

How Lenders Evaluate Lawsuits? Evidence from Corporate Bond Market



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Time: 1:30pm – 2:30pm

**Venue: 11/F Conference room, Cheng Yu Tung Tower,
Centennial Campus, HKU**

This talk is about how debt holders respond to firms' litigation revealing a significant tightening impact on issuers' public debt properties. All else equal, investment grade bonds of litigated issuers have 4.9% higher yield spread, 11-month shorter maturity, and \$14.7 million less issuance volume than propensity score matched bonds of non-litigated issuers. We also find the bond pricing sensitivity to litigation varies with firms' legal penalty, reputational loss, and networks: The effect is more pronounced in when issuers were defendants or lost the case, when issuers' relationship circle is close-knit, or headquartered in high trust regions. Issuers' political capital and the market power of their underwriter moderate the litigation sensitivity. Further tests suggest a causal link between litigation and cost of debt and the channel is likely to be damage to reputation. Event study reports negative and significant abnormal bond return and excess trading volume around public announcements of lawsuits. Taken together, this talk will discuss positive role of public debt holders in constraining managers and the interplay of the legal and alternative governance mechanisms in shaping loan contracts.

About the speaker:

Dr. Haitian Lu is the Associate Head and Associate Professor in law at the School of Accounting and Finance, Hong Kong Polytechnic University. He is also the deputy director of the Center for Economic Sustainability and Entrepreneurial Finance. Dr. Lu obtained his Ph.D in law from National University of Singapore, Master of Law from Liverpool University and Bachelor of Law from Nanjing University. His teaching and research interest centers on law and economics, corporate law and governance, entrepreneurial finance, and sustainability. Dr. Lu is the author / co-author of several manuscripts, and published widely in leading law, finance, economics and management journals. He was visiting research professor at New York University Stern School of Business in 2016. Dr. Lu contributes to the academic and professional society by serving as an editor and reviewer of several leading journals and working with a wide range of institutes and universities.