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Effects of law on corporate financing practices—international evidence from convertible bond issues

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Abstract

Firms can adjust their convertibles to be more debt-like or equity-like through several contract terms. In particular, by providing call protection, a convertible issuer can assure its convertible bondholders that it will not force them to become equity holders during the call protection period. The possibility of a forced conversion instituted by an early call should be more threatening to investors in an economy where local laws are biased against shareholders. I examine call protection terms in an international sample and find evidence consistent with the hypothesis that convertible bond design varies based on the features of local law.

JEL classification: G15; G32; K22; N40

Keywords: International; Law; Convertible securities; Call protection

1. Introduction

Country differences in legal infrastructure and the effects of those differences on local financial markets, corporate decision-making and firm performance have received a great deal of attention from economists and legal scholars recently. A growing body of research

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