The Role of Capital Expenditure Forecasts in Debt Contracting

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Content:
This study examines whether firms issue capital expenditure forecasts as a commitment to not engage in expropriation of lenders through opportunistic investment activities. We find that firms with higher leverage and lower credit quality are more likely to issue capital expenditure forecasts. Furthermore, for firms that issue capital expenditure forecasts, loan spreads are lower, loan contracts are less likely to contain capital expenditure covenants when the firms are financially healthy, and investment efficiency is greater. We do not find similar results for earnings forecasts. These results suggest that firms use capital expenditure forecasts as a commitment mechanism to reduce contracting costs with creditors.

Date: January 17, 2018 (Wednesday)
Time: 2:30 p.m. — 4:00 p.m.
Language: English
Venue: KK1303, 13/F., K.K. Leung Building, The University of Hong Kong