

The Credit Markets Go Dark

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ABSTRACT

Over the past generation, conflicting trends have reshaped the ownership of corporate equity on the one hand and corporate debt on the other. In equity, the two great trends have been the shift from public markets to private ownership and the consolidation of American companies' stock in the hands of powerful investment funds. In debt, by contrast, the great trends have been a shift from private loans to quasi-public markets and dispersed ownership.

In this Article, we chronicle the recent and dramatic reversal of these trends in the debt markets. Private investment funds executing a "private credit" strategy have become increasingly important corporate lenders, bringing into corporate debt the same forces of privatization, concentration, and illiquidity that have been reshaping the equity markets. We offer new data that illustrates the meteoric rise of the now \$1.5 trillion private-credit industry, and we explore the allure and implications of private credit. For many corporate borrowers, private credit offers a faster, more efficient, and more accessible source of financing than either banks or the public (and quasi-public) debt markets. Yet the transition from bank-intermediated finance to private credit will transform not only corporate finance, but also firm behavior and economic activity more generally. First, as the corporate debt markets go dark, we move toward a world in which information about many firms and even entire industries will be lost to the investing public. For better or worse, these firms will act with unprecedented discretion—having been shielded from the discipline and scrutiny of regulators, the trading markets, and the general public. Second, corporate debt—like corporate equity—is poised to become the dominion

of investment funds, some of which are almost unimaginably large. These funds will influence everything from firm operations and strategy to corporate distress, with uncertain consequences.