
$\beta_{high,soe}$ SpecialCourt$_{c,t}$ × D_{ci}(high deficit, soe)			-0.124*** (0.032)
$\beta_{high,poe}$ SpecialCourt$_{c,t}$ × D_{ci}(high deficit, poe)			-0.672*** (0.110)
$\beta_{low,soe}$ SpecialCourt$_{c,t}$ × D_{ci}(low deficit, soe)			-0.175*** (0.029)
$\beta_{low,poe}$ SpecialCourt$_{c,t}$ × D_{ci}(low deficit, poe)			-0.268*** (0.082)
bond issuer FEs	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes
city controls	Yes	Yes	Yes
issuer, bond controls	No	Yes	Yes
R^2	0.561	0.564	0.564
N	117952	117488	117488
p-value: $\beta_{high} - \beta_{low}$=0		0.988	
p-value: $\beta_{high,soe} - \beta_{low,soe}$=0			0.234
p-value: $\beta_{high,soe} - \beta_{high,poe}$=0			0.000
p-value: $\beta_{low,soe} - \beta_{low,poe}$=0			0.259
p-value: $\beta_{high,poe} - \beta_{low,poe}$=0			0.001

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

(continued)

Panel C	Yield $\text{Spread}_{b,t}$	
	(1)	(2)
$\text{defaulted}_{c,t}$	-0.008	-0.008
	(0.025)	(0.025)
β_1 $\text{SpecialCourt}_{c,t} \times D_c$(no default court est.)	-0.091***	-0.079***
	(0.029)	(0.029)
β_2 $\text{SpecialCourt}_{c,t} \times D_c$(pre-default court est.)	-0.230***	-0.216***
	(0.030)	(0.031)
β_3 $\text{SpecialCourt}_{c,t} \times D_c$(post-default court est.)	-0.235***	-0.204***
	(0.034)	(0.033)
bond issuer FEs	Yes	Yes
province×time and sector×time FEs	Yes	Yes
subcategory×time FEs	Yes	Yes
city controls	No	Yes
issuer, bond controls	No	Yes
R^2	0.562	0.567
N	123838	118514
p-value: $\beta_1 - \beta_2$=0		0.001
p-value: $\beta_2 - \beta_3$=0		0.768

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 1：The Number of Bankruptcy Cases in China

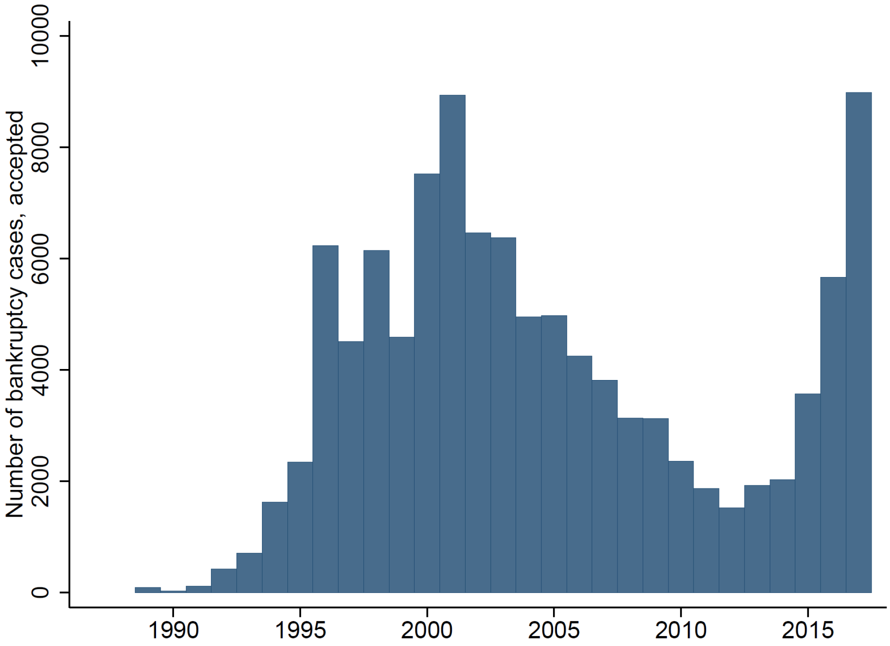


Figure 2: Regional Court and Bond Yield Spread in Secondary Market, Parallel Trend

Notes: This figure exhibits the results of parallel trend test using the following model specification:

$$y_{bfct} = \sum_{n} \beta_n D_n \text{SpecialCourt}_{ct} + \gamma X_{bfct} + \alpha_f + \varepsilon_{bfct}$$

where the dummy variable $D_n\text{SpecialCourt}_{ct}$ takes 1 if it has been n quarters since the city c established the court at time t_0 (if n is negative, it means it will establish the court in $-n$ quarters). Red vertical line indicates the quarter t_0 when a city establishes the court, and is considered as the benchmark. The inner and outer confidence interval are at significance level of 95% and 90% respectively. Standard errors are clustered at city level.

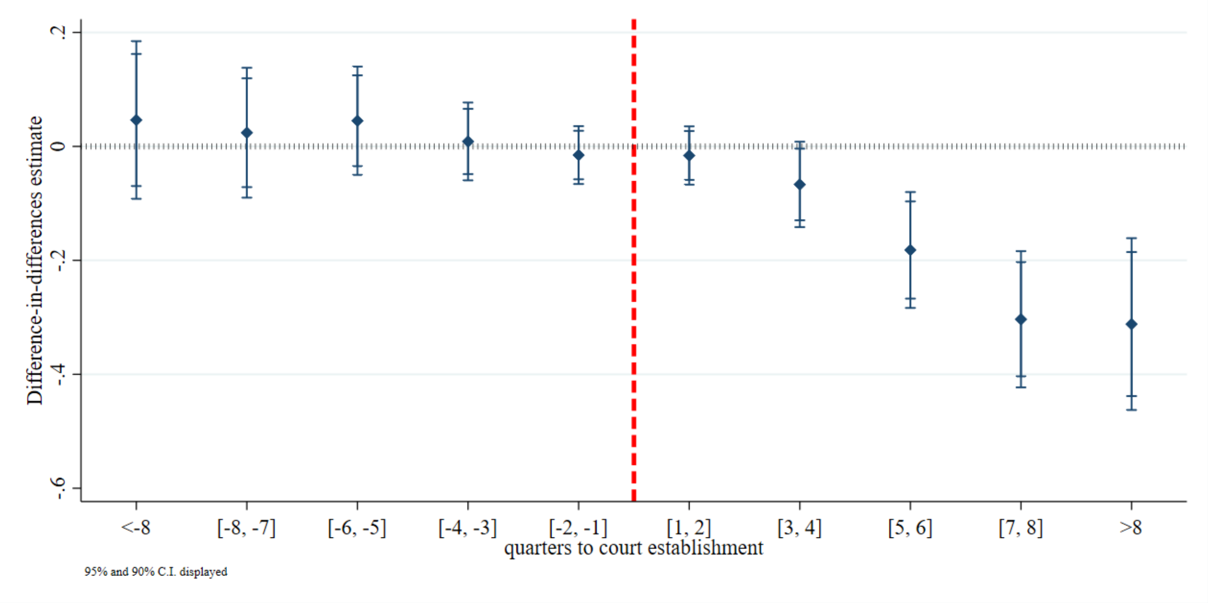


Figure 3: Parallel Trend of Placebo Test

Notes: These figures exhibit the parallel trends of placebo test results. Red vertical line indicates the quarter t_0 when a city establishes the court, and is considered as the benchmark. The inner and outer confidence interval are at significance level of 95% and 90% respectively. Standard errors are clustered at city level.

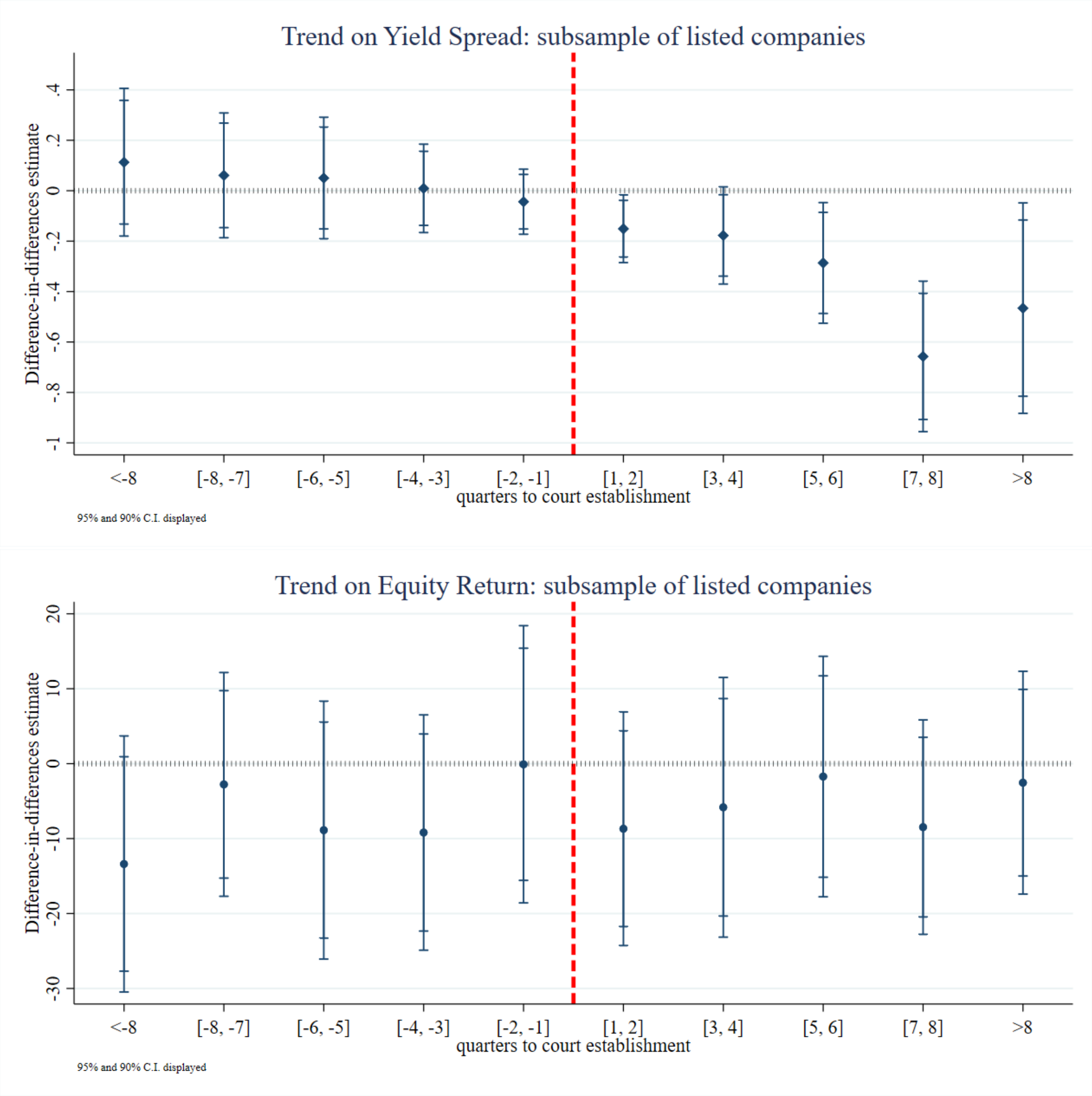


Figure 4: Parallel Trend of Heterogeneity Test by Issuer Nature and Bond Rating

Notes: These figures first split the sample by either issuer nature or bond initial rating, and then estimate the baseline model for each subsample. The first figure exhibits the results after spliting the sample by issuer nature (poe, soe corp, or soe muni.). The second figure exhibits the results after the sample is splited by whether bond initial rating is AAA or below. Red vertical line indicates the quarter t_0 when a city establishes the court, and is considered as the benchmark. The inner and outer confidence interval are at significance level of 95% and 90% respectively.

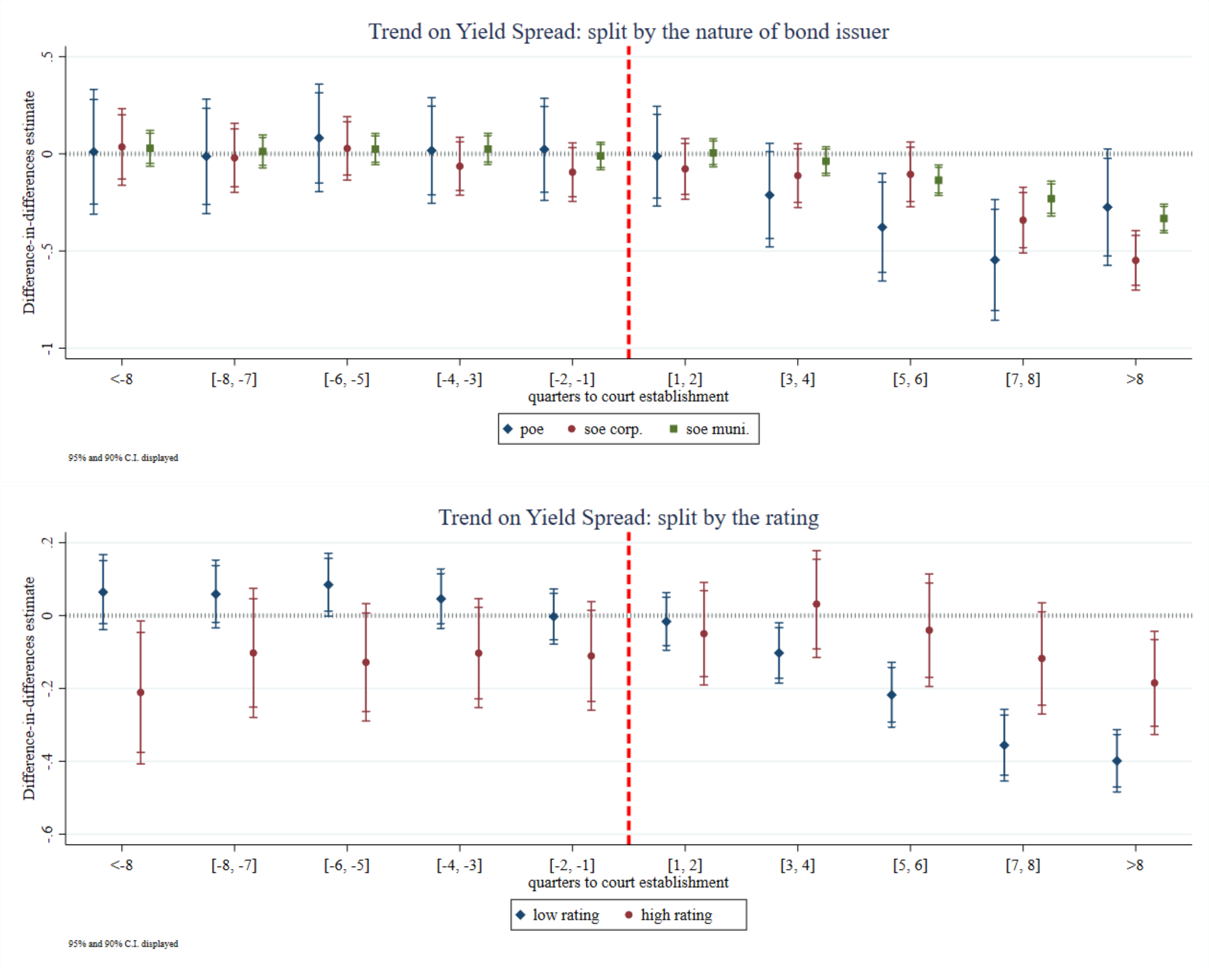


Table A1：Summary Statistics of Bond Issuance Panel

Bond characteristics						
	count	mean	sd	p10	p50	p90
yield spread$_{b,t}$	29567	1.601	1.233	0.323	1.284	3.502
log(issuance amount$_b$)	29567	20.368	0.717	19.519	20.367	21.416
years to maturity$_{b,t}$	29567	2.802	2.292	0.499	3.003	5.016
commercial paper	29567	0.454	0.498	0.000	0.000	1.000
medium term note	29567	0.196	0.397	0.000	0.000	1.000
corporate bond	29567	0.272	0.445	0.000	0.000	1.000
interbank	29567	0.728	0.445	0.000	1.000	1.000
bond rating notch	29567	2.090	0.837	1.000	2.000	3.000

Issuer characteristics						
	count	mean	sd	p10	p50	p90
size$_{f,t-1}$	28752	24.441	1.227	22.924	24.389	26.156
leverage$_{f,t-1}$	28752	0.604	0.136	0.413	0.625	0.769
ROA$_{f,t-1}$	28752	0.015	0.019	0.000	0.009	0.036
soe muni.	28752	0.453	0.498	0.000	0.000	1.000
soe corp.	28752	0.393	0.488	0.000	0.000	1.000

City characteristics						
	count	mean	sd	p10	p50	p90
SpecialCourt$_{c,t}$	28810	0.481	0.500	0.000	0.000	1.000
log(GDP$_{c,t-1}$)	28810	17.787	0.857	16.584	17.820	18.857
govt. deficit/GDP$_{c,t-1}$	28810	0.047	0.046	0.003	0.037	0.108

Table A2: Regional Court and Bond Yield Spread at Issuance, Robustness Test

Notes: This table presents the robustness test for the results in the bond primary market. Colume (1)-(2) exclude the new-entrant bond issuers from the sample. Colume(3)-(4) exclude the issuance of short-term commerical papers. Colume (5)-(6) additionally include the eventually treated dummy-time fixed effects. Standard errors are clustered at city level.

	Yield Spread$_{b,t}$ at Issuance					
	Excl. new issuers		Excl. SCP		Staggered cities	
	(1)	(2)	(3)	(4)	(5)	(6)
SpecialCourt$_{c,t}$	-0.151*** (0.055)	-0.114** (0.050)	-0.197*** (0.064)	-0.157*** (0.055)	-0.167*** (0.046)	-0.126*** (0.045)
bond issuer FEs	Yes	Yes	Yes	Yes	Yes	Yes
province×time FEs	Yes	Yes	Yes	Yes	Yes	Yes
sector×time FEs	Yes	Yes	Yes	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes	Yes	Yes	Yes
city, issuer, bond controls	No	Yes	No	Yes	No	Yes
staggered cities× times FEs	No	No	No	No	Yes	Yes
R^2	0.836	0.841	0.851	0.858	0.838	0.842
N	23893	22481	14675	13430	28132	26536
Mean of dependent variable	1.558	1.517	1.910	1.861	1.551	1.512

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A3: Regional Court and Bond Yield Spread in Secondary Market, Parallel Trend

Notes: This table presents the results of parallel trend test using the following model specification:

$$y_{bfct} = \sum_{n} \beta_n D_n \text{SpecialCourt}_{ct} + \gamma X_{bfct} + \alpha_f + \varepsilon_{bfct}$$

where the dummy variable $D_n\text{SpecialCourt}_{ct}$ takes 1 if it has been n quarters since the city c established the court at time t_0 (if n is negative, it means it will establish the court in $-n$ quarters). This model includes the full set of control variables and fixed effects. Standard errors are clustered at city level.

	Yield Spread$_{b,t}$
	(1)
quarters to court establishment	
< -8	0.046
	(0.070)
$[-8, -7]$	0.024
	(0.058)
$[-6, -5]$	0.045
	(0.048)
$[-4, -3]$	0.009
	(0.035)
$[-2, -1]$	-0.015
	(0.026)
$[1, 2]$	-0.016
	(0.026)
$[3, 4]$	-0.067*
	(0.038)
$[5, 6]$	-0.182***
	(0.052)
$[7, 8]$	-0.303***
	(0.061)
> 8	-0.312***
	(0.077)
bond issuer FEs	Yes
province×time and sector×time FEs	Yes
subcategory×time FEs	Yes
city, issuer, bond controls	Yes
R^2	0.567
N	118514

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A4: Robustness for Standard-Error-Clustered Level

Notes: The table reports the results when standard errors are clustered at different levels. This model includes the full set of control variables and fixed effects at the baseline.

Standard error cluster level	
robust	-0.181*** (0.0151)
issuer	-0.181*** (0.0412)
issuer and time	-0.181*** (0.0542)
issuer-time	-0.181*** (0.0193)
city	-0.181*** (0.0482)
city and time	-0.181** (0.0591)
city-time	-0.181*** (0.0214)
province	-0.181*** (0.0448)
province and time	-0.181*** (0.0537)
province-time	-0.181*** (0.0262)

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table A5: Parallel Trend of Placebo Test

Notes: This table reports the parallel trend of the placebo tests. This model includes the full set of control variables and fixed effects as the baseline model. Standard errors are clustered at city level.

subsample of listed companies	Yield Spread$_{b,t}$	Equity Return$_{b,t}$
	(1)	(2)
quarters to court establishment		
< -8	0.113	-13.388
	(0.148)	(8.642)
$[-8, -7]$	0.061	-2.767
	(0.125)	(7.553)
$[-6, -5]$	0.050	-8.873
	(0.122)	(8.704)
$[-4, -3]$	0.009	-9.191
	(0.089)	(7.943)
$[-2, -1]$	-0.044	-0.085
	(0.065)	(9.356)
$[1, 2]$	-0.151**	-8.688
	(0.068)	(7.886)
$[3, 4]$	-0.177*	-5.826
	(0.098)	(8.764)
$[5, 6]$	-0.286**	-1.721
	(0.121)	(8.117)
$[7, 8]$	-0.657***	-8.473
	(0.151)	(7.239)
> 8	-0.466**	-2.541
	(0.211)	(7.520)
bond issuer FEs	Yes	Yes
province×time and sector×time FEs	Yes	Yes
subcategory×time FEs	Yes	Yes
issuer, bond and security controls	Yes	Yes
R^2	0.687	0.496
N	12710	13672

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A6: Robustness Check for the Inclusison of Bond Fixed Effects

Notes: The table presents the result when the bond fixed effects are added to the baseline model. The model also contains the full set of control variables and fixed effects as the baseline model. Standard errors are clustered at city level.

	Yield Spread$_{b,t}$	
	(1)	(2)
SpecialCourt$_{c,t}$	-0.125***	-0.101***
	(0.039)	(0.039)
log(GDP$_{c,t-1}$)		-0.127
		(0.266)
govt. deficit/GDP$_{c,t-1}$		3.517***
		(1.097)
size$_{f,t-1}$		-0.320***
		(0.070)
leverage$_{f,t-1}$		0.745***
		(0.184)
ROA$_{f,t-1}$		-0.057***
		(0.012)
years to maturity$_{b,t}$		-0.086**
		(0.040)
bond issuer FEs	Yes	Yes
province×time and sector×time FEs	Yes	Yes
subcategory×time FEs	Yes	Yes
bond-level FEs	Yes	Yes
R^2	0.776	0.784
N	122736	117421
Mean of dependent variable	1.915	1.901

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A7: Regression Analysis at Issuer-quarter Level

Notes: This table reports the regression results when the panel is collapsed at bond issuer-quarter level. Colume (1)-(2) use the simple average of yield spreads of all bonds traded in the secondary market in quarter t as dependent variable, Colume (3)-(4) use the weighted average to calculated the index, where the bond issuance amount is treated as the weight. The model in this table includes issuer-level and city-level control variables. The model also includes issuer rating bin-time fixed effects and issuer nature-time fixed effects. Standard errors are clustered at city level.

	Issuer-level Average Yield Spread$_{f,t}$			
	Simple Average		Weighted Average	
	(1)	(2)	(3)	(4)
SpecialCourt$_{c,t}$	-0.090**	-0.092**	-0.088**	-0.090**
	(0.043)	(0.041)	(0.043)	(0.042)
bond issuer FEs	Yes	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes	Yes
city controls	No	Yes	No	Yes
issuer controls	No	Yes	No	Yes
R^2	0.735	0.737	0.731	0.733
N	65073	60868	65073	60868

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A8: Regression Results when Using Bond Yield as Dependent Variable

Notes: This table reports the results when the model uses bond yield rather than yield spread as the dependent variable. The model also contains the full set of control variables and fixed effects as the baseline model. Standard errors are clustered at city level.

	Bond Yield to Maturity$_{b,t}$			
	Mean		Median	
	(1)	(2)	(3)	(4)
SpecialCourt$_{c,t}$	-0.209***	-0.182***	-0.202***	-0.176***
	(0.050)	(0.048)	(0.049)	(0.047)
log(GDP$_{c,t-1}$)		-0.132		-0.117
		(0.327)		(0.317)
govt. deficit/GDP$_{c,t-1}$		4.578***		4.516***
		(1.311)		(1.282)
size$_{f,t-1}$		-0.147*		-0.145*
		(0.088)		(0.086)
leverage$_{f,t-1}$		0.634***		0.625***
		(0.218)		(0.212)
ROA$_{f,t-1}$		-0.083***		-0.081***
		(0.012)		(0.012)
log(issuance amount$_b$)		0.012		0.006
		(0.037)		(0.037)
years to maturity$_{b,t}$		0.093***		0.098***
		(0.010)		(0.010)
bond issuer FEs	Yes	Yes	Yes	Yes
province×time and sector×time FEs	Yes	Yes	Yes	Yes
subcategory×time FEs	Yes	Yes	Yes	Yes
R^2	0.599	0.609	0.602	0.613
N	123838	118514	123838	118514

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Figure A1: Parallel Trend of the Baseline Result under the Inclusion of Bond Fixed Effects

Notes: This figure exhibits the parallel trend when the bond fixed effect is additionally included in the baseline model. Red vertical line indicates the quarter when a city establishes the court, and is considered as the benchmark. The inner and outer confidence interval are at significance level of 95% and 90% respectively. Standard errors are clustered at city level.

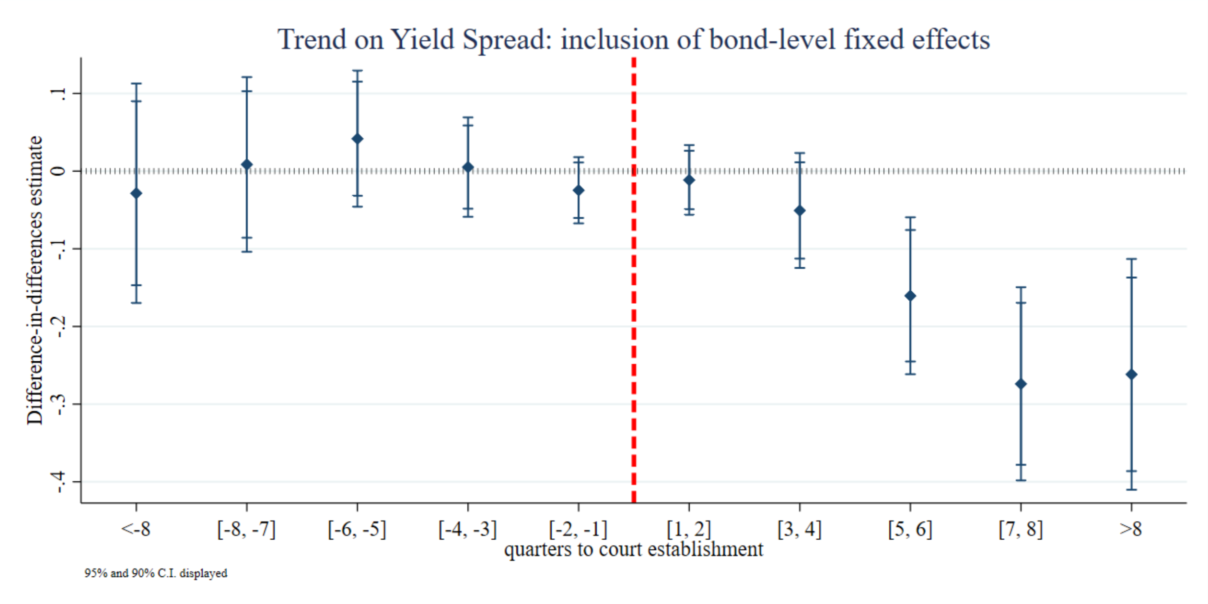


Figure A2: Parallel Trend of the Regression Estimated at Issuer-quarter Level

Notes: The figure exhibits the parallel trend of the regression that uses the panel data collapsed at the issuer-quarter level. Red vertical line indicates the quarter when a city establishes the court, and is considered as the benchmark. The inner and outer confidence interval are at significance level of 95% and 90% respectively. Standard errors are clustered at city level.

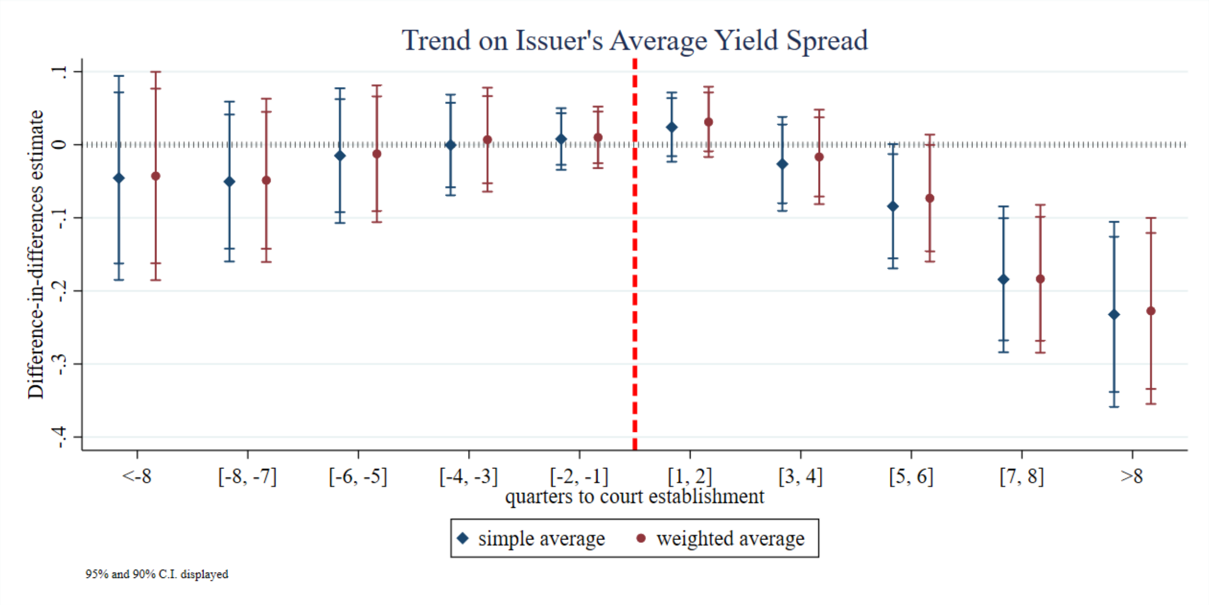


Figure A3: Parallel Trend of the Regression Estimated at Issuer-quarter Level: Split by Rating

Notes: This figure exhibits the parallel trend when the data is collapsed at issuer-quarter level and splited by issuer’s rating.

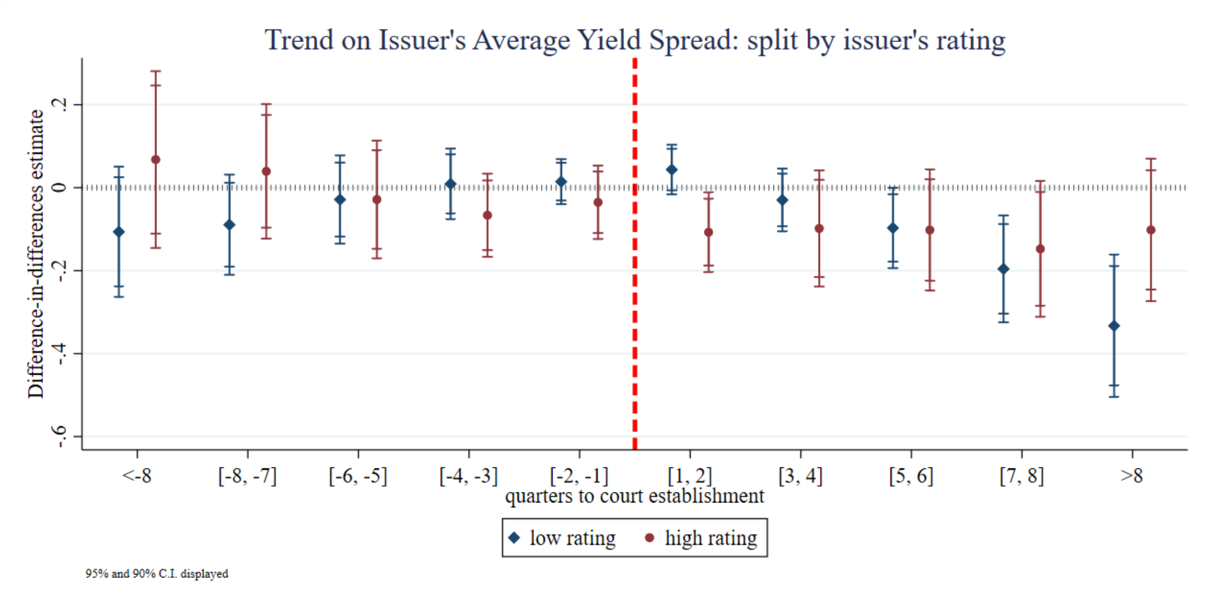


Figure A4: Parallel Trend Test of the Regression for the Primary Market

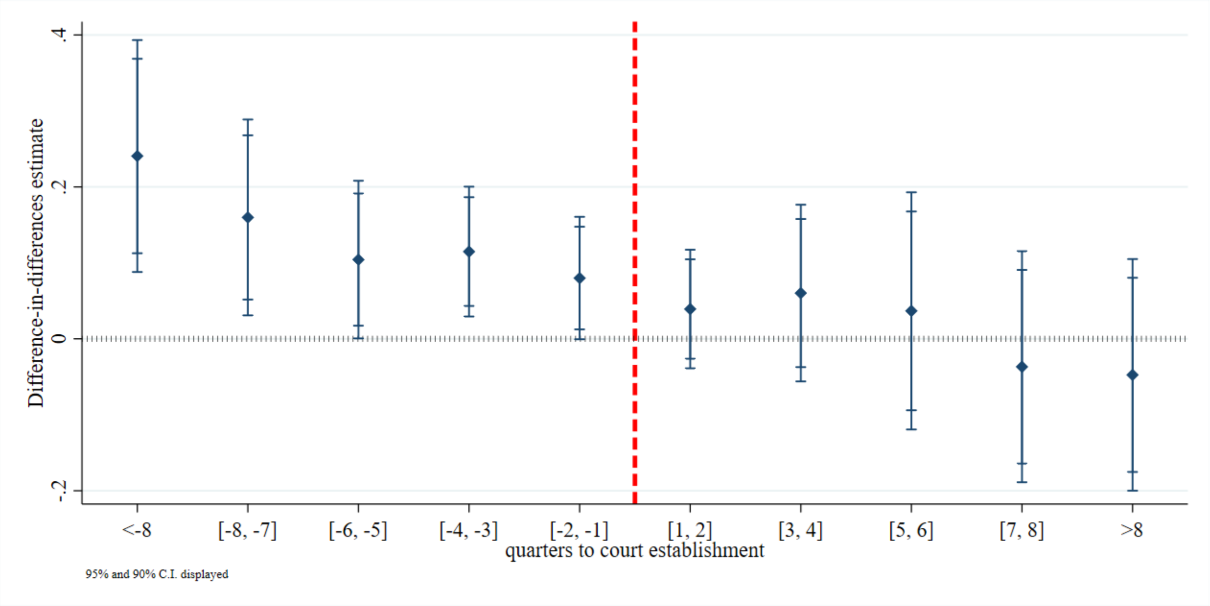


Figure A5: Special Court and the Number of Liquidations

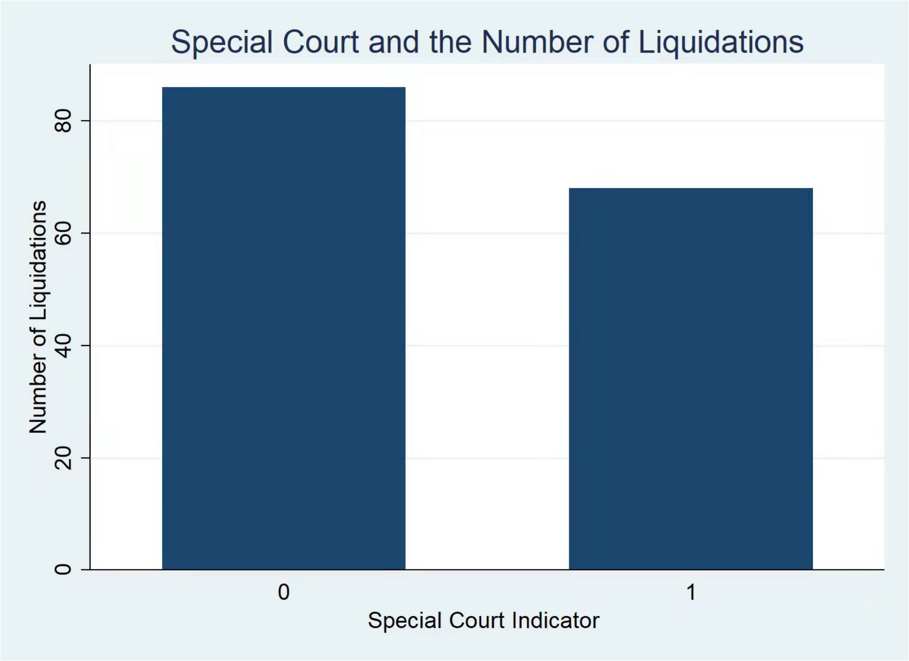


Figure A6: Special Court and the Number of Reorganizations

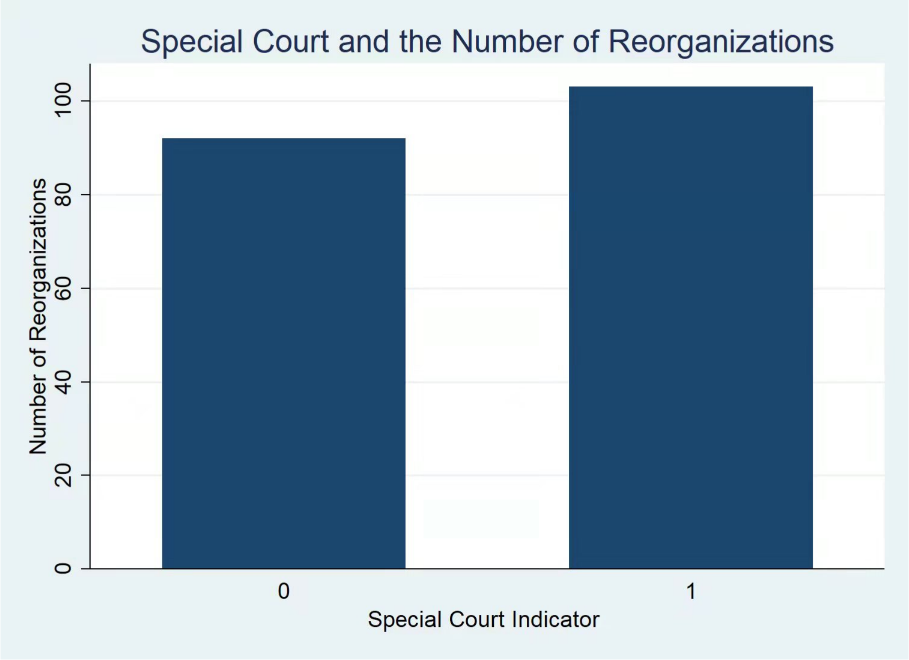


Figure A7: Special Court in Attracting Outside Investors

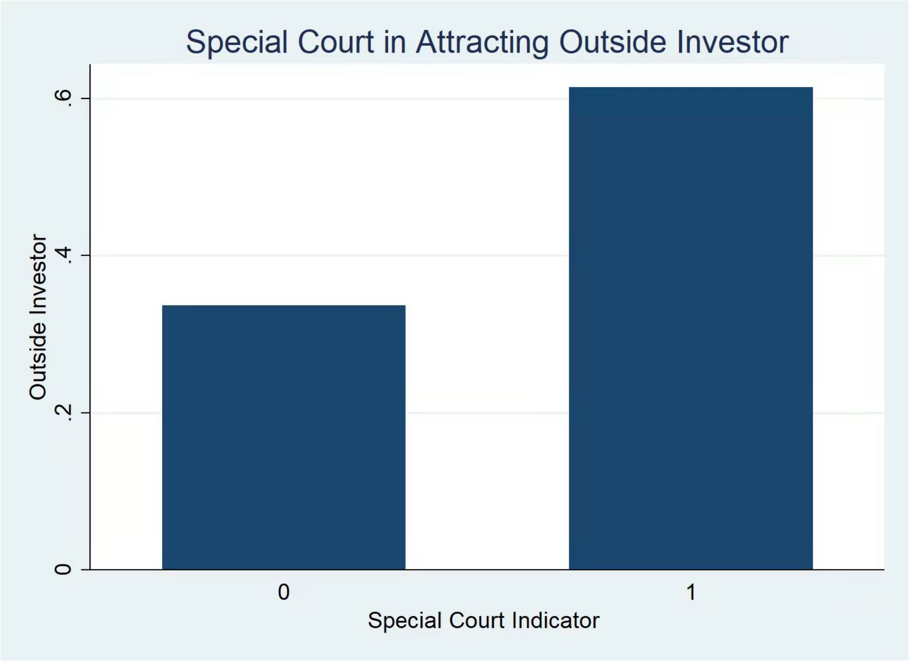


Figure A8: Special Court and Consolidation in Probability

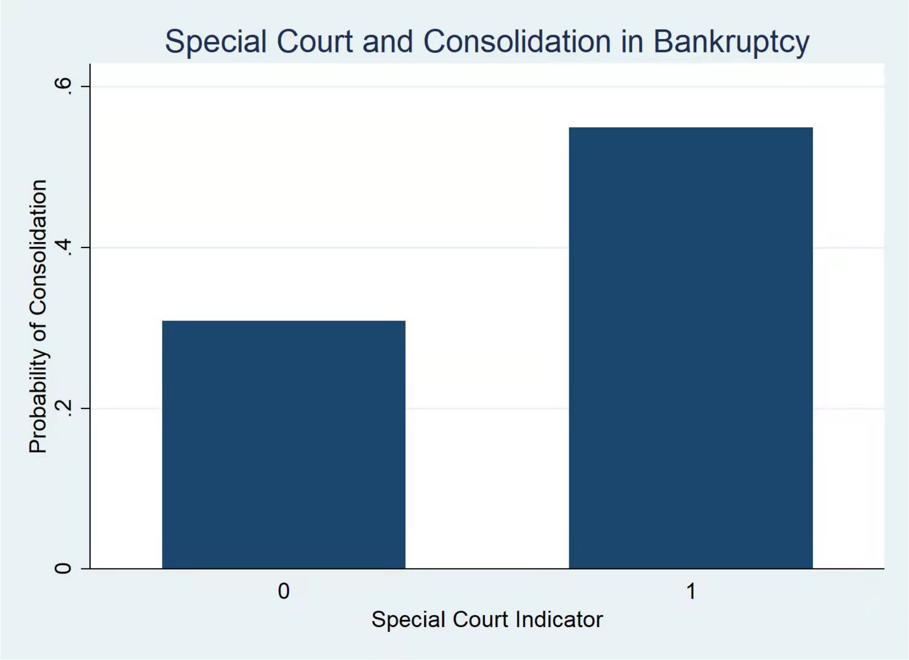
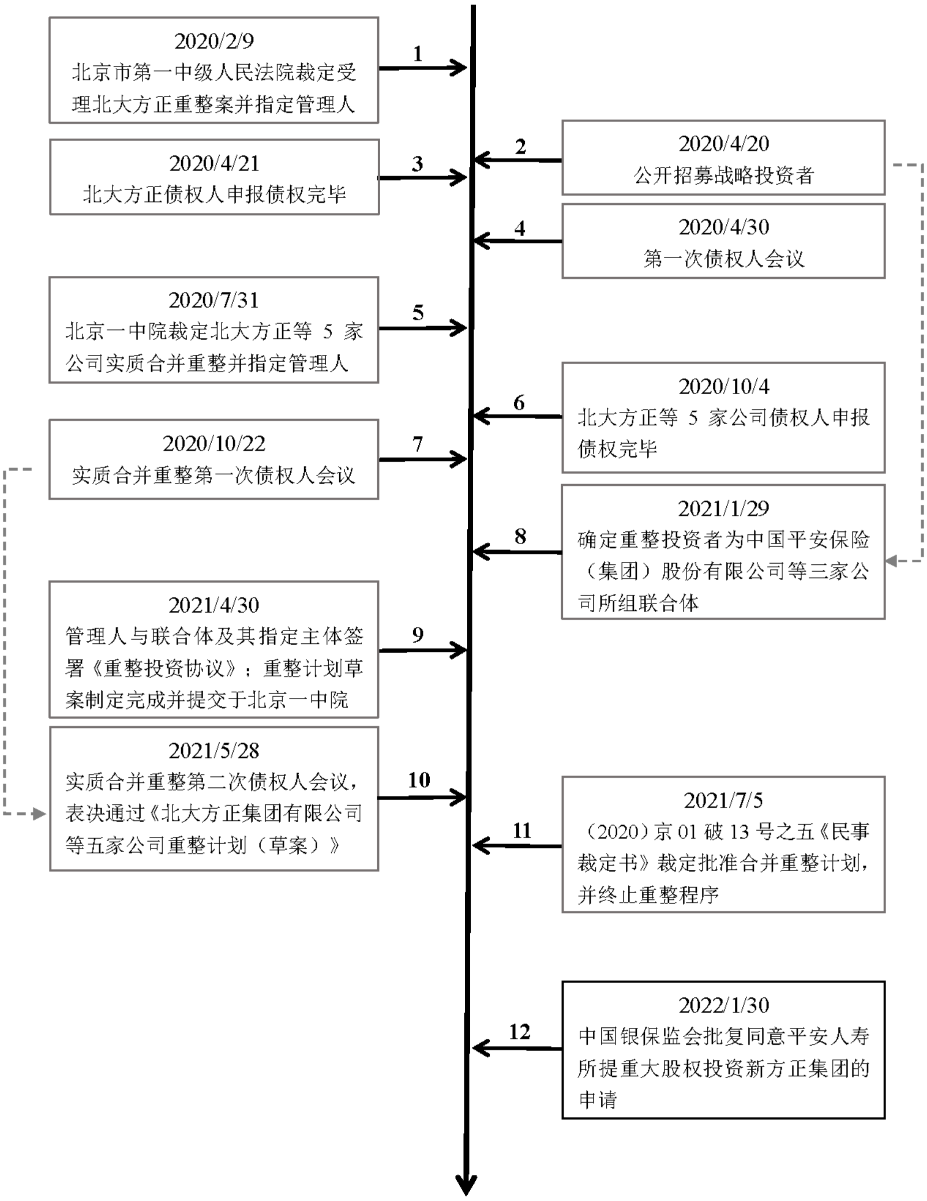


Figure A9: Reorganization Procedure of Founder Group



1
2020/2/9
北京市第一中级人民法院裁定受理北大方正重整案并指定管理人

2
2020/4/20
公开招募战略投资者

3
2020/4/21
北大方正债权人申报债权完毕

4
2020/4/30
第一次债权人会议

5
2020/7/31
北京一中院裁定北大方正等 5 家公司实质合并重整并指定管理人

6
2020/10/4
北大方正等 5 家公司债权人申报债权完毕

7
2020/10/22
实质合并重整第一次债权人会议

8
2021/1/29
确定重整投资者为中国平安保险（集团）股份有限公司等三家公司所组联合体

9
2021/4/30
管理人与联合体及其指定主体签署《重整投资协议》；重整计划草案制定完成并提交于北京一中院

10
2021/5/28
实质合并重整第二次债权人会议，表决通过《北大方正集团有限公司等五家公司重整计划（草案）》

11
2021/7/5
（2020）京 01 破 13 号之五《民事裁定书》裁定批准合并重整计划，并终止重整程序

12
2022/1/30
中国银保监会批复同意平安人寿所提重大股权投资新方正集团的申请

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