An empirical investigation of corporate bond clawbacks (IPOCs): Debt renegotiation versus exercising the clawback option


Abstract
Bond clawback provisions allow the issuer to partially redeem a bond issue often within 3 years of issuance using proceeds only from new equity issues. We document that clawback bonds are often renegotiated and clawbacks provisions are rarely exercised. We find that the probability of exercising the clawback option increases if the firm has lower leverage, has better return on equity, and is not issuing in the 144 market. We also find that the higher yields observed on clawback bonds are associated with the likelihood of the clawback provision being exercised. We argue that the results are consistent with the view that firms that use clawback provisions are likely to have better fundamentals. These firms exercise the clawback provision because the firm is able to access the equity markets and issue the needed equity for exercising the clawback option. Renegotiation of clawback bond results from the need to refinance the high cost IPOC issues and the difficulty accessing the equity capital markets.

Key Words
Clawback provisions, IPOCs, Bond clawbacks, Renegotiation, Exercising and Exchange offers.