

# **Out-of-Court Public Debt Restructuring and Debtholder-focused Investor Communication**

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## **ABSTRACT**

Successfully conducting public debt out-of-court restructuring (OCR) requires near unanimous consent from dispersed bondholders. We predict and find that targeted investor communication by issuers is pivotal in alleviating information frictions between issuers and bondholders, thereby fostering consensus for successful OCR. Specifically, we find that debtholder-focused investor communication activities (Debt IC) are positively associated with the likelihood of OCR over costly Chapter 11 bankruptcy, while generic financial reporting information or shareholder-targeted communication has no such effect. Subsample analyses suggest that Debt IC is particularly effective when bondholders face challenges in assessing expected recovery rates or when issuers regularly engage in Debt IC, suggesting its role in conveying valuable forward-looking information and building relationships among bondholders. Additionally, we find that Debt IC helps reduce coordination frictions among dispersed debtholders. Overall, our findings highlight the unique role of Debt IC in enhancing the likelihood and effectiveness of public debt OCR for financially distressed firms.