A study on impact of IBC

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A STUDY ON IMPACT OF IBC ON INDIAN STOCK MARKET.

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ABSTRACT

In the year 2016, the Indian government introduced a new Insolvency and Bankruptcy Code that would not only strengthen the creditor rights but also expedite the process in under 330 days. The new law is expected to increase the confidence of the investors. This study is important because it addresses the literature gap on how strengthening creditor rights impact the investor in the stock market. Previously many laws were passed like RDDBFSI & SARFAESI act but they failed to make an impact due to frail bureaucratic and judicial procedures, and these laws were not exactly favoring the creditors. So, with IBC it is a paradigm shift from debtor supporting laws to creditor supporting laws. In this study, we have addressed the gap in the literature by doing an event study on tan the first-ever event of Bankruptcy under the new law, i.e., Essar Steel to study the impact of strengthening creditors' rights has on the Stock market of the country.

The event study in this paper will look into two events namely, the announcement of Essar steel entering the IBC process and the appointment of a new IRP to Essar steel. We did the event study to understand the abnormal returns in the market, with Steel sector stocks as the impact group and other sector stocks like FMCG, PHARMA, IT, and AUTOMOBILE, as the control group. We calculated abnormal returns using three models, the Market model, Fama Fench 3 factor model, and the four-factor model. We also looked at the abnormal returns of the market when the SARFAESI act was introduced. This would tell us how the investors reacted to both debtor inclined reforms and creditor inclined reforms. The results for both the event studies are significant, IBC has an impact on the stock market especially on the steel industry when it is announced that Essar steel will enter the IBC process as well as at the appointment of a New Interim Resolution Professional (IRP) since the event happened in that particular industry. The abnormal returns are high and significant, explaining to us that the investors have faith in the new law and hence, were investing in the firms again, now that their rights are strengthened.

KEYWORDS

IBC, BANKRUPTCY, STOCKMARKET, ABNORMAL RETURNS

INTRODUCTION:

Throughout history, defaulters were punished harshly, defaulters were used as slaves. In theUK, defaulters were imprisoned until their abolishment in the year 1869. Schwartz (1997) tells us that "It is mandatory to have a state-affiliated Bankruptcy system to look into the disputes. The bankruptcy precedence is uniformly applicator all types of firms especially private firms." At the beginning of 1987 in US, People were investing in bankrupt firms, i.e., firms recognized under chapter 11 of the US bankruptcy code. There are a significant number of firms that came out of the bankruptcy code in history. For this to happen, we need different types of Bankruptcy rules and regulations. For this we need to understand what is an Insolvency regime and how can we define a good Insolvency regime? It should contain an ex-ante mechanism to prevent shareholders from manipulating others and managers from taking loans. It should also prevent lenders from lending loans to firms with a high probability of default. At the same time, it should provide risk-taking efficiency to companies' owners, to invest in good opportunities that will bring out the firm from Bankruptcy codes. The efficiency of the courts and legal systems in the country will also define this.

In this study, we are covering the literature gap by addressing the impact of the strengthening of creditor rights on investors in the stock market. Previous laws in India were majorly debtors supporting, and it was a tedious process for the creditors to recover the money. Also, the frail judicial and bureaucratic procedures further delayed the process. But with IBC is favoring the creditors to recover their money. That is why this study is important because it is looking at how this paradigm shift of Indian reforms from debtor-friendly to creditor friendly happened and why is it so important and how does this effect the stock market investors in the country. This study is also important because the previous literature was only talking about the impact of creditors' rights on managerial decisions, firms' investment activities but the relationship between creditors' rights and stock market investors are hardly explored. This study addresses that gap as well and hence this is important.

In this study, we want to study this external shock through an event study for the period around the event. We studied the first-ever insolvency case accepted under newly drafted law, i.e., ESSAR steel. Here, we studied two events namely, Essar Steel entering into the IBC process by getting approval from NCLT and other boards, and the appointment of IRP (Interim Resolution Professional) under the new IBC law to replace the company's existing board. Incidentally, the event is in the steel industry and according to the RBI reports, gross lending of credit from all banks consolidated in the steel sector is near Rs.2,908 billion as of November 2018. The total defaults that occurred in IBC were 44% from the steel sector with a monetary weight of Rs. 1,288 billion. This gives us another reason to study the steel sector first. We also link it with the theoretical lens by saying that the steel industry is a capital-intensive industry, which will have a heavy impact on IBC and creditor rights.

We studied the impact it had on the stock markets, by studying the abnormal returns that the steel sector gained/lost around that event dates and comparing it with a control group which consisted of stocks from other sectors like FMCG, IT, PHARMA, and AUTOMOBILES. Wetook the top 5 companies in each sector, which are occupying 60-70% of the market share in terms of market capitalization, and took the stocks of those top 5 companies. We studied the abnormal returns of these stocks in each industry through three different models, the Market model, Fama Fench 3 factor model, and the four-factor model, and compared the abnormal returns of the steel sector with other control group sectors. The market model will give us the risk-free returns, where we then calculated the abnormal results, Fama fench 3-factor model will give us the abnormal returns with the size and value of the firm taken into consideration.The Four-factor model will give us returns considering the momentum factor as well. We calculated the abnormal returns and the results explain to us clearly that there is the impact ofIBC on the stock markets of the firms in the steel industry as a whole. The event of appointing the IRP and its abnormal returns is also significant. These abnormal returns in the steel industry can be explained in the following way. If the abnormal returns are high for the steel industry, then we can say that it increased the confidence of the investors in the steelindustry and they invest in the sector, resulting in high abnormal returns. The results of our study tell us that the returns are relatively high which explains the confidence of investors in that sector increased due to the strengthening of the IBC code and the investors are confident that their money is relatively safe with this new law, and their trust on the new IRP to resolvethe issue and liquidate the firm at the earliest.

In the Indian context, Chemin(2010) we had weak judicial systems in place that we were unable to take stringent actions against the NPAs. Indian government with the help of judicial systems has framed many laws, that we're looking into the “Sick Industries” & to clear the NPAs from the book of banks and other financial institutions. This didn’t go well as anticipated, and NPAs became a monetary burden. Shah and Datta (2015) even spoke about the efficiency of the Indian courts in resolving bankruptcy cases through different tribunals set up across the country. The paper by La Porta et al. (1998) it is reported each country’s legal origins and corporate investments. Djankov, McLeish, and Shleifer (2007) talk about creditor rights and their relation to the aggregate supply. Acharya, Sundaram, and john talks about the stronger creditor rights and their impact on the assets. So far, the literature studies the legal systems of the country and the creditor rights and their impact on managerialdecisions and firms' investments. But very limited literature exists on the linkage between stronger creditor rights and their impact on the stock market investors. Detailed literature on this has been discussed in the below section, but on a broader note, Stronger creditor rights will impact the liquidity crunch of a firm through which it impacts the stock markets. While another way is to look at the riskier investments that a firm makes and their impact on the stock and its volatility. The Indian government in the year 2016, introduced Insolvency and Bankruptcy Code, to resolve the existing bottlenecks in the judicial system and also to wrinkle out other issues in the system.

The newly passed law will strengthen the rights of the creditors by placing a moratorium on the operations of the debtors once the bankruptcy is filed against a firm and has been accepted under the IBC code. Then an independent Interim Resolution professional will be appointed who will replace the existing board and will take decisions regarding the company, whether to liquidate the firm or to restructure it back the profits. This is applauded as a landmark reform on NPAs. Therefore, the in Indian context we look at the impact of the IBC as an external shock that is strengthening the creditor rights in the country on the stock market. To understand this impact, we did an event study.

LITERATURE REVIEW:

Insolvency and Bankruptcy are two diverse monetary positions used to address an individual and an organization or any partnership. The province of Insolvency is the place where the liabilities of an individual or an organization or any enterprise surpass its resources and the obligation raising limit of the association is invalidated. At the point whenthe individual isn't in a state to pay off his obligations or liabilities, then, at that point, he is announced bankrupt. Then, at that point, the individual may ask the government or any concerned lawful office to take care of the obligations for his sake.

BANKRUPTCY REGIMES:

The insolvency regimes are a set of rules that apply to the borrowers which help in restructuring transactions. These regimes will help in initiating negotiations, as a proposed measure to recovery against insolvency proceedings. They also help in resolving the bankruptcy issues in a cross-country approach and act as an "interplay between multiple regimes" and how a country's insolvency regime affects the other. They help in crafting a solution in a cross-country approach and distressed situations. There are two different typesof Insolvency regimes when resolving a distressed situation, one that will support the creditors, while the other supports debtors. Depending on the country's laws these regimes arecrafted. We look at it from the Indian context below.

In the Indian context of Bankruptcy regimes, different laws were passed to investigate different bankruptcy conditions. For nearly 10 years, India was depending on the PresidencyInsolvency act of 1909 and the Provincial Insolvency act of 1920, which were passed beforeindependence. Then in

1964, based on the recommendation of the Law Commission these two separate laws were consolidated into a new Insolvency Bill.

In the year 1964 Sick Industrial Companies Act was introduced on the recommendation of the Tiwari Committee (1985). This law was introduced to treat the "SickIndustries" with timelines to turn events and guidelines to act on. The law attempted to guarantee recovery in 90 days from the date of request and a ban on exchanges. The law helped in reviving the potent industries and closing the unviable industries, and liquidatingthe companies to invest elsewhere.

Despite that, the time is taken to determine issues turnedout to be considerably higher, and long-lasting and far-reaching effects, such as loss of employment in those industries, loans of revenue to the government, and a decrease in n production as well. subsequently, it was of no use. To check the sickness of the companies,the BIFR law was introduced.

After this law, the Recovery of Debt Due to Banks and Financial Institutions Act (RDDBFI) was introduced in the year 1991 on the recommendation of the Narasimhan committee. This act was mainly focused on the Banks and other financial institutions and their increasing NPAs. This was to improve the speed at which recuperation suits were acknowledged by banks. Debt Recovery Tribunals were established under this act, and the banks would approach these DRTs for a resolution. These DRTs had the right to pass orders that power the Civil court procedures. But had constraints on the domains that they can act on, this confined the orders of DRTs. But this law barely had any impact on the banks and their NPA's. As the NPA's of the financial institutions were still untouchables and the financialinstitutions and their balance sheets were still facing the weight of the NPA's cycle was becoming dreary.

In the year 1998 on the recommendation of the Narasimhan committee Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) was introduced, it was enacted in the year 2002. In this act, DRTs were used but instead of Banks approaching the DRTs, any other third parties like the borrowers, guarantors, or any individuals can approach the DRTs. It bought an important change from the past. i.e., now banks can take over the possession of assets from the defaulters once the asset is declared as NPA, without tedious court procedures. This helped the process to smoothen a bit. NCLT was formed based on the recommendations of the Eradi committee in 2002. This formed an umbrella structure for the companies, and NCLT acts as a regulator for companies and makes sure they follow rules and regulations from the government. In the year 2013, a major change in the companies' act was taken place by replacing the from "inability topay" to "failure to pay". This allowed the banks to clear tedious legal procedures smoothly.

CHANGES MADE IN IBC:

Before enacting the IBC, Indian bankruptcy regimes were perceived to be debtor-friendly, but after the enactment of the code, the new regime is perceived to be creditor friendly than debtor-friendly. Here, once the debtor is accepted into insolvency, the board of directors and the management of the debtor are suspended and will be replaced by an external bankruptcy professional appointed by the Bankruptcy tribunal. He will look afterall the proceedings on behalf of the creditors. Hence it is termed to be more creditor friendly.

The newly enacted code has undergone many legislative changes. The code created its ecosystem with Insolvency and Bankruptcy resolution professionals and administrators in theprocess. The new code will work in hand with National Company Law Tribunal as it (Appellate Authority), with many benches across the country to look over the cases. The code takes into consideration different security forms like immovable and movable properties and mortgages like simple mortgage, mortgage by conditional sale,Anomalous mortgage, etc. In the recently enacted code, any of the creditors irrespective of his claim against the debtorcan file. This brings an advantage to the small-scale creditors. Considering all the above aspects, the Newly enacted IBC code is creditor friendly in nature. i.e., it strengthened therights of the creditors. Historically, many papers are talking about the strengthening of creditor rights and their advantages of it. In this paper, we will look into the impact of strengthening creditor rights onthe stock market investor and the relationship between them. Strengthening creditor rights will affect the credit cycles of the companies as well as the credit market breadth.

In the paper, Galindo, and Micco (2005) state that "improving the creditor rights will reduce the volatility in the credit market". It will reduce the borrowing cost of the firm thereby increasing the firm's value. In the paper, La Porta et al. (2000) and Bae and Goyal (2003) will improve the operating leverage, operating income variability, and cash flow risk of the firms. Serra Coelho, L. M. (2021) paper talks about the US context and talks about the long-term and short-term impacts of pre chapter 11 stock price abnormalities filed under the BAPCPA code and the 1978 Bankruptcy code and the performance is similar in both cases. The paper also concludes by saying that "bankruptcies filed under the new Code led to more negative post-filing, and announcement period stock abnormal returns than similar events occurring under the old 1978 Act." Rimbey, Anderson, and Born (1995) reported that "compared to pre-1978 Reform Act filings the counterpart led to more negative prefiling. Rose-Green and Dawkins (2000) stated that "liquidated firms have large abnormal returns inthe year on Bankruptcy announcement date as well as on the recognition under chapter 11 date.

Discussion

We look at the impact of IBC as an external shock impacting the stock market and how the investors are reacting to it. This from another can be understood as "How the investors in the stock market are reacting to the strengthening of creditor rights in the market. Creditorrights strengthening will increase the anticipated price level of the stock market. In the paper (1980), In the case of solvent firms, ex-post returns are expected to be lower than the ex-ante returns.

Strengthening creditor rights in the market will have an impact on the market through twodifferent channels 1. Credit Crunch 2. Moral Hazard

CREDIT CRUNCH: In the paper, by, Hale, Razin, and Tong (2008) Strengthening creditor rights enhance the stock market performance in two different ways

1. "Well protected creditors will lead to an increase in the stock price in a credit-constrained situation"
2. "With strong protection of creditors, the probability of credit crunch leading to bindingcredit constraint falls"

As the strengthening of creditor rights happens, the credit crunch in the market decreases.This will lead to an increase in stock prices and a decrease in volatility. The increase in stockprices will happen through two channels 1. By diminishing the effect of Credit Crunch. 2. By increasing the market value of the firms in a credit crunch regime.

The volatility of the stocks will also decrease through two different channels. Namely, 1. The difference in the stock prices between the firms that have credit constraints and that don't will come down with strong creditor rights. 2. The probability of the firms facing credit constraints will decrease with stronger credit rights kicking in.

MORAL HAZARD: In the paper by Hale, Razin, and Tong (2006) it is reported thatWeak Creditor protection will induce risk-taking ability in the managers of the firm. Pushing them to take riskier investments considering only the upper end of the returns,completely ignoring the lower end of the returns. This leads to the moral Hazard.

Strengthening creditor rights will help them in influencing the firm's decisions. In the paper by Nini, Smith, and Sufi (2009) it is reported that "creditors will impose restrictions oncapital expenditure as the quality of credit on borrowers side decreases. This will invoke other contractual terms like collateral securities, hike in interest rates, or using the financial convents of the firm, etc. With the new restrictions in place, the operating performances of the firm are likely to improve and will increase the firm's market value."

Visiria (2012) talks about the reforms in credit enforcement in the Indian context, and tells that stronger enforcement of credit will decrease the credit accessibility to the smallerfirms that are borrowing and improve for the wealthy borrowers.

Gopalan et al (2015) talk about the fast-track debt recoveries and how it affects the Debt contracts of the firm and its financing and Asset structure. It reports that with the improvement of debt recovery firms will now look at the long-term debts and reduce short term debts, Firms were also decreasing the total number of banking relations. And decreasedborrowing from multiple lenders.

Tanya Jain (2020) looks into the causal effect between DRTs and Product innovation. Thepaper reports on the tangible assets and the intangible assets of the firms and their investments, it concludes by saying that the firms with high tangible assets saw an improvement in the firm's performance in terms of profitability, sales, and exports while firms with low tangible assets lost their market share and saw a decline in their performance. With DRTs the Total Factor Productivity increased by 6% for the firms with high tangible assets. This explains that with Enhanced creditor rights and fast-tracking of DRTs the firms with high tangible assets are performing well.

HYPOTHESES: Motivated by the theoretical lens, we came up with a Hypothesis that tries to study the impact of the strengthening of creditor rights on the stock market investors.

Proposition 1: What is the impact of strengthening creditor rights on the investors in thestock market?

DATA: We took the stock price data of the top 5 stocks in 5 different sectors, namely, Iron andSteel, Automobiles, IT, Pharma, FMCG. Throughout one year time. We took the stock prices from NSE data to calculate the abnormal returns. We had to study the data for aroundtwo events, on the day on which Essar Steel was admitted into IBC i.e., on the 2nd of August. Thesecond event is the appointment of Mr. Satish Kumar Gupta as Interim Resolution Professional by the Committee of Creditors. On average the stocks we took in each industry have amarket share of over 60-70%.

EMPIRICAL MODEL We studied, the abnormal returns mainly using three different models, Market Model, Fama Fench 3 Factor Model, and 4 Factor Models.

The three-factor model of regression can be explained below as:

$R_i - R_f = \alpha + \beta 1_i(r_m - r_f) + \beta 2_i(SMB) + \beta 3_i(HML) + \varepsilon_i$

Here, α is the intercept of the regression line. R_i

is the return of assets i

R_f is a risk-free asset.

R_m is the return on the market portfolio.

SMB – Small Minus Big, (return on the Size Factor)

HML – High Minus Low, (return on the value (BE/ME factor)

ε Is the residuals.

β1-2-3 the beta values of 3 independent variables.

For the Four Factor model, the momentum factor WML (Winners Minus Losers) will also be studied at the end, whether the Winner is in the top 30% of the stocks, and looser stocks are in the lower 30% of the stocks.

RESULTS:

The abnormal returns for the event of Essar Steel entering the bankruptcy process are asfollows:

Table I

MARKET MODEL - ANNOUNCEMENT DATE					
DAY	PHARMA	AUTO	STEEL	FMCG	IT
0	-1.88%	0.16%	-0.24%	0.13%	-1.15%
-2 to 2	-1.36%	-0.08%	0.82%	-0.38%	-0.89%
-5 to 5	-0.60%	-2.78%	-1.95%	-1.13%	-4.88%
-10 to 10	5.67%	-3.11%	1.28%	1.86%	-5.66%
-15 to 15	8.94%	-0.50%	6.96%	3.63%	-6.50%

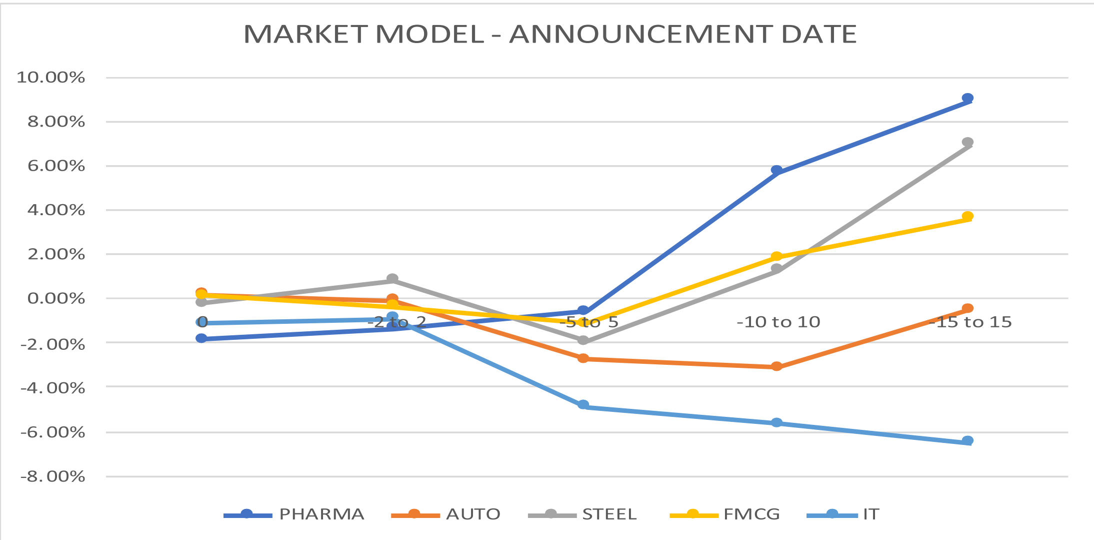

Figure 1

The graph and Table 1 tell us that on the date of the announcement of Essar steel entering the IBC process, the steel sector stock abnormal returns are high as soon as the event is announced and are high in days -2 to +2 and the effect lasted for some time. We can also see that the market abnormal returns are high for day -15 to +15 the seconding to Pharma sector.

Table II

3 FACTOR MODEL - ANNOUNCEMENT DATE					
DAY	PHARMA	AUTO	STEEL	FMCG	IT
0	0.65%	0.62%	0.62%	0.62%	0.65%
-2 to 2	-0.02%	0.03%	0.09%	0.15%	-0.18%
-5 to 5	-0.37%	-0.29%	-0.42%	-0.08%	-0.44%
-10 to 10	-0.22%	-0.20%	0.03%	0.04%	-0.27%
-15 to 15	0.01%	-0.02%	0.09%	0.08%	-0.21%

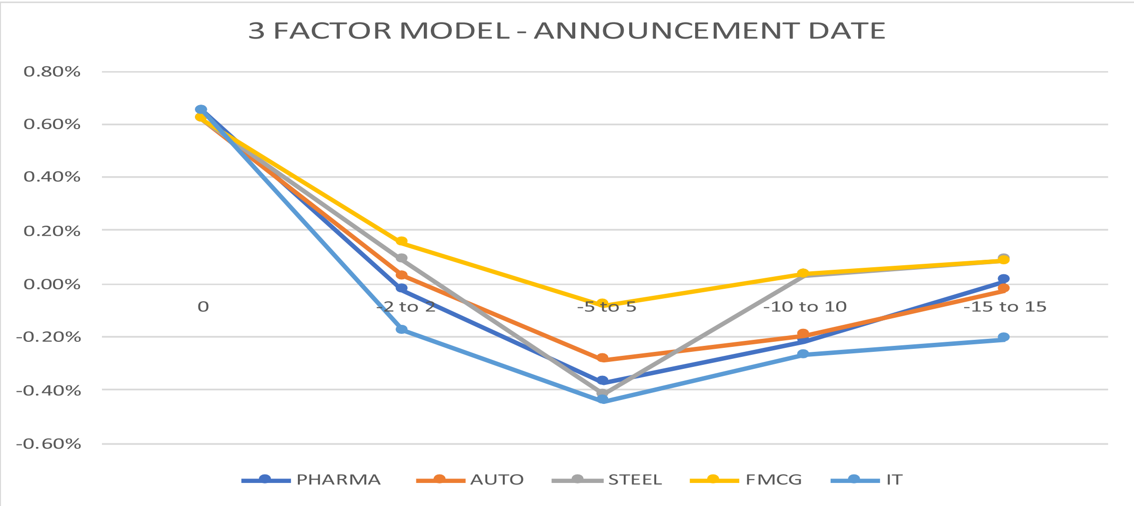

Figure 2

In this three-factor model, the model considers the side effects of the firms and the value effects of the firms into consideration. Hence the abnormal returns are relatively less when compareto market returns in this model. When we look at the returns here the day zero the abnormal returns of all the firms are relatively the same. But as time progresses the steel industry returns are relatively higher at -2 to +2 days at 0.09% standing second to FMCG and on the days -15 to +15 steel industry abnormal returns are highest among all other sectors. This is a positive aspect as far as the study is concerned.

Table III

4 FACTOR MODEL - ANNOUNCEMENT DATE					
DAY	PHARMA	AUTO	STEEL	FMCG	IT
0	-0.92%	0.32%	0.32%	0.32%	-0.33%
-2 to 2	0.30%	0.32%	0.38%	0.45%	-0.09%
-5 to 5	-0.34%	-0.58%	-0.12%	0.22%	0.09%
-10 to 10	-0.16%	-0.49%	-0.26%	-0.26%	0.42%
-15 to 15	-0.12%	0.27%	0.39%	0.38%	0.33%

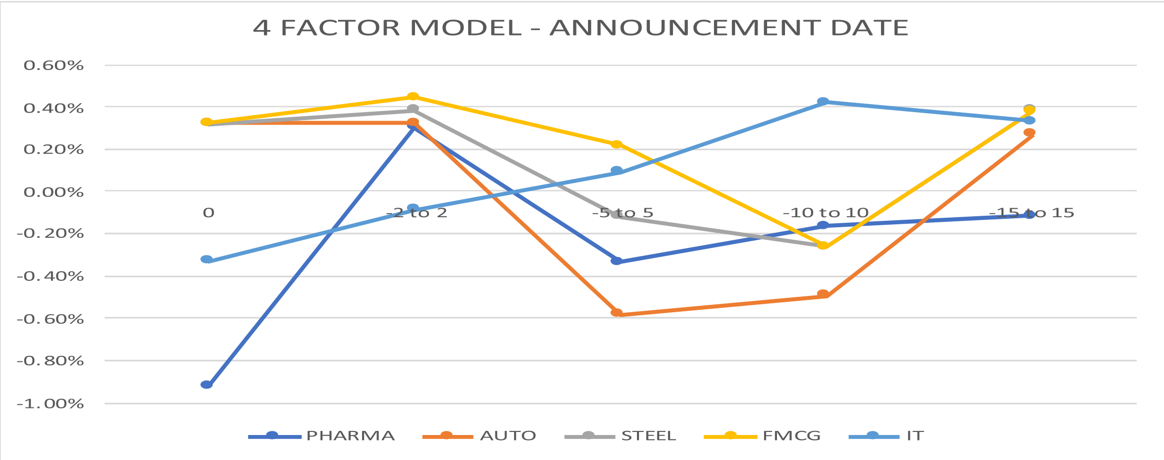

Figure 3

Now, look at the abnormal returns for the four-factor model. We can see that the returns ofsteel industry are high alongside Automobiles and FMCG, one argument that can be made here is that the automobile sector is dependent the on iron and steel industry partially, the high abnormal returns four-factor model the momentum (volatility) factor is also included hence, the abnormal returns are even lower for this model.

So, the order in which the abnormal returns are Market Model > Three factor Model > FourFactor Model.

Table IV

	MARKET MODEL -		IRP DATE		
DAY	PHARMA	AUTO	STEEL	FMCG	IT
0	-0.94%	-0.43%	0.60%	-0.54%	-0.69%
-2 to 2	-3.46%	2.17%	0.29%	-1.06%	1.03%
-5 to 5	-11.00%	-0.91%	-0.59%	-0.90%	-2.23%
-10 to 10	-13.86%	-2.98%	1.51%	0.09%	2.62%
-15 to 15	-11.32%	-3.93%	4.21%	-1.99%	1.04%

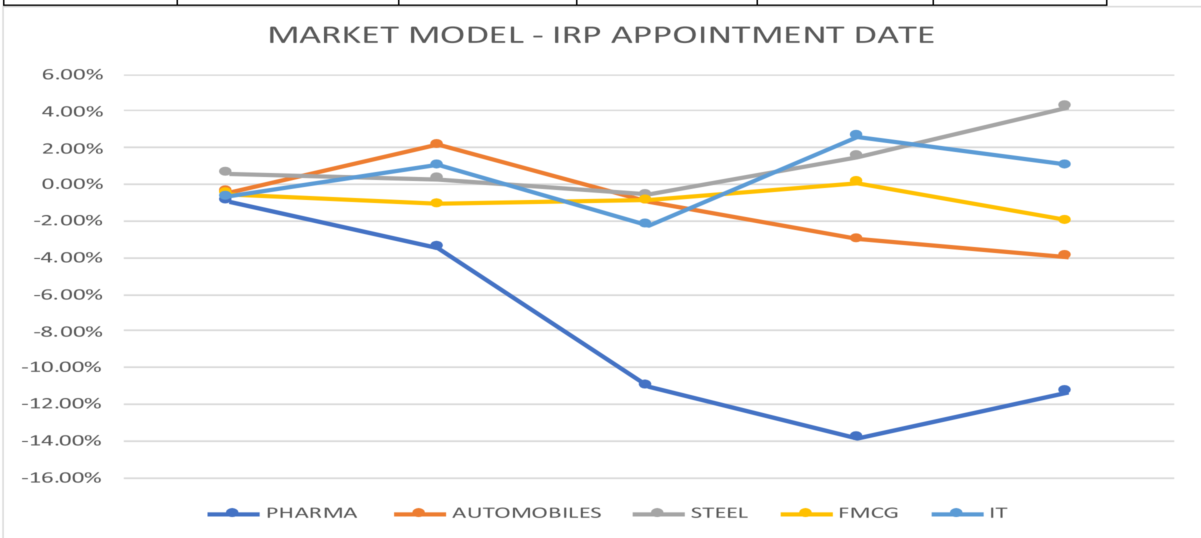

Figure 4

Looking at than e appointment of Interim Resolution Professional, it is evident that the abnormal returns are high on day zero, and they significantly better throughout the period for the steel sector. The abnormal returns are highest among others on the days -15 to +15 this explains to us that the effect of the strengthening of creditor rights and the implementation process moving forward has a significant impact on the steel industry.

Table V

3 FACTOR MODEL -		IRP DATE			
DAY	PHARMA	AUTO	STEEL	FMCG	IT
0	-0.63%	-0.68%	-0.68%	-0.68%	-0.63%
-2 to 2	0.30%	0.00%	-0.05%	0.08%	0.21%
-5 to 5	-0.34%	-0.41%	-0.64%	-0.20%	-0.20%
-10 to 10	-0.16%	-0.19%	-0.13%	-0.01%	0.13%
-15 to 15	-0.12%	-0.14%	0.13%	-0.09%	0.03%

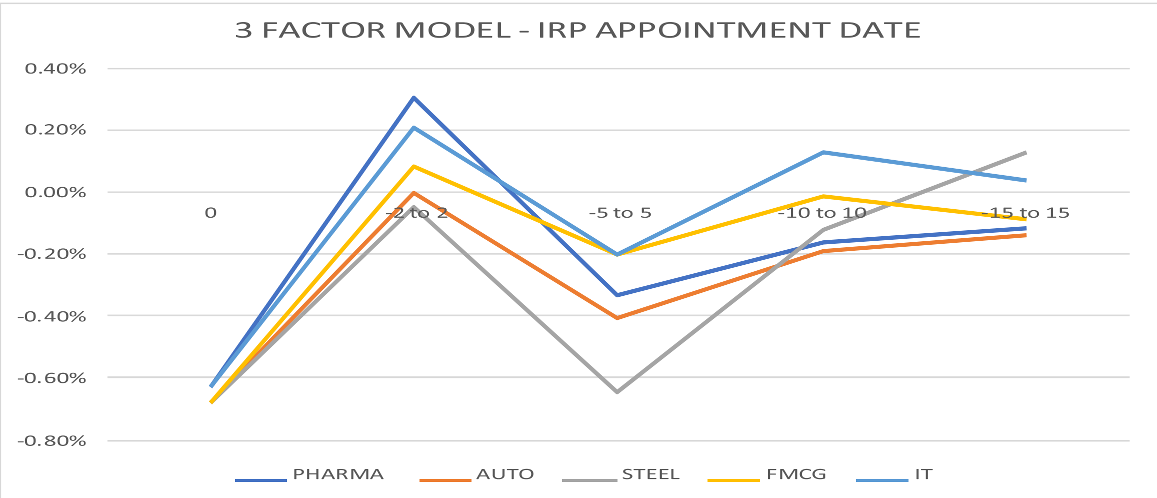

Figure 5

While looking at the three-factor model and four-factor model, it is evident that returns are relatively low as they now explain the size and value factors. The steel sector stocks are veryvolatile as they have the lowest abnormal returns for the days -5 to +5 and they are highest forthe days -15 to +15. Hence the volatility of abnormal returns is high for steel stocks. Itwould be interesting to look at the 4-factor model which considers the volatility model

Table VI

4 FACTOR MODEL		IRP DATE			
DAY	PHARMA	AUTO	STEEL	FMCG	IT
0	-0.54%	-0.98%	-0.77%	-0.39%	-0.92%
-2 to 2	0.39%	0.29%	-0.13%	-0.21%	-0.09%
-5 to 5	-0.42%	-0.70%	-0.73%	0.09%	0.09%
-10 to 10	-0.08%	-0.49%	-0.04%	-0.31%	0.42%
-15 to 15	-0.03%	0.16%	0.21%	-0.39%	0.33%

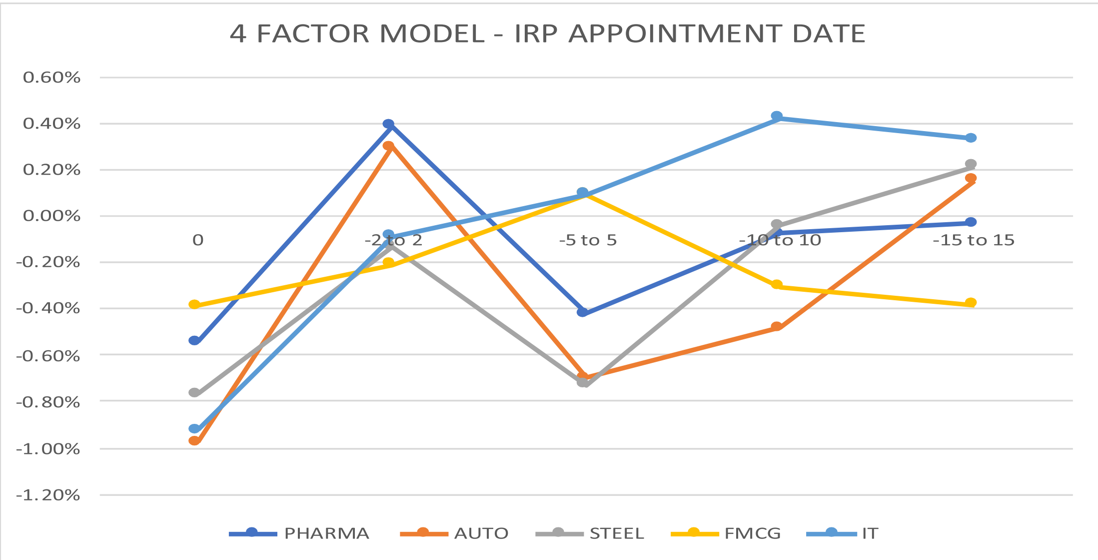

Figure 6

The volatility factor for the abnormal returns can be well explained here, the abnormal returns of the steel sector are always at the median, hence the volatility is controlled for, and the abnormal returns of the steel sector are still high. Hence, we can say that there is an impact of IBCon the steel sector.

RESULTS DISCUSSION:

Here, we can see that the abnormal returns for all the three models over the period of 15to +15 days are high for the steel sector over the control group this can be explained by saying thatsince the announcement of Essar Steel entering IBC and the Appointment of new IRP to resolve the issue, IBC which is a reform brought in to strengthen the creditor right and

Resolving the NPA issues is done. The confidence of the investors in the law has been increased, the investor gained trust in the law heavily invested in the iron and steel sector, which resulted in the high abnormal returns when the process started. At the same time,the abnormal returns are also high when the appointment of a new IRP has been done. This explains the process is not lagged and this further improved the confidence of investors.

Hence, we can say that IBC as a whole increased the confidence of the investors. This also proves the theoretical aspects discussed by Hale, Razin, and Tong (2008) that strengthening creditors will increase stock prices and will also bring down volatility.

CONCLUSION: This paper addressed the theoretical gap of strengthening creditor rights and its impact on Indian stock markets, the paper looks at the event from a theoretical point of view which has been explored very little, in the past, we have seen papers where the relation between creditor rights and firm investment or creditor rights and managers decision making and other things were explored. But so far very few papers across the world explored the relation between creditor rights and stock markets, there is one paper that was lookingat it in the US context by Coelho (2021) but it was looking at the stock prices of the firms before and after changes in BAPCPA. Throughout the paper, we have discussed the positive aspects of strengthening creditor rights, but when we look at the negative aspects, strengthening creditor rights will increase the influence of creditors in decision making and it will be hard for the company to raise debt as debtors will have least of the control. Hence even if the company wants to, it cannot raise debt and this might take away the investment opportunities ofthe firm as they are completely dependent on capital. This brings us to the question of the capital structures of the firm. Hence there is a lot more to explore from this context. We can look at the capital structures of the firms that are into bankruptcy to understand the impact of creditor rights on bankruptcy etc.

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