

Internet Appendix for “Comment Letters, Connected Investors, and Corporate Bond Issuance”

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In this Internet Appendix, we report the following figures, tables and additional analyses that were omitted from the main paper.

Figure IA1. Corporate Bond Issuance by Category

This figure plots issuance amounts of bonds issued by non-financial enterprises in the interbank market by category over time.

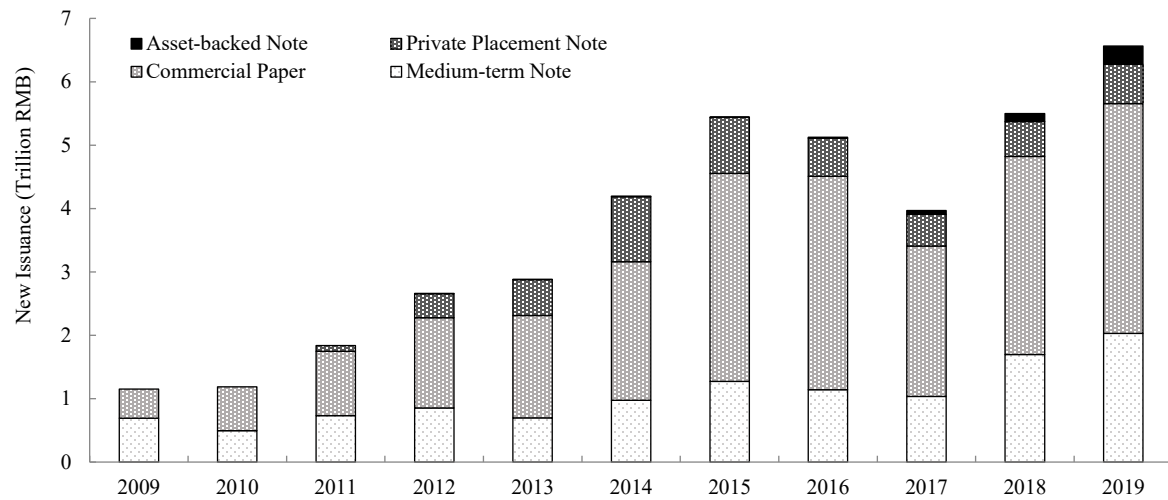


Table IA1. Topics of Comment Letters

Topics	Example 1	Example 2	Example 3
Corporate's Operating Activity	Please elaborate further on the overseas investments.	The issuer should supplement its disclosure with information on pricing methods, sales models, settlement patterns, key technological processes, and the industry positioning of each business segment. In addition, the issuer should disclose key industry indicators that reflect its competitive position and operational strengths, along with explanations of the data sources used.	The issuer should further elaborate on its main business segments, covering aspects such as the profit model, supply chain conditions, production and sales regions, key technological processes, and industry positioning.
Accounting Information	The issuer should disclose and explain any material changes in accounting policies.	The issuer should provide further analysis of key accounting items, including monetary funds, inventories, various types of receivables and payables, intangible assets, long-term obligations, other non-current liabilities, non-operating income, and net cash flows from operating activities.	The issuer should provide further analysis of key accounting items, including monetary funds, inventories, receivables, payables, intangible assets, long-term liabilities, other non-current liabilities, non-operating income, and net cash flows from operating activities.
Compliance Issue	The issuer should provide additional disclosure demonstrating the legality and compliance of its various business activities with applicable laws and regulations.	Legal counsel should further elaborate on whether the historical development of the issuance complies with applicable laws and regulations.	Legal counsel should expand on their opinion regarding whether the current registration amount complies with the applicable regulatory requirements.
Usage of Funds	The issuer should further elaborate on the proposed use of proceeds from the fundraising.	The issuer should supplement its disclosure regarding the use of raised funds, including the basis for related calculations and the issuer's commitment to their intended application.	The issuer should include the name of the principal fund-using entity, the corresponding amount of funds allocated, and the calculation of any funding gap.
Subsidiaries Situation	The issuer should provide additional information on subsidiaries that materially affect the enterprise's financial position or operations.	The issuer should provide explanations for the subsidiaries' losses.	The issuer should supplement its disclosure with explanations for the negative net profits reported by certain subsidiaries in 2014.
Policy Instrument	The issuer should disclose whether it has been subject to any significant	The issuer should further disclose potential risks associated with	The issuer should disclose any major penalties imposed on the company or

	penalties in the past three years and the current reporting period in connection with workplace safety, environmental compliance, or related issues.	changes in local government policies, real estate regulations, and fiscal revenue variability.	its consolidated subsidiaries within the past three years and the current reporting period, including those related to work safety, environmental protection, product quality, taxation, and other relevant areas.
Corporate Ownership	The issuer should elaborate on the identities, ownership structures, and governance roles of its controlling shareholders.	The issuer should provide additional details regarding its actual controllers and parties acting in concert, including but not limited to their basic information, concerted-action agreements, share pledges, and major investments in other companies.	The issuer should supplement disclosures on the main business operations and financial condition of the actual controller, in accordance with the requirements of Section M-5-3.
Corporate Governance	The issuer should disclose the structure, implementation procedures, and effectiveness of its emergency response plan system for handling sudden incidents such as safety accidents, environmental emergencies, or major operational disruptions.	The issuer should provide details regarding its budget management system.	The issuer should detail its investor protection mechanisms.
Risk Reporting	The issuer should disclose risks associated with sudden incidents that may affect operations, as well as unexpected changes in the corporate governance structure resulting from unforeseen events.	The issuer should supplement its risk disclosures to address the following: risks associated with large-scale entrusted loans; recurring losses incurred by subsidiaries; fluctuations in the fair value of available-for-sale financial assets; relatively low qualifications for real estate development; consecutive yearly declines in net cash flows from financing activities; and a high proportion of minority shareholders' equity.	The issuer should supplement its disclosures with information on the following risk factors: potential bad debts arising from entrusted loans; reliance on profits contributed by subsidiaries; risks associated with quasi-financial business activities and external guarantees; and exposures related to investments in railway projects.

Table IA2. Effect of Number of Pages on Bond Allotment

This table presents the results of bond-level regressions of bond issuance allotment on the number of pages in comment letters. The sample includes commercial paper (CP) and medium-term notes (MTNs) issued between 2015 and 2019. The dependent variable, *Connected Institution Share*, is the share acquired by connected financial institutions. *Number of Pages* is the number of pages in comment letters. If the registration does not receive a comment letter, the *Number of Pages* is set to 0. Heteroskedasticity-consistent *t*-statistics clustered by bond issuance date are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The definitions of all other variables are presented in Appendix A in the paper.

Dependent: <i>Connected Institution Share</i>	(1)	(2)
<i>Number of Pages</i>	0.028*** (11.89)	0.029*** (10.00)
<i>Ln(Issue Amount)</i>	0.068*** (12.81)	0.060*** (8.92)
<i>Maturity</i>	-0.013*** (-8.94)	-0.007*** (-3.81)
<i>Leverage</i>	0.048** (2.34)	-0.183** (-2.37)
<i>ROA</i>	0.724*** (5.56)	-0.053 (-0.21)
<i>Ln(Asset)</i>	0.021*** (4.22)	-0.009 (-0.46)
<i>Ln(Cash)</i>	0.001 (0.23)	0.024*** (2.73)
<i>SOE Dummy</i>	0.001 (0.10)	0.018 (0.30)
<i>Private Dummy</i>	0.014** (2.29)	-0.054 (-0.55)
<i>Subsidy</i>	1.017** (2.23)	2.897*** (3.59)
<i>Ln(Trading Vol.+1)</i>	-0.063*** (-26.79)	-0.049*** (-19.36)
<i>Zero Days (%)</i>	-0.001*** (-4.60)	-0.000** (-2.06)
Rating FE	Yes	Yes
Firm FE	No	Yes
Issuance Year FE	Yes	Yes
Observations	15,571	15,571
Adjusted R-squared	0.170	0.284

Table IA3. Effects of Comment Letters on Bond Allotment – Bond–Institution-Level Analysis

This table presents the results of bond-institution-level regressions of bond allotments on comment letter (CL) receipts. For column (1), the dependent variable, *Allotment Dummy*, equals 1 if a financial institution purchased any shares during an issuance and 0 otherwise. For column (2), the dependent variable, *Allotment Share*, is the share acquired by a financial institution. The independent variable *Connected Institution Dummy* equals 1 if a financial institution has a connection with an issuer, i.e., the financial institution is the issuer's creditor, or has been a lead underwriter of the issuer's equity or bond offerings one year prior to the issuance and 0 otherwise. Heteroskedasticity-consistent *t*-statistics clustered by issuance date are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The definitions of all variables are presented in Appendix A in the paper.

Dependent:	<i>Allotment Dummy</i>	<i>Allotment Share</i>
	(1)	(2)
<i>CL Dummy</i>	-0.002*** (-3.41)	-0.001*** (-10.30)
<i>Connected Institution Dummy</i>	0.051*** (44.64)	0.016*** (39.38)
<i>CL Dummy</i> × <i>Connected Institution Dummy</i>	0.013*** (9.86)	0.006*** (14.09)
<i>Ln(Issue Amount)</i>	0.013*** (20.82)	0.000 (1.09)
<i>Maturity</i>	0.001*** (6.58)	-0.000** (-2.03)
<i>Leverage</i>	0.015** (2.04)	-0.001*** (-3.57)
<i>ROA</i>	0.051** (2.54)	0.002*** (4.07)
<i>Ln(Asset)</i>	0.003 (1.30)	-0.000 (-0.50)
<i>Ln(Cash)</i>	-0.001 (-1.53)	-0.000 (-0.76)
<i>SOE Dummy</i>	-0.003 (-0.36)	0.000 (0.33)
<i>Private Dummy</i>	0.007 (0.79)	-0.000 (-0.56)
<i>Subsidy</i>	0.047 (0.60)	0.009*** (3.18)
<i>Ln(Trading Vol.+1)</i>	0.006*** (32.59)	0.000 (0.97)
<i>Zero Days (%)</i>	-0.000*** (-5.11)	-0.000 (-1.08)
Rating FE	Yes	Yes
Firm FE	Yes	Yes
Issuance Year FE	Yes	Yes
Institution FE	Yes	Yes
Observations	1,439,313	1,439,313
Adjusted R-squared	0.158	0.074

Table IA4. Determinants of CL Receipts – Including Issuers' Connections

This table presents the results of registration-level regressions analyzing the determinants of CL receipts. The independent variable, *Total Num. of Connected Institutions*, is the total number of a firm's connected financial institutions in the interbank market at the time of registration. Heteroskedasticity-consistent *t*-statistics clustered by bond registration date are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The definitions of all other variables are presented in Appendix A in the paper.

Dependent: <i>CL Dummy</i>	(1)
<i>Total Num. of Connected Institutions</i>	-0.001 (-1.02)
<i>SOE Dummy</i>	0.032*** (2.83)
<i>Private Dummy</i>	0.028** (2.50)
<i>Subsidy</i>	1.548*** (2.83)
<i>Ln(Registration Amount)</i>	0.054*** (9.51)
<i>Leverage</i>	-0.028 (-0.76)
<i>ROA</i>	-0.092 (-0.49)
<i>Ln(Asset)</i>	-0.111*** (-12.50)
<i>Ln(Cash)</i>	0.014** (2.07)
Rating FE	Yes
Registration Year FE	Yes
Observations	14,732
Adjusted R-squared	0.051

Table IA5. Default Spread Before and After the Policy Change on February 19, 2016

This table presents the average daily default spreads for the 12-month period before the policy change of February 19, 2016 (column 1), and for the 12-month period after the policy change (column 2). The AA- and AAA yield indices are obtained from the NAFMII. *t*-statistics for the differences between (1) and (2) are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Feb 19, 2015 – Feb 18, 2016 (1)	Feb 19, 2016 – Feb 18, 2017 (2)	Difference (2)-(1)
Default spread			
1-year AA- index – 1-year AAA index	1.873	1.884	0.011 (0.78)
3-year AA- index – 3-year AAA index	2.094	2.101	0.006 (0.82)
5-year AA- index – 5-year AAA index	2.346	2.345	-0.001 (-0.16)

Table IA6. Instrumental Variable Approach Using a Matched Sample

This table replicates Table 5 from the main paper using a matched sample that includes 1,070 registrations (# of treatment registrations = 535; # of control registrations = 535) and the associated 1,652 bond issuances. We construct the control sample using propensity-score matching. We match each treatment firm with a corresponding control firm that has similar ex-ante firm characteristics in 2015, the year before the regulatory regime shift. Panel A presents results of the balance tests of the means of firm characteristics using the matched sample. Panel B presents the results of the first-stage regression with the *CL Dummy* and *Connected Institution Share* as the dependent variable and the IVs including *Type I Firm Dummy*, *Post Dummy*, and *Type I Firm Dummy* $\times$ *Post Dummy*. *Type I Firm Dummy* equals 1 if a registered firm is a Type I firm and 0 otherwise. The detailed definition of Type I firm is provided in Appendix B in the paper. *Post Dummy* equals 1 in the months following the registry regime shift. Results of the second-stage regression are reported in Panel C. Column (1) presents the IV estimates of bond issuance allotment, while Columns (2) and (3) presents the IV estimates of bond pricing. Heteroskedasticity-consistent *t*-statistics clustered by bond issuance date are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The definitions of all variables are presented in Appendix A in the paper.

Panel A: Balance tests using the matched sample

	Treatment (1)	Control (2)	Difference (1)-(2)
<i>Ln(Asset)</i>	12.010	11.942	0.068 (1.23)
<i>Leverage</i>	0.676	0.680	-0.004 (-0.50)
<i>ROA</i>	0.017	0.020	-0.003 (-1.26)
<i>Ln(Sale)</i>	11.053	11.061	-0.008 (-0.09)
<i>SOE Dummy</i>	0.826	0.826	0.000 (0.00)
<i>Private Dummy</i>	0.806	0.806	0.000 (0.00)
<i>Subsidy</i>	0.004	0.004	0.000 (0.78)

Panel B: First-stage regressions

Dependent:	<i>CL Dummy</i>	<i>Connected Institution Share</i>
	(1)	(2)
<i>Type I Firm Dummy</i>	-0.042 (-0.63)	-0.065 (-1.46)
<i>Post Dummy</i>	-0.158** (-1.97)	-0.023 (-0.39)
<i>Type I Firm Dummy × Post Dummy</i>	-0.147* (-1.82)	-0.012 (-0.18)
<i>Ln(Issue Amount)</i>	0.035 (0.80)	0.067*** (2.76)
<i>Maturity</i>	0.004 (0.34)	-0.006 (-0.80)
<i>Leverage</i>	-0.411** (-1.99)	-0.194* (-1.89)
<i>ROA</i>	1.148 (1.01)	-1.112* (-1.80)
<i>Ln(Asset)</i>	-0.026 (-0.65)	0.065*** (2.98)
<i>Ln(Cash)</i>	-0.022 (-0.98)	0.016 (0.97)
<i>SOE Dummy</i>	-0.120 (-1.38)	0.018 (0.31)
<i>Private Dummy</i>	0.093 (1.59)	0.011 (0.35)
<i>Subsidy</i>	15.535*** (3.53)	2.355 (1.18)
<i>Ln(Trading Vol.+1)</i>	-0.030* (-1.72)	-0.072*** (-4.22)
<i>Zero Days</i>	0.000 (0.19)	-0.001 (-1.16)
Rating FE	Yes	Yes
Issuance Year FE	Yes	Yes
Observations	1,652	1,652
Adjusted R-squared	0.276	0.142

Panel C: Second-stage regressions

Dependent:	<i>Connected</i>		
	<i>Institution Share</i>	<i>Issuance Spread</i>	<i>Overpricing</i>
	(1)	(2)	(3)
<i>CL Dummy</i>	0.226** (2.04)	0.248 (0.49)	0.067 (0.69)
<i>Connected Institution Share</i>		0.653 (0.87)	-0.175 (-0.90)
<i>CL Dummy</i> × <i>Connected Institution Share</i>		-2.662*** (-2.86)	0.433** (2.13)
<i>Ln(Issue Amount)</i>	0.061** (2.12)	0.195*** (2.85)	0.051*** (2.84)
<i>Maturity</i>	-0.007 (-0.84)	0.043*** (3.34)	-0.018*** (-8.63)
<i>Leverage</i>	-0.082 (-0.66)	0.263 (1.50)	-0.071* (-1.73)
<i>ROA</i>	-1.393* (-1.87)	-3.795*** (-2.96)	-0.628** (-2.07)
<i>Ln(Asset)</i>	0.057** (2.36)	-0.119** (-2.50)	0.071*** (4.43)
<i>Ln(Cash)</i>	0.027 (1.63)	0.110*** (4.28)	-0.000 (-0.05)
<i>SOE Dummy</i>	0.038 (0.73)	-0.563*** (-8.42)	0.048*** (2.92)
<i>Private Dummy</i>	-0.005 (-0.13)	0.150*** (3.86)	-0.035** (-2.30)
<i>Subsidy</i>	-1.259 (-0.43)	18.884*** (5.37)	-2.625** (-2.30)
<i>Ln(Trading Vol.+1)</i>	-0.066*** (-3.83)	-0.260*** (-4.90)	-0.041*** (-2.65)
<i>Zero Days</i>	-0.001 (-1.25)	-0.007*** (-5.03)	-0.000 (-1.19)
Rating FE	Yes	Yes	Yes
Issuance Year FE	Yes	Yes	Yes
Observations	1,652	1,652	1,615
Adjusted R-squared	0.096	0.572	0.270