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Bond Covenants and Institutional Blockholding[☆]

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Abstract

We document a significant and positive relation between institutional block ownership and the number of bond covenants. This finding is robust to different measures of blockholding, alternative regression models, and endogeneity considerations. The positive association between blockholding and covenants is stronger for active as well as for short-term blockholders, suggesting that covenants are employed ex ante to mitigate incentive conflicts between shareholders and bondholders. While both covenants and blockholding are positively related to borrowing costs, their interaction implies that covenants attenuate the increase in borrowing costs resulting from more concentrated block ownership.

Keywords: Institutional Blockholding, Bond Covenants, Bondholder-Shareholder Conflicts

JEL: G32, G34

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