Spillover Effects of Changes in Bank Ownership Structure and Governance on Borrower Reporting Quality: Evidence from Chinese State Bank Privatizations

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Abstract

Banks play an important role in countries transitioning from state-controlled to market-based economies. We study how changes in bank ownership structure and corporate governance driven by a partial transfer of bank control from the state to public markets influence banks' lending practices and in turn, their borrowers' financial reporting quality (FRQ). The privatizations of Chinese state banks (CSBs) provide an ideal setting for answering this question. Using a difference-in-difference research design which compares changes in CSBs that issue Initial Public Offerings (IPOs) to those that do not, we find that bank-lending terms, including loan maturity, guarantee requirement, and interest spread, become more sensitive to borrowers' return-on-assets (*ROA*) after a bank's IPO. We also find that pursuant to the IPOs by their lending banks, various measures of borrowers' FRQ improve significantly. Further, the increase in FRQ is more pronounced for borrowers from those IPO-issuing CSBs whose loan terms exhibit a larger increase in sensitivity to borrowers' FRQ. These results suggest that post-privatization: (1) CSBs increase their reliance on borrowers' operating performance for setting loan terms; (2) this increased reliance contributes to an improvement in the quality of the financial statements that provide the performance measures. Cross-sectional analysis reveals that the increases in sensitivity of loan terms to borrower performance, as well as borrowers' FRQ are more pronounced for IPO-issuing CSBs experiencing a greater increase in board financial expertise or a greater decline in political connections following their IPOs.

1. Introduction

The goal of our study is to examine the spillover benefits of the privatization of lending institutions for their borrowers' financial reporting quality (FRQ). We hypothesize that bank privatization is associated with increased reliance of banks on borrower performance to evaluate loans and decide lending terms, which leads to an improvement in the quality of borrowers' financial statements. The central tenet underlying our findings is the following: when institutional developments and the discipline imposed by capital markets lead to capital allocation decisions becoming more dependent on capital seekers' performance, there is an equilibrium increase in the quality of the financial statements yielding the measures of performance. Our paper thus highlights how reporting quality can improve in an economy with the evolution of national lending institutions and capital markets, and consequent modifications in the contractual environment.

We focus on Initial Public Offerings (IPOs) by state-owned banks in China. Prior to their IPOs, Chinese state banks (hereafter CSBs) often functioned as extensions of the state, and their loan grant decisions were motivated less by conventional norms of prudent governance and profit generation, and more by the need to satisfy political considerations (Dinc, 2005; Bailey, Huang, and Yang, 2011). Following their IPOs, managers of CSBs newly subject to the scrutiny of public markets had increased incentives to improve their lending practices to better their own performance and focus on increasing shareholder value. As part of this process, we expect CSBs' screening and monitoring activities to become more dependent on arm's-length evaluations of borrowers' financial performance, rather than motivated by alternative considerations such as political ties.

Since measures of financial performance are products of borrowers' reporting system, banks increasingly reliant on borrowers' reported financial statements have greater incentives to more carefully assess and monitor those statements. Borrowers in turn have incentives to report high-quality financial statements to maintain and/or increase their borrowing capacity in the new regime. Based on this premise, we formulate two testable predictions centered on the IPOs of CSBs. First, following their IPOs, CSBs' lending decisions become more sensitive to borrowers' operating performance. Second, following IPOs by their respective lending banks, borrowers' financial reporting quality improves.

To test the above predictions, we use data obtained from various sources for the period spanning 2001 and 2013. In our first set of tests, we examine whether CSBs issuing IPOs exhibit a greater change in the sensitivity of loan terms to borrower performance than CSBs that did not issue IPOs. For our second set of tests, we compare changes in borrower reporting quality when their CSB-lenders issued IPOs to concurrent changes in the reporting quality of borrowers whose lending banks did not issue IPOs. To measure borrower performance, we rely on earnings, specifically return-on-assets (*ROA*).[1] Correspondingly, for reporting quality, we focus on the quality of reported earnings.

The difference-in-difference analyses yield two key findings. First, bank-lending terms, including loan maturity, guarantee requirement, and interest spread become more sensitive to borrower *ROA* after a bank IPO. This evidence highlights that following their IPOs, CSBs increase their reliance on borrowers' operating performance, specifically, borrower *ROA* for

[1] Our methodology is similar to that in Qian, Strahan, and Yang (2015), who evaluate the influence of a shift in loan-granting responsibility towards loan officers at large stated-owned banks in China by examining changes in the sensitivity of internal credit ratings to borrowers' *ROA*, among other factors.

making lending decisions.[2] Second, after their lending banks issue IPOs, various measures of borrowers' FRQ improve. Further analysis reveals that the improvements in borrower reporting quality are more pronounced for those IPO-issuing banks that exhibit a greater post-IPO increase in the sensitivity of loan terms to borrower performance. These results suggest that CSBs' increased reliance on borrowers' *ROA* for setting loan terms is also accompanied by an improvement in the quality of the financial statements that yield those *ROA* metrics.

Our primary results are robust to controlling for confounding factors in the cross section and in the time series. As a robustness check we identify borrowers within every year that have at least one loan outstanding from a CSB that has already issued an IPO and at least one loan outstanding from a CSB that hasn't. Within this sample we find that the loan terms of CSBs that have already issued IPOs are more sensitive to borrower performance than those of CSBs that have not. Our results on both loan term sensitivity to borrower ROA and borrower FRQ are also robust to restricting the sample of borrowers to those firms that had outstanding loans from CSBs or initiated new loans from CSBs both before and after the banks' IPOs.

We implicitly assume that the channel via which IPOs improve CSBs' lending practices and borrowers' reporting quality is more professional governance and less politically motivated lending in Chinese banks, resulting in higher quality screening and monitoring. The goal of our next test is to validate this assumption. We begin with documenting that CSBs issuing IPOs exhibit an increase in the proportion of board members with financial expertise and a decline in the proportion of board members with political connections. We then show that both the

[2] In an additional test, we examine whether the ability of multiple accounting characteristics of the borrower (including ROA, financial leverage and asset tangibility) to explain variation in loan terms rises after the corresponding bank issues an IPO, and find that is indeed the case.

increase in the sensitivity of loan terms to borrowers' *ROA* and the increase in borrowers' FRQ subsequent to lender IPOs are more pronounced in banks with higher post-IPO increases in board financial expertise and greater reductions in board political connections.

In additional analysis, consistent with the beneficial effects of reduced state control, we confirm that the increased reliance on borrower *ROA* to set loan terms is more evident in banks with a greater post-IPO reduction in state ownership. Reporting quality also rises by a greater extent for firms who borrow from these CSBs. A confounding factor in the time period we analyze is China's adoption of a new set of Generally Accepted Accounting Principles (GAAP) in 2007, whose goal was to increase convergence between Chinese GAAP and International Financial Reporting Standards (IFRS). To examine whether the adoption of new Chinese GAAP mitigates our results, we restrict our tests on an increase in the sensitivity of loan terms to borrower *ROA* and improvements in borrowers' reporting quality following bank IPOs to the post-adoption period. Our results are robust to this specification, highlighting the important role that bank IPOs play in the changes we observe.[3]

Our study contributes to the literature in several ways. A number of studies have been interested in how borrowers' financial statements quality influences bank lending.[4] We examine an alternative direction of causality. In particular, we propose that when banks exogenously evolve to become more sensitive to borrower performance, the financial reporting quality of borrowers improves.

[3] Indeed, our results are significant only in the post -adoption sample. This is possibly because the fewer IPOs in the pre-IFRS period weaken our power to detect significant changes.

[4] These studies include Ball, Bushman, and Vasvari (2008), Bharath, Sunder, and Sunder (2008), Zhang (2008), Beatty, Liao and Weber (2010), Nikolaev (2010), Minnis (2011), Costello and Wittenberg-Moerman (2011), Cassar, Ittner, and Cavalluzo (2015), Gallimberti (2016) and Donelson, Jennings, and McInnis (2017).

The literature has investigated changes in financial statement quality, as well as the quality of voluntary disclosures, in response to changes in economic environment of lenders. Shocks to the lending environment examined in the literature include capital constraint shocks faced by lenders (Lo, 2014), the development of new financial instruments in the capital markets that potentially influence lenders' monitoring incentives (Martin and Roychowdhury, 2015), and the entry of new banks in the lending market (Gormley, Kim, and Martin, 2012). Our paper contributes to this literature by examining how a weakening in the influence of political connections and a strengthening in the influence of capital markets facilitated by bank privatizations can lead to an increase in earnings quality along multiple dimensions.

A number of studies have pointed to the association between the political economy and financial reporting quality across countries (Ball, Kothari, and Robin, 2000; Bushman, Piotroski, and Smith, 2004). They typically find that a higher degree of political ownership and state control corresponds to lower financial reporting transparency. We contribute to this literature by demonstrating that the relation between the political economy and reporting quality is more than associative. When exogenous events lead to a weakening of state influence and a move towards more professional governance via privatizations of state-owned banks, there is a ripple effect through lending that leads to an improvement in the accounting quality of borrowers. Thus, our paper also adds to the literature on how reporting quality in an economy evolves and improves, beyond the adoption and enforcement of better accounting standards (Barth, Landsman, and Lang, 2008; Daske, Hail, Leuz, and Verdi, 2013).

Finally, our work also relates to research that has found that privatizations of state-owned firms have a positive influence on the governance and performance of the privatized entities

(Boubakri and Cosset, 1998; Dewenter and Malatesta, 2001; Gupta, 2005). In particular, studies on the influence of privatizations of state-owned institutions on political connections and corporate governance in emerging markets such as China and India have generated some interesting insights. This literature finds that privatizations of state-owned entities lead to improved corporate governance (Gupta, 2005; Allen, Qian, Shan, and Zhao, 2014), but also reports that the benefits of privatization are conditional on the extent of retained political connections and state control (Gupta, 2005; Fan, Wong, and Zhang, 2007; Piotroski and Zhang, 2014). Rather than just concentrating on privatized firms themselves, our study highlights that bank privatizations have a beneficial effect on borrower reporting quality. To the extent that the benefits of an increase in reporting quality is likely to be shared by multiple external stakeholders of the borrowing firms (for example, shareholders, suppliers and customers), our study points to the positive spillover effects of bank privatization.

2. Setting, literature review and hypotheses development

The banking sector, in particular the group of state-controlled banks often referred to as the Big Four, has traditionally played a dominant role in China's financial system (Chen, Chen, Lobo, and Wang, 2010).[5] Over the past three decades, the Big Four have controlled more than half of the nation's total banking assets. The Chinese government's heavy involvement in banking has been a source of concern that the banks' operations and strategies have been disproportionately motivated by political goals, instead of by prudent lending and value maximization.

[5] The Big Four banks include ICBC, BOC (Bank of China), ABC (Agricultural Bank of China) and CCB (China Construction Bank.

Government ownership is typically associated with political intervention, which in turn is known to be associated with sub-optimal outcomes (La Porta, Lopez-de-Silanes, and Shleifer, 2002; Sapienza, 2004; Dinc, 2005; Khwaja and Mian, 2005; Fan et al., 2007; Bailey et al., 2011). Dinc (2005) establishes a link between government ownership and politically motivated lending, documenting that government-owned banks increase lending in election years relative to private banks. A large literature concludes that political intervention is generally detrimental to the pursuit of profitable policies and strategies. La Porta et al. (2002) find that higher government ownership of banks in a country is associated with slower subsequent financial development and lower national economic growth.

In a study centered on Chinese markets, Bailey et al. (2011) argue that Chinese state banks are subject to significant governmental and political intervention, leading to sub-optimal lending. Consistent with this argument, they find negative stock market responses for companies announcing new loans from Chinese state banks (CSBs), in stark contrast to the findings based on the US borrowers (Mikkelson and Partch, 1986; James, 1987; Lummer and McConnell, 1989; Best and Zhang, 1993; Billett, Flannery, and Garfinkel, 1995). CSBs' balance sheets are also saddled with large non-performing loans (NPLs), which is commonly attributed to government ownership and political lending (Bonin and Huang, 2001; Allen et al., 2014). Piotroski and Zhang (2014) find that local imminent political elections can influence the pace and performance of IPOs in China.

Cognizant of the deficiencies in the banking sector arising from political interference, the Chinese central government has been proactively encouraging reforms to improve the banking industry's asset quality, risk management and capital base since the late 1990s. China's entry

into World Trade Organization (WTO) in 2001 and the decision to allow foreign banks entry into China motivated regulators to institute a series of reforms to improve the ability of CSBs to compete with foreign banks. Focusing on the Chinese market reforms spanning 2002 to 2004, Qian, Strahan, and Yang (2015) analyze a large CSB and find that the bank's internal risk ratings became a stronger predictor of loan interest rates and *ex post* outcomes following the reforms. In turn, internal credit ratings became more dependent on "hard" information variables such as return on assets (*ROA*), leverage and assets. Their evidence suggests that the banking industry reforms in China improved loan officers' incentives and led to more performance-sensitive bank lending practices.

As part of the reform process, the Chinese government also initiated bank privatizations to further "…*improve management, governance and ultimately, transparency*" (Bailey et al., 2011). Indeed, the privatizations via IPOs of CSBs were a crucial component of the reforms, reflecting the State's efforts to encourage Chinese financial institutions to function in a market-oriented system. Privatizations of state-owned entities are in general associated with improvements in governance and performance. Boubakri and Cosset (1998) find significant improvements in the operating performance following privatization based on a sample of 79 firms from 21 countries. Dewenter and Malatesta (2001) find that financial performance improves before privatization but declines subsequently based on cross-country panel data on 500 large firms. Gupta (2005) documents that partial privatization has a positive effect on firm profitability, productivity and investment using data on Indian state-owned firms. Allen et al. (2014) focus on the IPO of one specific CSB that was initiated as part of the reforms, Industrial

and Commercial Bank of China (ICBC), and find that ICBC improved its corporate governance and bank performance during the IPO process.

Following this literature, we expect that the post-IPO discipline imposed by public capital markets would significantly improve banks' loan screening and monitoring processes. In particular, we predict that the partial transfer of CSB ownership from the government to public investors reduces politically motivated bank lending and promotes lending practices that rely more on arm's-length evaluations of borrowers' financial performance.

Since measures of financial performance are products of borrowers' reporting statements, banks' lending decisions are expected to be sensitive to reporting quality. A sizeable literature investigates and largely confirms this hypothesis. Ball et al. (2008) document that more credit relevance of borrower accounting information is associated with lower lead arranger ownership required by participating lenders. Zhang (2008) documents that loan spreads vary negatively with borrower reporting conservatism. Using the presence of material internal control weaknesses as an indicator of poor reporting quality, Costello and Wittenberg-Moerman (2011) find that lenders reduce their reliance on financial covenants when they cannot trust the quality of financial statements. Minnis (2011) finds that lenders are more sensitive to financial statements in setting interest rates for private firms when those statements are audited. Other studies have also documented a significant influence of borrower accounting quality on interest rates (Cassar et al., 2015) and other loan terms such as guarantee and collateral requirement (Donelson et al., 2017). Nikolaev (2010) finds that borrower accounting conservatism affects the use of financial covenants in public bonds. Beatty et al. (2010) present evidence suggesting that bank financing is less forthcoming for firms with poorer reporting quality. Gallimberti

(2016) suggests that banks' ability to assess loan quality is impaired when they encounter less familiar financial statements.

Not only do lenders monitor and react to accounting quality, they can also influence the quality of reported financial statements. The evidence in Martin and Roychowdhury (2015) implies that reporting conservatism of borrowers is higher when bank monitoring of financial statements is more intense. Borrowers in turn have incentives to provide high-quality disclosures and financial statements to maintain and/or increase their borrowing capacity and influence their credit terms. Lo (2014) documents improvements in voluntary disclosure quality when lenders face capital shocks, prompting borrowers to seek external sources of financing. Gormley et al. (2012) suggest that borrowers in India voluntarily increased reporting conservatism in response to the entry of multinational banks into the domestic market, which increased credit market competition for the local lenders. Building on the evidence in the literature, we predict that when the post-IPO lending decisions of Chinese state banks become more contingent on financial statements, bank monitoring and borrower bonding imply that the quality of borrowers' financial statements will rise.

In formulating our empirical tests, we first examine whether following IPOs of CSBs, their lending decisions, specifically interest spread, guarantee requirement and loan maturity, become more sensitive to their borrowers' earnings measured via *ROA*. Second, we test whether following IPOs by CSBs, their borrowers' earnings quality improves. We do not expect or suggest that when granting loans, banks rely exclusively on *ROA*. Rather, *ROA* serves as a proxy for financial performance that may be correlated with, or a determinant of, several aspects of credit risk that influence lending decisions. Consistent with this argument, Qian et

al. (2015) find that the sensitivity of bank internal credit ratings to borrower ROA more than doubled after banking reforms. Further, the focus on *ROA* as a summary determinant of lending decisions in our first set of tests corresponds well with our focus on changes in borrowers' earnings quality in the second.

The positive influences of bank privatizations rely crucially on a post-privatization decline in politically motivated lending and an increase in professional governance. For example, Fan et al. (2007) find that following privatization of Chinese state-owned firms, those who retain political connections underperform relative to firms without such connections. To identify the channel via which IPOs influence CSBs' lending practices and their borrowers' reporting quality, we first test whether IPO-issuing CSBs exhibited a decline in political connections and an increase in board financial expertise. Second, we partition these banks into two groups based on the extent to which CSBs experienced a change along those two dimensions after issuing IPOs. The goal is to examine whether the heightened sensitivity of bank lending terms to borrower performance and the improvement in borrower reporting quality are more pronounced among (1) CSBs with a greater decline in political connections and (2) those with a greater increase in board financial expertise.

Our cross-sectional predictions based on the board's financial expertise and political connections in IPO-issuing CSBs point to an important link in our underlying hypotheses. We do not expect that being selected for privatization is enough to generate changes in a state bank's lending practices, or have spillover effects on borrowers' financial statements. Rather, changes in governance following the IPOs are necessary to obtain these effects. The IPOs themselves play a significant role to the extent that any change in bank governance is likely to

be more credible (and less reversible) when the bank is additionally subject to the scrutiny of public capital markets.

3. Data collection and research design

3.1. Data collection

Our sample period starts from 2001, when a new set of rules took effect associated with China's entry into the WTO (Chen et al., 2010) and the entry of foreign banks and other financial intermediaries into China.[6] The sample ends in 2013. The initial loan origination sample consists of all bank loans from China Listed Companies Bank Loan Research Database, available in the China Securities Markets and Accounting Research (CSMAR) Database. CSMAR collects information from borrowers' public filings regarding loan terms at origination, such as loan size, loan maturity, loan type, collateral and guarantee requirement, and interest rates. A number of loans in the original CSMAR database do not have full data on various loan terms. We manually collect the missing information from firms' press releases.[7] We acquire information on corporate governance and performance changes surrounding bank IPOs from the banks' IPO prospectuses and financial statements.

We construct two separate samples to examine (1) changes in banks' reliance on borrowers' financial performance to screen borrowers (Loan sample) and (2) changes in borrowers' financial reporting quality (FRQ sample). With respect to the former, we retain only A-share

[6] The new rules include that foreign investors are able to own up to 40 percent of shares of commercial banks in China, foreign banks can offer services in local currencies to Chinese corporations, foreign firms can hold minority shares in securities fund management joint ventures, and foreign firms can provide accounting, management consulting, architecture and engineering services, etc.

[7] Bank loans represent material contracts, which are required to be announced publically by listed companies.

listed nonfinancial borrowers with available bank loan information.[8] We exclude loans by state-bank borrowers lacking necessary financial information from the CSMAR's China Stock Market Financial Statements Database and loans issued by non-state owned banks. The final loan sample used in the analysis contains 12,759 loans originated during the period from 2001 to 2013 for 1,252 unique firms. These loans are made by 230 unique CSBs, 17 of which went public during the sample period.

Our FRQ sample consists of Chinese nonfinancial listed A-share firms that either borrowed at least one loan from state-owned banks or have never borrowed from any bank during the sample period. Non-borrowing firms serve as the control sample, which allows us to control for systematic temporal effects such as the adoption of a new set of Chinese GAAP in 2007. We further eliminate cross-listing firms to avoid any confounding effect on firms' accounting quality (e.g., Huijgen and Lubberink, 2005). Our FRQ sample contains 17,513 firm-years with 2,300 unique firms.

Table 1 presents the list of 17 CSBs that went public before the end of 2013, their stock code, corresponding IPO dates, and the change in state ownership after IPO. Four banks went public in 2007, the maximum number of bank IPOs in any given year. There is significant variation in the reduction of state ownership post-IPO ranging from a decline of 9.70 percent for Bank of Ningbo to 52.99 percent for Huaxia Bank.

[Insert Table 1 here]

[8] We exclude companies issuing only B shares (e.g., Chen, Sun, and Wu, 2010; Firth, Mo, and Wong, 2012), given the B-share market differs from that of A-share in many ways, including pricing, liquidity, foreign currency regulations, and accounting and auditor requirements.

3.2. Research design

To test whether CSBs increase their reliance on borrower financial performance post-IPO, we use the sensitivity of lending terms to borrower performance to measure banks' reliance on borrower financial performance. Specifically, we estimate the following regression model:

$$Lending\ terms_{i,b,t} = \beta_0 + \beta_1 Post\ Bank\ IPO_{b,t} + \beta_2 ROA_{i,t-1} \times Post\ Bank\ IPO_{b,t} + \beta_k Borrower\ Characteristics_{i,t-1,k} + \beta_b Bank\ fixed\ effects + \beta_m ROA_{i,t-1} \times Bank\ fixed\ effects + \beta_t Year\ Fixed\ Effect + \beta_l Industry\ Fixed\ Effect + \varepsilon_{i,t}\ , \quad (1)$$

where *i*, *b*, *t*, *k*, and *l* represent borrower, bank lender, loan initiation year, borrower characteristic, and borrower industry, respectively. Please see Appendix A for full variable definitions. As discussed in Section 2, our goal is not to isolate the incremental effect of *ROA* on loan terms but rather its total effect, in an effort to estimate the overall extent to which variation in lending decisions is driven by variation in borrower performance.

Lending terms are measured alternatively by the natural logarithm of loan maturity in years (*Loan Maturity*), the existence of a guarantee or collateral requirement (*Guarantee Requirement*), and the interest spread that equals the difference of actual loan interest over the China central banks' base rate for loans (*Interest spread*).[9] Prior research shows that loan maturity tends to be shorter and the demand for loan guarantees is higher when the agency costs of debt are higher (Smith and Warner, 1979; Stulz and Johnson, 1985; Manove, Padilla, and Pagano, 2000; Johnson, 2003; Billet, King, and Mauer, 2007). We use the OLS model to estimate *Loan Maturity* and *Interest spread* regressions and Logit model to estimate *Guarantee Requirement* regression. *Post Bank IPO* is an indicator variable, equaling one if the loan

[9] The Guarantee Law of the People's Republic of China，effective on October 1st, 1995, legalizes the use of guarantee to protect creditors' claims.

initiation year falls in the post-lender-IPO period, and zero otherwise. If banks increase their reliance on borrower financial performance post-IPO, we expect $\beta_2$to be positive.

Our regression includes control variables known to influence loan terms such as borrower size (measured as the natural logarithm of total assets), asset tangibility (the value of property, plant and equipment as a percentage of total assets), Tobin's Q, financial leverage, and loan amount. We include borrower industry fixed effects, because loan terms can vary systematically across industries due to different asset structures and credit risk profiles. Loan terms might also vary over time because of changing macroeconomic conditions. We thus include year fixed effects. Lending technologies might vary across banks, which possibly affect contract terms and banks' reliance on borrower financial information. We therefore control for bank fixed effects and bank fixed effects interacted with borrower *ROA*. Note that the inclusion of *ROA*Bank fixed effects* makes *ROA* redundant as a control variable.

To test whether borrower financial reporting quality improves post lender IPO, we use three individual measures and one composite measure. The first measure is the standard deviation of discretionary accruals (*STDDA*) following Francis, LaFond, Olsson, and Schipper (2005). Francis et al. (2005) find that firms with lower standard deviation of discretionary accruals have lower cost of capital. The second measure is signed discretionary accruals (*DA*) estimated based on Jones (1991) model augmented to include the piece wise modifications suggested by Ball and Shivakumar (2006). The piece wise modifications take into consideration firms' practice of conservative accounting policy. The evidence from prior research (Ashbaugh-Skaife, Collins, Kinney, and LaFond, 2008; Bhattacharya, Desai, and Venkataraman, 2013; Stanley, Brandon, and McMillan, 2015) suggests that higher level of

discretionary accruals represents lower financial reporting quality. The third measure is non-operating income (*NOI*) (Chen and Yuan, 2004; Jian and Wong, 2004; Gul, Sami, and Zhou, 2009). The Chinese Securities Regulatory Commission (CSRC) set eligibility rules based on return on equity (ROE) for stock trading and equity issuance, which might provide Chinese listed companies an incentive to manipulate earnings through nonrecurring items.[10] Consistent with this notion, Chen and Yuan (2004) find that firms gain rights issue approval through excess non-operating income management.

$$
\begin{aligned}
FRQ_{i,t} = {} & \gamma_0 + \gamma_1 POSTIPOBANK_{i,t} + \gamma_2 IPOBANK_{i,t} + \gamma_3 BANK_{i,t} + \gamma_4 SIZE_{i,t} + \gamma_5 QUICK_{i,t} \\
& + \gamma_5 Leverage_{i,t} + \gamma_6 INVREC_{i,t} + \gamma_7 GROWTH_{i,t} + \gamma_8 FOREIGN_{i,t} + \gamma_9 LOSS_{i,t} \\
& + \gamma_t Year\ Fixed\ Effect + \gamma_i Firm\ Fixed\ Effect + \varepsilon_{i,t},
\end{aligned}
\tag{2}
$$

where *i* and *t* represent firm and year, respectively. We adopt model (2) to test financial reporting quality changes surrounding lender IPOs. The dependent variable of model (2) is *FRQ*, where *STDDA*, *DA*, *NOI* or *Composite Score* serves as the (inverse) proxies for FRQ. *STDDA* is the standard deviation of firm *i*'s residual (discretionary accruals) over year t-4 to year t. *DA* is discretionary accruals, estimated using the Jones (1991) model augmented by Ball and Shivakumar's (2006) piecewise modifications. The model is estimated within each year-industry group with no fewer than five observations. *NOI* is noncore operating earnings (net income minus core operating income) scaled by owners' equity (Chen and Yuan, 2004). *Composite Score* is a composite measure of earnings quality obtained from principal

[10] For example, Chinese publicly listed firms were required to have a minimum of 10 percent average *ROE* and a minimum of 6 percent *ROE* in each year for three consecutive years leading to its IPO (CSRC Notice No. 12, 1999).

component analysis using *STDDA*, *DA* and *NOI*. Higher values of all four measures of earnings quality represent poorer reporting quality.

The primary variable of interest in model (2) is *POSTIPOBANK*, which equals one for a firm-year when the firm has a loan outstanding in that year from at least one CSB that has already issued an IPO. If borrowers' reporting quality improves following their lenders' IPO, we expect lower *STDDA*, *DA*, *NOI* or *Composite Score* and thus a negative γ_1. A critical element of this research design is that the partitioning event in the test, the IPO of the lending bank, pertains not to the borrowers in the sample but to their banks. Thus any change in borrowers' financial reporting quality is likely driven by changes in banks' reliance on financial statements in making lending decisions and/or monitoring borrowers following the event.

We include *IPOBANK*, an indicator that equals one if a firm-year has an outstanding bank loan from any CSB that ever went through IPO by the end of our sample period to control for systematic differences across borrowers that receive loans from banks that have IPOs. *BANK*, an indicator that equals one if a firm has an outstanding bank loan, controls for any systematic difference between firms with a bank loan outstanding from those without a loan. The inclusion of *POSTIPOBANK*, *IPOBANK* and *BANK* in the regression along with firm fixed effects implies that the benchmark period is the time period during which a firm has no bank loan outstanding (or the "non-borrowing" period). Thus, *POSTIPOBANK* captures the difference between borrowers from IPO-issuing banks in the post-IPO period and non-borrowing firms, relative to the same difference in the non-borrowing period. *IPOBANK* captures the difference between borrowers from IPO-issuing banks in the pre-IPO period and non-borrowing firms, relative to the same difference in the non-borrowing period. *BANK* captures the difference

between borrowers from any bank and non-borrowing firms, relative to the same difference in the non-borrowing period.

We further include in model (2) various factors that the literature suggests are associated with firm reporting quality (Chen and Yuan, 2004; Ashbaugh-Skaife et al., 2008; Bhattacharya et al., 2013; Stanley et al., 2015). Specifically, we control for firm size (*SIZE*), liquidity (*QUICK*, *Leverage*), operating complexity (*INVREC*, *FOREIGN*) and profitability (*GROWTH* and *LOSS*). To control for time invariant firm characteristics and time variant macroeconomic factors that might affect borrower financial reporting quality, we include firm fixed effects and year fixed effects. The regression variables used in model (2) are defined in Appendix A.

All continuous variables are winsorized at top and bottom one percent. Table 2 reports summary statistics of the key regression variables for the Loan and FRQ sample in Panels A and B, respectively. Panel A shows that the average loan matures in 2.7 years. Loan amount varies from RMB 3.2 million at the 25th percentile to RMB 4.7 million at the 75th (equivalent to US$ 500,000 and US$ 700,000, respectively). 52 percent of loans require either collateral or guarantee, with the average actual interest rate (*Raw Interest rate*) at 6.130 percent (comparable to 5.598 percent reported in Bailey et al., 2011) and interest spread (actual loan interest rate − the China central bank's base rate for loans) at 1.05 percent. Borrowers have mean *ROA* and leverage ratio of 2.7 percent and 19.50 percent, respectively.

In Panel B, 28.3 percent of firm-years have loans outstanding from banks, 25.5 percent have loans outstanding from CSBs that issue IPOs during the sample period, and 19.4 percent have loans outstanding from CSBs that have *already* issued IPOs. The data indicates the dominance of IPO-issuing CSBs in China's lending market. Mean standard deviation of

accruals, discretionary accruals and non-operating income (*STDDA*, *DA* and *NOI*) are respectively 4.1 percent, 1.0 percent and -1.1 percent. The summary statistics of *STDDA*, *DA*, and *NOI* of our sample firms are comparable to those reported in prior studies examining Chinese firms (e.g., Wang and Wu, 2011; Chen and Yuan, 2004). The average firm has a quick ratio of 1.503. The average leverage ratio (*Leverage*) is high at 47.5 percent and inventory and receivables (*INVREC*) collectively constitute 31.1 percent of total assets. The average sales growth (*GROWTH*) is 22.5 percent, although the median is much lower (13.9). 18.8 percent of firm years have foreign operations (*FOREIGN*) and 10.7 percent experience a loss over the sample period (*LOSS*).

[Insert Table 2 here]

4. Empirical results

4.1. Results of testing the change in bank reliance on borrower financial information following a bank IPO

To test whether banks' IPOs affect banks' reliance on borrower financial performance, we estimate equation (1). Table 3 Panel A reports the results with the unit of observation at the loan level. In Column (1), natural log of loan maturity (*Loan Maturity*) serves as the dependent variable. We observe a positive and significant coefficient on the interaction term between borrower *ROA* and *Post Bank IPO* for the loan maturity regression.[11] The evidence suggests

[11] The mean coefficient on *ROA*Bank fixed effects* in Column (1) of Table 3, which captures the pre-IPO loan maturity sensitivity to borrower *ROA*, is 1.184 and it is statistically insignificant from zero. The corresponding standard deviation is 8.311. The mean coefficient on *ROA*Bank fixed effects* in Columns (2) and (3) are -1.528 and -0.034, respectively, with only the latter being significant at the 5% level. The corresponding standard deviation is 12.371 and 4.036, respectively. This evidence suggests that borrower *ROA* may not have been a crucial factor determining loan terms in the pre-IPO period. Rather loan terms were likely to have been driven by the value of the borrowers' political connections.

that the loan maturity decision becomes more sensitive to borrower financial performance after a lender went public. Column (2) reports results from the loan guarantee regression. The coefficient on the interaction term (*ROA*Post Bank IPO*) is negative and statistically significant, implying that banks place a larger weight on borrower performance when deciding on the guarantee requirement after IPO. Finally, in Column (3), we report results focusing on loan interest spreads. The interaction between borrower *ROA* and *Post Bank IPO* is negative and statistically significant even after controlling for loan size and maturity indicating that interest spreads also become more sensitive to borrower *ROA* post-IPO. The economic magnitude of the bank IPO effect is significant. The increase in loan term sensitivity to borrower *ROA* in the post-IPO period is 4.4 percent (for loan guarantee requirement), 13.2 percent (for interest spread) and 16.6 percent (for loan maturity) of the corresponding standard deviation in the pre-IPO period.[12]

Turning to the control variables, large borrowers and borrowers with higher growth opportunities (*Tobin's Q*) and more tangible assets (*Asset Tangibility*) tend to have loans with longer maturities. We also find a positive correlation between *Loan Amount* (loan size) and *Loan Maturity*. Firm size (*SIZE*) and leverage (*Leverage*) are positively associated with *Guarantee Requirement*. Large firms are charged a lower interest rate, while firms with higher leverage are charged a higher interest rate. These results are largely consistent with prior studies

[12] The calculation is as follows: the effect for loan maturity decision = 1.387 (the coefficient on *ROA* Post Bank IPO* in column (1))/8.311 (reported in footnote #11) = 16.6%; the effect for loan guarantee requirement decision = 0.552 (the coefficient on *RA* Post Bank IPO* in column (2))/12.371(reported in footnote #11) = 4.4%; and the effect for interest spread decision = 0.533 (the coefficient on *RA* Post Bank IPO* in column (2))/4.036 (reported in footnote #11) =13.2%.

based on US firms and Chinese firms (Johnson, 2003; Billett et al., 2007; Ashcraft and Santos, 2009; Brockman, Martin, and Unlu, 2010; Qian et al., 2015).

To summarize the primary results from Table 3 Panel A, following lender IPOs loan maturities became more positively associated, and guarantee requirements and interest spreads more negatively associated with borrower *ROA*. These results are consistent with banks placing a greater emphasis on borrower financial performance following their IPOs when deciding lending terms.

To capture arm's-length lending based on borrowers' financial statements, our main empirical tests rely on the sensitivity of loan terms to borrower ROA. As explained earlier, ROA serves as a summary accounting statistic that may also capture the influence of other correlated accounting variables lenders rely on in the post-IPO period to grant loans. In addition to our primary tests, we examine whether lending terms become more sensitive to financial statement variables that are likely to capture borrowers' credit risk, in particular their leverage and asset tangibility, along with their ROA. Our tests employ the bootstrapping procedure. Each time, for a random selection of 50 percent of the 2,114 (409) loans extended by IPO banks in their pre-IPO period, we estimate regressions of loan maturity and loan guarantee (loan interest spread) on borrower *ROA*, *SIZE, Leverage*, *Tobin's Q*, and *Asset Tangibility*, and obtain the R^2 of every regression. These regressions are estimated 500 times for every dependent variable. We then repeat the above procedure for loans extended by IPO banks in their post-IPO period.[13]

[13] 8,090 loans were extended by IPO banks in their post-IPO period. Among them, 530 loan have non-missing interest spread information.

As Table 3, Panel B reports, the mean R^2 of for the loan maturity regression across the 500 estimations in the pre-IPO and post-IPO period respectively is 0.061 and 0.163. The t-stat for the difference between the two is 2.178, statistically significant at the five percent level. We find similar results for the other two lending terms − loan guarantee requirement and interest spread. Results from Table 3 Panel B corroborate those in Panel A, suggesting that indeed lenders increase their reliance on borrower credit risk in making lending decisions in the post-IPO period.

[Insert Table 3 here]

4.2. Results of testing the change in borrower reporting quality following bank IPO

Table 4 reports the results testing the change in borrower reporting quality following bank IPOs based on equation (2). Recall that the dependent variable, financial reporting quality (*FRQ*), is measured via four different metrics: the standard deviation of discretionary accruals (*STDDA*), discretionary accruals (*DA*), non-operating income (*NOI*), and a composite measure (*Composite Score*) computed based on a principal-component analysis of *STDDA*, *DA*, and *NOI*. Lower values of these metrics correspond to higher FRQ.

The variable of interest, *POSTIPOBANK*, captures the change in borrowers' financial reporting quality following their respective lenders' IPOs. In all four columns, the coefficients on *POSTIPOBANK* are negative and statistically significant at least at the 5 percent level. Focusing on the composite measure, we find that a lender IPO is followed by a decrease in the composite score by 0.080, which represents 7.4 percent of its sample standard deviation.[14] In

[14] Results on other measures of financial reporting quality are qualitatively similar. They are available upon request.

un-tabulated tests, we also examine borrower accounting conservatism as a proxy for FRQ. We find that borrower accounting conservatism also increases post-bank-IPO.[15]

Turning to the control variables in Table 4, bank lending does not affect borrower financial reporting quality as evidenced by the insignificant coefficient on *BANK*. We also observe no difference in the loan effect on borrower reporting quality between non-IPO banks and IPO banks since the coefficient on *IPOBANK* is statistically indistinguishable from zero. Among borrower characteristics, firm leverage is positively associated with financial reporting quality, as evidenced in its negative association with *Composite Score*, while growth rate, foreign operation indicator, and loss indicator are negatively associated with financial reporting quality. These findings are largely consistent with prior studies (e.g., Ashbaugh-Skaife et al., 2008; Francis and Yu, 2009).

In summary, results from Table 4 suggest that borrowers' reporting quality improves significantly following their lenders' IPOs. The results in conjunction with those in Table 3 suggest that (1) following their IPOs, banks increased their reliance on borrower financial performance indicators to set lending terms and (2) there was a significant increase in borrowers' financial reporting quality.

[Insert Table 4 here]

4.3. The relation between banks' increased reliance on borrower financial information post-IPO and the change in borrower reporting quality

In this section, we establish a more direct link between CSBs' greater reliance on borrowers' financial performance to set lending terms and the improvements in borrowers'

[15] In subsequent cross-sectional analyses, the results based on accounting conservatism are largely consistent with those we obtain using the composite score of reporting quality.

reporting quality in the post lender-IPOs regime. The tests involve two sequential stages. In the first stage, we estimate equation (1), that is, the model capturing the change in the sensitivity of loan terms to borrower *ROA*, for loans originated by each IPO bank with all control variables. Given the bank-specific estimation, bank fixed effects and borrower *ROA* interacted with bank fixed effects are excluded. This procedure yields 17 bank-specific coefficient estimates on $ROA_{i,t-1} \times Post\ Bank\ IPO$, which captures the change in each bank's reliance on borrower financial performance post bank-IPO. The summary statistics on these coefficient estimates are reported in Table 5 Panel A. Note that the coefficients in Table 3 are obtained from regressions at the bank-loan level, while those in Table 5 are the averages across banks. The mean and median coefficient estimates for loan maturity regression are 1.478 and 1.167, respectively, similar to that reported in Table 3. The mean and median coefficient estimates for guarantee requirement is much more negative in Table 5 than that reported in Table 3. This is probably because banks with lower sensitivity of guarantee requirement to borrower *ROA* issued more loans during the sample period. The median coefficient estimate for interest spread regression is close to that reported in Table 3 though the mean coefficient estimate is much more negative.

In the second stage, we partition the IPO CSBs into high and low group based on their respective coefficient estimates from the first stage and then estimate equation (2) for firms borrowing from each of these two groups of lenders separately. We focus on *Composite Score* as the measure for financial reporting quality and tabulate only the coefficient estimates on *POSTIPOBANK*, *IPOBANK* and *BANK* for brevity. The results are reported in Table 5 Panel B.

Column (1) of Table 5 Panel B shows that firms taking a loan from IPO banks improve reporting quality significantly in the post-lender-IPO period when the increase in lenders' reliance on borrowers' financial performance in setting loan maturity is more pronounced (High Maturity Sensitivity group). However, as Column (2) indicates, we do not observe a similar increase in borrower reporting quality when the increase in lenders' reliance on borrowers' financial performance in setting loan maturity is less pronounced (Low Maturity Sensitivity group). The difference in the coefficient estimate between the two columns is statistically significant with a *p*-value of 0.000.

We fail to observe similar evidence when we partition IPO lenders on their change in reliance on borrower financial performance in setting guarantee requirements. The results show that firms in both High Guarantee Sensitivity and Low Guarantee Sensitivity groups experience significant improvement in reporting quality. The coefficients on *POSTIPOBANK* in the two columns (Columns (3) and (4)) are not statistically different.

When IPO banks are partitioned based on changes in their reliance on borrower financial performance in setting loan interest spreads, we find a significant increase in firm reporting quality for the High Interest Sensitivity group (Column (5)) but not for the Low Interest Sensitivity group (Column (6)). The difference in the coefficient estimate between the two columns is statistically significant with a *p*-value of 0.000.

Collectively, the evidence suggests that there is cross-sectional variation in the extent to which lenders become more sensitive to borrower performance in setting loan terms. Further,

when the increase in the sensitivity of loan terms to borrower performance is more pronounced for banks issuing IPOs, their borrowers' reporting quality exhibits greater improvement .

[Insert Table 5 here]

4.4. Parallel trends

One concern might be that post-IPO differences in lending practices across banks and in reporting quality across banks' borrowers simply reflect a trend of persistent and progressively widening differences that started prior to the IPOs. This concern is heightened by the reforms initiated by the state authorities over 2002-2003 that included but were not limited to the privatization of CSBs. To test for a possible pre-existing, differential trend in differences in bank lending policies and those in borrower financial reporting quality, we estimate a modified version of models (1) and (2). Similar to the primary regressions, the IPO by each CSB serves as the primary event, but we allow the differences-in-differences coefficients to vary by event year relative to the IPO, for five years before and five years after the IPO year. The annual point estimates of *ROA*Post Bank IPO* and *POSTIPOBANK* are reported in Figure 1 Panels A and B, respectively.

As Figure 1 Panel A demonstrates, there is no indication of a difference-in-difference between IPO-issuing banks and non-IPO-issuing banks in the sensitivity of lending terms to their borrowers' *ROA* prior to IPO issuances. Over the five years following IPO issuances, however, loan terms of IPO banks become increasingly more sensitive to their borrowers' *ROA* relative to those of non-IPO banks.

Figure 1 Panel B presents the equivalent trends for borrowers' financial reporting quality. Over the five years leading up to bank IPO issuance, there is no significant difference-in-difference in the reporting quality of borrowers of IPO-issuing banks relative to borrowers of non-IPO-issuing banks. In contrast, over the five years following a bank IPO, we observe a significantly negative difference-in-difference in the composite score of reporting quality. The post-IPO difference-in-difference implies a relative improvement in financial reporting quality for borrowers of IPO-issuing banks relative to those of non-IPO-issuing banks. The precise timing of the shift in bank lending policy and borrower financial reporting quality suggests that it is in fact caused by bank IPOs, rather than by any pre-existing trend differences in banks or firm characteristics across the IPO-issuing versus non-IPO-issuing sample of banks and their borrowers.

Country-level characteristics (such as the effects of non-privatization-related elements of China's financial reforms) are unlikely to explain our results either. First, it is difficult to see how country-level characteristics could differentially affect IPO banks and their borrowers. Second, it is even more unlikely that country-level characteristics could have this effect at staggered points in time coinciding with the IPO-years of CSBs between 2001 and 2013. Nevertheless, we further discuss the implication of one important and relevant national accounting reform – IFRS adoption – in Section 5.3.

5. Additional analyses

5.1. Bank corporate governance changes and bank IPO effect

In this section, our goal is to provide evidence on the channels via which IPOs increase the sensitivity of CSBs' loan terms to borrower performance, and borrowers' reporting quality. More specifically, we investigate (1) if bank IPOs were associated with changes in corporate governance and (2) if the change in banks' reliance on borrower financial information and the change in borrower reporting quality are dependent on changes in corporate governance.

We hand-collect governance information for the 17 CSBs from the pre-IPO period to the post-IPO period. To measure bank governance, we consider board financial expertise (*Board Financial Expertise*) and political connections (*Board Political Connection*) extracted from banks' IPO prospectus and annual reports. Specifically, *Board Financial Expertise* is calculated as the proportion of board members who are experts in financial industry (i.e., are or were employed by a financial institution such as venture capital firm, consumer lending company, mutual fund, hedge fund, other bank, or a banking regulator). *Board Political Connection* equals one if the director is a current or former government bureaucrat and zero otherwise.

Table 6 Panel A presents the descriptive results. We find that mean and median *Board Financial Expertise* increase respectively by 13.6 and 20.5 percent points in the post-IPO period. Mean and median *Board Political Connections* decline respectively by 9.1 and 6.8 percent points post-IPO. These changes are statistically significant at least at the 5% level.

[Insert Table 6 here]

In Table 6 Panel B, we examine whether the post-IPO change in the reliance of loan terms on borrower financial performance is more pronounced in those banks that witnessed an increase in bank financial expertise around their IPOs. We split our sample based on the change in median bank board financial expertise surrounding IPOs in the first two columns. We compute the change in median expertise as the difference between median value of *Board Financial Expertise* in the pre-IPO period and its corresponding value in the post-IPO period. The pre-IPO period starts from either 2001 or the first year that banks' financial information is available, whichever comes later, and ends in the year immediately before IPO; post-IPO period starts from the IPO year and ends at the end of the sample period (2013).[16]

With all three dependent variables - *Loan Maturity*, *Guarantee Requirement* and *Interest spread* - we find that the coefficient on the interaction effect of borrower *ROA* with *Post Bank IPO* is statistically significant only for loans made by those IPO banks that experienced a significant increase in board financial expertise (above the sample median). The difference in the coefficients on the interaction term across the two groups is statistically significant (*p*-value of 0.072) only for the loan guarantee regression.

In Panel C, we split the subset of loans made by IPO banks based on the median decline in bank board political connections, calculated similarly to the change in median bank board financial expertise. We find that the interaction effect of borrower *ROA* with *Post Bank IPO* is statistically significant only for loans made by banks with a significant decrease in board

[16] For example, Bank of Nanjing went public in 2007. Its financial and corporate governance information is available between 2004 and 2013, with related information for 2004-2006, i.e. the pre-IPO period, disclosed in its prospectus, and that for 2007-2013, i.e. the post-IPO period, disclosed in its public filings. We compute board financial expertise variable for this bank every year and take median of this variable distribution for both the pre-IPO period (2004-2006), and the post-IPO period (2007 – 2013). The difference in this median is the change in Nanjing Bank board's financial expertise surrounding its IPO.

political connections. This result holds for all three specifications. The difference in the interaction effect between the high and low group is not statistically significant.

The results from Table 6 indicate that the increase in banks' reliance on borrower financial information post-bank-IPO is most prominent in banks also experiencing an increase in board financial expertise and a reduction in board political connections. The lack of statistical significance in the differences across banks with greater versus lower changes in corporate governance implies that our results should be interpreted with some caution. But the lack of statistically significant differences may also be reflecting the large standard errors associated with the estimates we obtain for the low-change corporate governance group.

In Table 7, we focus on the change of borrower reporting quality, measured by Composite Score. Columns (1) and (2) of Panel A report the results for sub-samples in which the change in board financial expertise is high and low, respectively. The coefficient for *POSTIPOBANK* is significantly negative in Column (1) while it is positive but insignificant in Column (2), suggesting a significant increase in financial reporting quality only for the high-change in board financial expertise group. The difference in the two coefficients is statistically significant with a *p*-value of 0.003. Columns (1) and (2) of Table 7, Panel B report the partitioning results based on high versus low change in bank political connections. The coefficient for *POSTIPOBANK* is significantly negative only when the magnitude of the decline in political connections is high. The difference in the interaction effect between the high and low group is statistically significant with a *p*-value of 0.010. Thus the combined results from Tables 6 and 7 suggest that changes in borrower reporting quality are most prominent when corresponding IPO-issuing banks experienced post-IPO increases in corporate governance.

[Insert Table 7 here]

5.2. Bank state-ownership changes and bank IPO effect

We expect the effect of a bank IPO on lending practices and borrower reporting quality to be stronger when the IPO leads to a greater transfer of ownership from the state to private investors, because this is more likely to subject the corresponding CSB to the discipline of public capital markets. Table 1 shows that there was significant cross-sectional variation in the reduction of state-ownership for IPO CSBs, ranging in value from 9.7 percent points to 53.0 percent points. As Table 8 Panel A reports, the mean and median reductions in state-ownership are 29 and 38 percent points respectively. Both are statistically and economically significant.

We partition the 17 IPO banks into high and low reduction in state-ownership and estimate for each subsample the regression models (1) and (2), that is, post-bank-IPO changes in the sensitivity of loan terms to borrower *ROA* and changes in borrower reporting quality. Panel B presents the results for bank loan tests. The coefficient on *ROA*Post Bank IPO* is positive and significant for Column (1) and insignificant for Column (2), and the difference in the coefficient estimate between the two groups is statistically significant at the 10% level with a *p*-value of 0.057. We observe similar results for loan guarantee regressions (Columns (3) and (4)) and loan interest spread regressions (Columns (5) and (6)). Overall, the results from Panel B indicate that banks' reliance on borrower financial performance to set lending terms only increases for banks that experience a significant decrease in state-ownership.

Table 8 Panel C presents variation in the post-IPO change in borrower reporting quality with a change in state ownership. As before, the composite score of reporting quality measure

serves as the dependent variable. The coefficient on *POSTIPOBANK* is negative and statistically significant for Column (1) where the reduction in bank state-ownership is high, but insignificant for Column (2) when the reduction in bank state-ownership is low. The difference in the coefficient across the two groups is statistically significant with a *p*-value of 0.001. Thus, results from Panel C echo those from Panel B − IPO banks' screening based on financial performance and borrower reporting quality increase significantly only when the state relinquishes its stake significantly following the IPOs.

[Insert Table 8 here]

5.3. China's adoption of new GAAP and the bank IPO effect

The new Chinese Accounting Standards, which borrowed heavily from IFRS, became effective for all publicly listed firms on January 1, 2007. Prior studies find mixed evidence on the effect of new GAAP adoption on Chinese firms' financial reporting quality. For example, Luo, Xue, and Zhang (2008), Xue, Zhao, Xiao, and Cheng (2008), and Zhang and Zhang (2008) find that value-relevance of accounting information improved following the adoption of new accounting standards in China while Zhang and Zhu (2010) show a reduction in accounting conservatism after mandatory adoption of new Chinese GAAP.

As mentioned in Section 4.4, the adoption of new GAAP in China *per se* is unlikely to explain our results, since no a priori reason for it to differentially affect IPO banks and their borrowers. Further, different CSBs had staggered IPO issuances between 2001 and 2013 and thus country-level new-GAAP adoption in 2007 cannot explain our results. Nevertheless, we explicitly examine whether our results are primarily driven by the pre-adoption sample, and

differences across borrowers' reporting quality diminished in the post-adoption period, that is, following 2007.

We partition our samples into pre-2007 and post-2007 (including 2007) subsamples and re-run the main tests. The results are reported in Table 9. Panel A shows an insignificant change in the sensitivity of lending terms to borrower *ROA* post-IPO in the pre-2007 period. However, in the post-2007 period, the increase in sensitivity is even more pronounced following lender IPOs. In Panel B, we find a significant improvement in financial reporting quality following lender IPOs for the post-2007 period, but not for the pre-2007 period. Overall, the evidence suggests that our evidence is more concentrated in the post- adoption period.

5.4. Other robustness analysis

Our main sample analyzing IPO banks' changes in lending practices consists of all loans to publicly traded firms over our sample period. It is plausible that IPO-issuing CSBs selected different types of borrowers to lend to in the post-IPO period, implying that differences in borrower characteristics at least partially drive our results. While this "selection" is consistent with our hypothesis that CSBs changed their post-IPO lending practices, we also conduct two additional analyses to test whether CSBs changed their lending practices with respect to their existing clients as well.

In our first test, we restrict our loan sample in each year to outstanding loans of firms that borrow from at least one "treatment" lender, that is, a CSB that has already issued an IPO and at least one "control" lender, that is, a lender that has either not yet issued an IPO or never does so within our sample period. This is a particularly well-identified test of changes in loan terms when the lending bank issues an IPO, as any observed change cannot be explained by

differences in borrower characteristics. Results are reported in Table 10, Panel A for this sharply reduced loan sample. We continue to find statistically significant coefficient estimates on *ROA*Post Bank IPO* with all three loan terms as dependent variables.

Our second test restricts our original sample to a constant sample of firms that have initiated at least one loan from IPO-issuing CSBs in both the pre- and post- IPO periods. As part of the control group, we retain firms that have only borrowed from banks that never issue IPOs within our sample period. As Table 10, Panel B reports, our results are similar to those in Table 3, Panel A although there is some loss in statistical power probably due to the sharply restricted sample size in Table 10 relative to Table 3. The coefficient on *ROA*Post Bank IPO* remains statistically significant at the 5% level when *Loan Maturity* is the dependent variable, and at the 10% level when *Guarantee Requirement* and *Interest spread* are the dependent variables. The evidence indicates that our results cannot be completely attributed to changes in the lending portfolios for IPO banks in the post-IPO period.

Table 10, Panel C reports the results for changes in borrowers' financial reporting quality for a similar sample of firms as in Panel B; that is, the set of borrowers that have initiated at least one loan from an IPO-issuing CSB in both the pre- and post- IPO periods, and all non-borrowers as wells as borrowers from non-IPO-issuing banks as part of the control group. For the sake of brevity, we report results only with the composite score for FRQ. The difference-

in-difference tests continue to indicate a highly statistically significant increase in borrowers' reporting quality following their lenders' IPOs.[17]

Since a large fraction of banks went public in 2007, coinciding with China's new GAAP adoption, we further conduct a robustness test in which we exclude those banks from our tests. Our results (untabulated) remain qualitatively the same, ruling out the possibility that our findings are driven by a single year.

Prior research finds that lending relations affect borrower accounting conservatism (Gormley et al., 2012; Martin and Roychowdhury, 2015). We test whether borrower accounting conservatism changes around lender IPO. We find similar results to that reported in Table 4, that is, borrowers' accounting conservatism increases after their lenders issue IPO (results un-tabulated). We also find similar results for the cross-sectional and time-series analyses to that reported in Tables 7-9.

6. Conclusion

There has always been considerable interest in how accounting quality varies at the national level. A dominant force that emerges in the literature is the role of institutions and the nature of the political economy. For example, Ball et al. (2000) find that code law countries, with greater political influence on accounting, report income on a less timely basis. Bushman

[17] The results also reveal that for borrowers from IPO-issuing banks, reporting quality declines during the pre-IPO periods that they have loans outstanding from such banks, relative to the non-borrowing periods. In stark contrast, we observe a significant improvement in the reporting quality of borrowers from IPO-issuing banks during the post-IPO periods relative to the non-borrowing periods. Thus, the coefficients imply that the total change in borrower reporting quality in the post-IPO period relative to the pre-IPO period (as opposed to relative to the benchmark period) is -0.129-0.168, or -0.297.

et al. (2004) find that financial reporting transparency is lower in countries with higher state ownership. These studies typically rely on cross-country variations in both legal institutions and properties of financial statements to establish a connection between the two. There is little evidence to date on how changes in governmental and political interference, and a corresponding changes in the influence of capital markets, lead to changes in accounting quality. Studies considering changes in accounting quality within an economy have generally focused on the imposition and enforcement of new accounting standards (Barth et al., 2008; Daske et al., 2008).

We contribute to existing literature by examining how conscious attempts in China to delink state bank lending from political considerations and increasing the influence of capital markets contribute to better lending practices more guided by borrower performance. We expect that the increased reliance of loan terms on borrower performance led to state banks stepping up their monitoring of the financial statements that provide the measures of performance. In turn, given the pre-eminence of Chinese state banks as capital providers in China, borrowers are incentivized to improve their reporting quality to retain their access to capital. Evidence confirms this hypothesis. We find IPOs by CSBs lead to increases in the sensitivity of lending terms to borrower *ROA* and an increase in their borrowers' reporting quality. These relations are more pronounced when CSBs experience a greater decline in political connections and state-ownership, and a higher increase in board professional expertise. Our paper thus provides direct evidence on the link between institutional factors ─ in particular a decline in the influence of political considerations and an increase in that of capital markets ─ and reporting quality.

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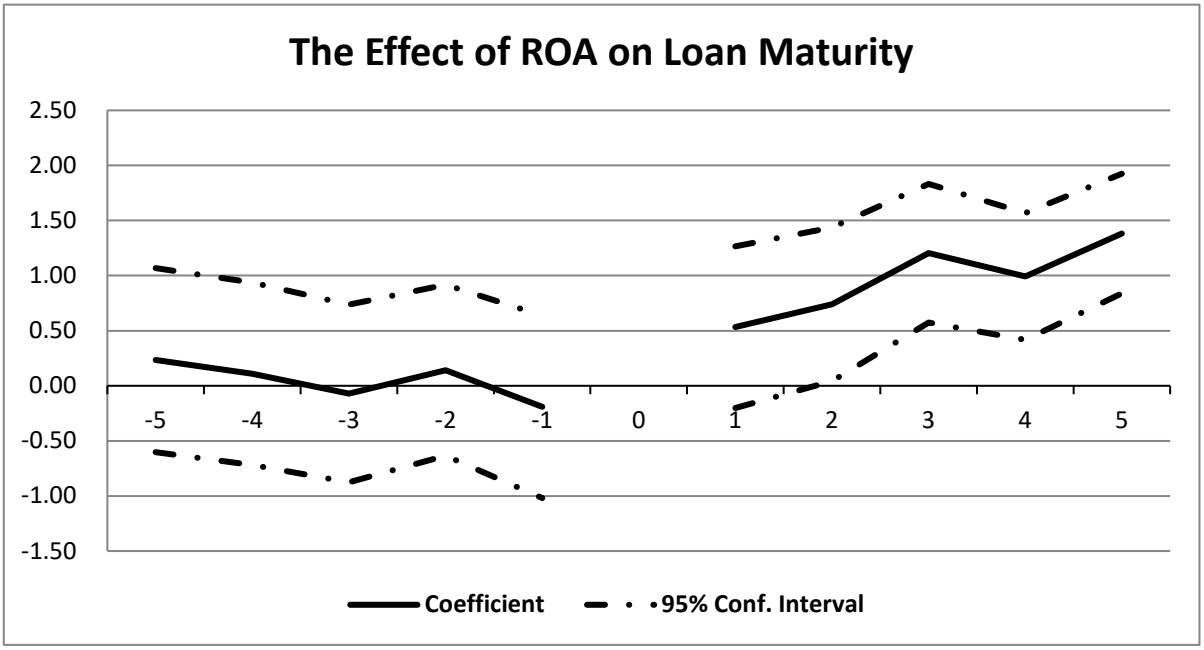
Appendix A Variable Definitions

Variable	Definition
Asset Tangibility	Ratio of property, plant, and equipment to total assets;
BANK	1 if the borrower firm has any outstanding bank loan by the end of the year, 0 otherwise;
Board Financial Expertise	The proportion of industry experts relative to the number of board members. A board director is classified as an industry expert if he is/was employed by a financial institution (e.g., venture capital firm; consumer lending company; mutual fund; hedge fund; other bank) or a banking regulator (e.g., the CBRC; PBC). It is measured annually;
Board Political Connections	1 if the director serving as a current or former government bureaucrat - that is, a current or former officer of the central or local governments or the military, 0 otherwise. It is measured annually.
Composite Score	Composite measure obtained from principle factor analysis based on earnings quality measures of *STDDA*, *DA*, and *NOI*;
DA	Discretionary accruals estimated based on Jones (1991) model augmented to include the piecewise modifications suggested by Ball and Shivakumar (2006). The model is estimated for each year-industry group with no less than 5 observations;
FOREIGN	1 if a firm is involved in foreign operation, 0 otherwise;
GROWTH	Sales growth rate, equals to sales in year t minus that in year t-1 scaled by sales in year t-1;
Guarantee Requirement	1 if there is any guarantee or collateral requirement imposed on the loan, 0 otherwise;
Interest Spread	actual loan interest rate − the China central bank's base rate for loans;
INVREC	Inventories and accounts receivables scaled by total assets;
IPOBANK	1 if the borrow firm has any outstanding loan from a bank that ever went through IPO, 0 otherwise;
Leverage	Leverage ratio;
Loan Amount	Natural logarithm of loan amount (Unit:1 million RMB);
Loan Maturity	Natural logarithm of loan maturity in years specified in loan terms;
LOSS	1 if a firm occurs a net loss, 0 otherwise;
NOI	Noncore operating earnings, which equals to net income minus core operating income scaled by owners' equity;
Raw Interest Rate	Actual loan interest rate;
ROA	Ratio of firms' net income to total assets;
Post Bank IPO	1 for banks' post-IPO regime, 0 otherwise;
POSTIPOBANK	1 if the borrower firm has any outstanding loan from an IPO bank by the end of the year, 0 otherwise;
QUICK	Quick ratio, calculated as current assets minus inventories then scaled by current liabilities;
SIZE	Natural logarithm of firms' total assets;
Bank State Ownership	Percentage of shares owned by the state of an IPO bank;
STDDA	The standard deviation of firm *j*'s residual (discretionary accruals) over year t-5 to year t-1. Firm j's residual is estimated based on the specification of Francis et al. (2005) for each year-industry group with no less than 5 observations;
Tobin's Q	Ratio of the firm's market value to total assets.

Figure 1. The effect of bank IPO on banks' reliance on borrower *ROA* to determine lending terms and borrower financial reporting quality

Panel A: The effect of bank IPO on banks' reliance on borrower *ROA* to determine lending terms

Figure 1 Panel A reports the point estimates for *ROA*×*POSTBANK* from a loan level OLS estimate of loan terms based on model (1) with a modification of bank IPO effect. The dependent variable is *loan term consisting of loan maturity, guarantee requirement and interest spread.* The model specification is the same as model (1) except that the effect of bank IPO, that is *POSTBANKIPO*, is allowed to vary by year. Point estimates are reported for five years before and after bank IPO year. Ninety-five percent confidence intervals, adjusted for clustering at the firm level, are also plotted.



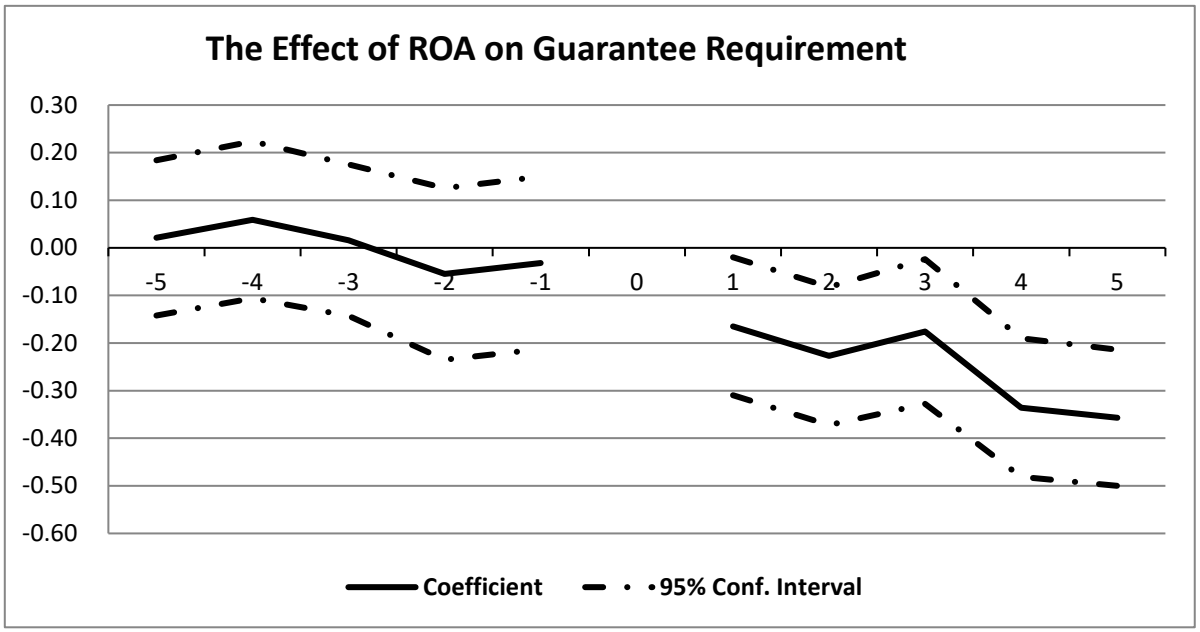
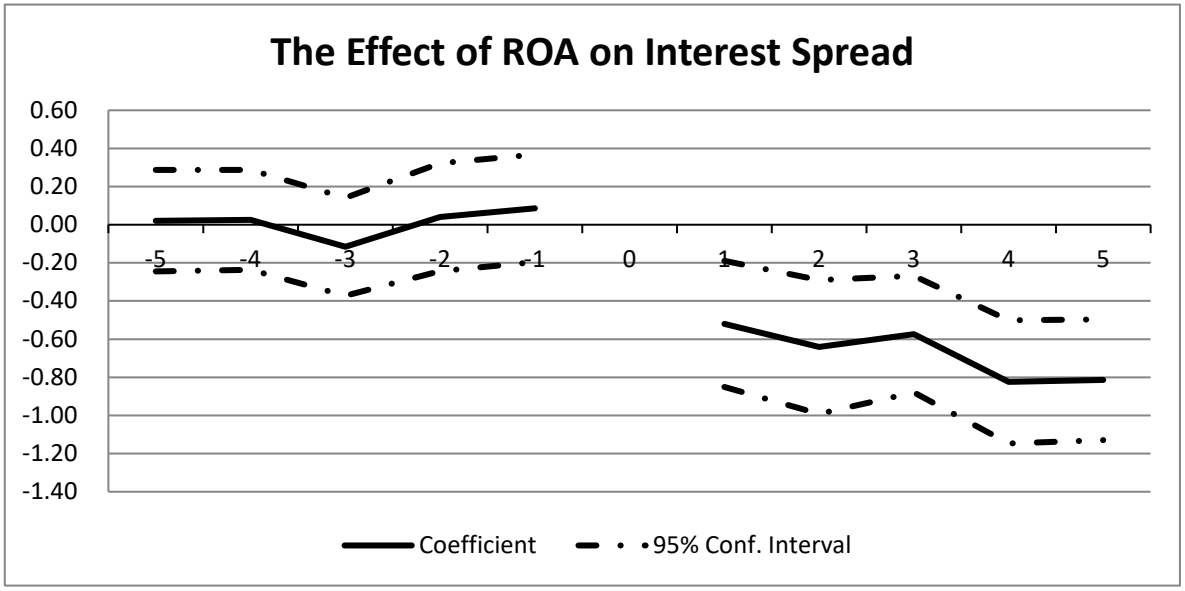


Figure 1. The effect of bank IPO on banks' reliance on borrower *ROA* to determine lending terms and borrower financial reporting quality (Continued)



Panel B: The effect of bank IPO on banks' reliance on borrower financial reporting quality

Figure 1 Panel B reports the point estimates for *POSTIPOBANK* from a firm level, fixed effects OLS estimate of firm financial reporting quality based on model (2) with a modification of bank IPO effect. The dependent variable is *Composite Score*. The model specification is the same as model (2) except that the effect of bank IPO, that is *POSTIPOBANK*, is allowed to vary by year. Point estimates are reported for five years before and after bank IPO year. Ninety-five percent confidence intervals, adjusted for clustering at the firm level, are also plotted.

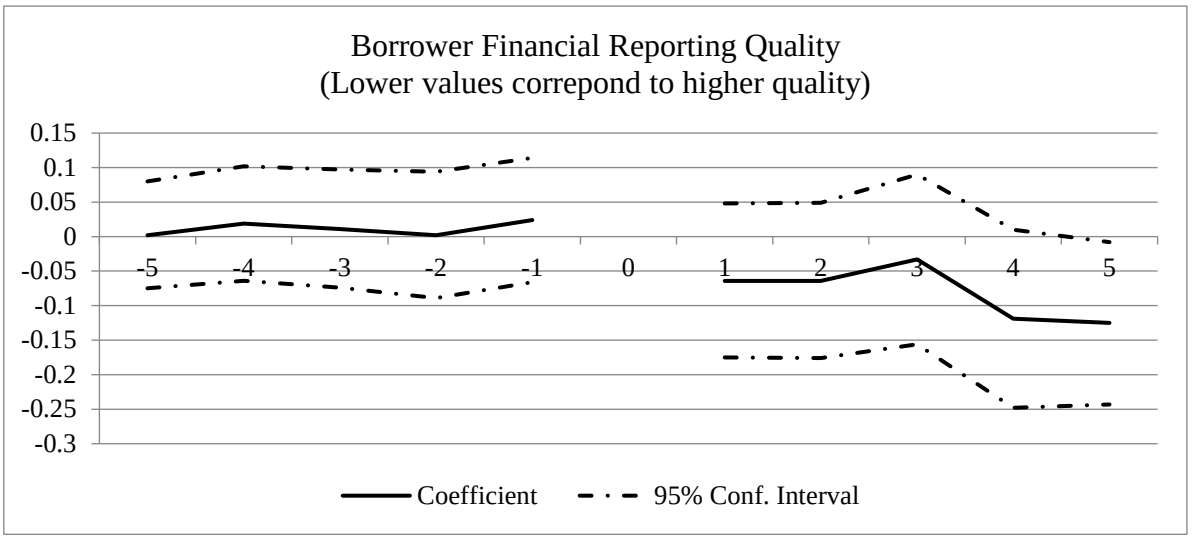


Table 1. List of Chinese banks that went public before 2013

Table 1 reports the bank name, stock code, IPO date, and the change in state ownership surrounding the IPO for the 17 Chinese banks that went public by the end of 2013. The two letters in the stock code are the abbreviations of the stock exchanges where the stock is traded. "HK" stands for Hong Kong Stock Exchange; "SH" stands for "Shanghai Stock exchange"; and "SZ" stands for Shenzhen stock exchange. Pingan Bank, a private bank before 2012, was acquired by Shenzhen Development Bank, a publically listed bank then, and the merger was completed on June 14, 2012.

Bank Name	Stock code	IPO date in HK	IPO date in China	Change in bank state ownership (%)(Post-IPO – Pre-IPO)
Shenzhen Development Bank	000001.SZ	NA	1991-04-03	NA
Pudong Development Bank	600000.SH	NA	1999-11-10	-38.67
China Merchants Bank	600036.SH|03968.HK	2006-09-22	2002-04-09	-20.58
Huaxia Bank	600015.SH	NA	2003-09-12	-52.99
Bank of China	03988.HK|601988.SH	2006-06-01	2006-07-05	-26.62
Industrial and Commercial Bank of China	01398.HK|601398.SH	2006-10-07	2006-10-27	-21.39
Xingye Bank	601166.SH	NA	2007-02-05	-35.02
China CITIC Bank	00998.HK|601998.SH	2007-04-27	2007-04-27	-22.63
Bank of Communication	03328.HK|601328.SH	2005-06-23	2007-05-15	-21.81
Bank of Ningbo	002142.SZ	NA	2007-07-19	-9.70
Bank of Nanjing	601009.SH	NA	2007-07-19	-15.36
China Construction Bank	00939.HK|601939.SH	2005-10-27	2007-09-25	-28.01
Agricultural Bank of China	601288.SH|01288.HK	2010-07-16	2010-07-15	-37.24
China Everbright Bank	601818.SH|06818.HK	2013-12-20	2010-08-18	-17.19
Chongqing Rural Commercial Bank	3618.HK	2010-12-16	NA	-10.84
Bank of Chongqing	1963.HK	2013-11-06	NA	-15.21
Huishang Bank	3698.HK	2013-11-12	NA	-31.12

Table 2. Summary statistics

Panel A: Variables used in the test of bank reliance on borrower financial performance

Panel A of Table 2 reports summary statistics of the variables used in the main tests of bank reliance on borrower financial performance. See Appendix A for variable definitions.

Variable	Obs.	Mean	STD	25th	Median	75th
Loan Maturity (years)	12,759	2.714	0.586	2.485	2.485	2.485
Loan Amount (million RMB)	12,466	4.049	1.279	3.219	3.912	4.787
Guarantee Requirement	12,759	0.523	0.432	0.000	1.000	1.000
Raw Interest Rate (%)	1,123	6.130	1.789	5.310	5.840	6.588
Interest Spread (%)	1,123	1.051	0.279	0.949	1.000	1.100
Post Bank IPO	12,759	0.626	0.484	0.000	1.000	1.000
ROA	12,759	0.027	0.049	0.010	0.027	0.050
SIZE	12,759	7.616	1.318	6.743	7.606	8.473
Leverage	12,735	0.195	0.126	0.100	0.179	0.274

Panel B: variables used in the test of borrower reporting quality

Panel B of Table 2 reports summary statistics of the variables used in the main tests of borrower reporting quality. See Appendix A for variable definitions.

Variable	Obs.	Mean	STD	25th	Median	75th
POSTIPOBANK	19,667	0.194	0.395	0.000	0.000	0.000
IPOBANK	19,667	0.255	0.436	0.000	0.000	1.000
BANK	19,667	0.283	0.450	0.000	0.000	1.000
STDDA	18,026	0.041	0.036	0.019	0.032	0.052
DA	19,667	0.010	0.332	-0.038	0.008	0.060
NOI	17,513	-0.011	0.035	-0.024	-0.009	0.002
Composite Score	15,921	-0.012	1.033	-0.692	-0.358	0.258
SIZE	19, 667	21.59	1.211	20.77	21.43	22.23
QUICK	19,667	1.503	2.029	0.571	0.898	1.475
Leverage	19,667	0.475	0.204	0.324	0.485	0.627
INVREC	19,667	0.311	0.195	0.165	0.280	0.424
GROWTH	19,667	0.225	0.552	-0.010	0.139	0.318
FOREIGN	19,667	0.188	0.391	0.000	0.000	0.000
LOSS	19,667	0.107	0.309	0.000	0.000	0.000

Table 3. The effect of going public on the reliance of banks on borrower financial performance

Panel A: Sensitivity of loan terms to borrower ROA

Panel A of Table 3 presents results from the analysis of the effect of bank IPOs on the sensitivity of their loan terms to their borrowers' *ROA*. The dependent variables in Columns 1-3 are *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans), respectively. For brevity, we do not report the coefficient estimates on fixed effects. See Appendix A for variable definitions. In parentheses are *p*-values based on robust errors adjusted for borrower-level clustering (Peterson (2007)). The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)
	Dependent variable =		
	Loan Maturity	*Guarantee Requirement*	*Interest Spread*
Post Bank IPO	0.023	0.013	-0.067**
	(0.533)	(0.549)	(0.034)
*ROA*Post Bank IPO*	1.387***	-0.552**	-0.533*
	(0.001)	(0.015)	(0.054)
SIZE	0.029***	0.060***	-0.021**
	(0.004)	(0.000)	(0.031)
Leverage	0.174**	0.428***	0.179**
	(0.044)	(0.000)	(0.038)
Tobin's Q	0.037***	0.011*	0.001
	(0.001)	(0.093)	(0.930)
Asset Tangibility	0.172**	0.079***	-0.032
	(0.012)	(0.005)	(0.563)
Loan Amount	0.080***	-0.082	-0.013
	(0.000)	(0.112)	(0.122)
Loan Maturity		-0.004	-0.038
		(0.669)	(0.118)
Bank fixed effects**ROA* included	Yes	Yes	Yes
Bank fixed effects included	Yes	Yes	Yes
Industry& year fixed effects included	Yes	Yes	Yes
# of observations	12,442	12,442	1,123
Adjusted/Pseudo R^2	21.5%	19.0%	44.1%

Table 3. The effect of going public on the reliance of banks on borrower financial performance (Cont'd)

Panel B: Sensitivity of loan terms to a broader set of borrower financials including ROA

Panel B of Table 3 reports results based on bootstrapping procedure. Each time we randomly select 50 percent of the 2114 (409) loans extended by IPO banks in their pre-IPO period, run loan maturity and loan guarantee (loan interest spread) specification that regresses the lending term on borrower *ROA*, *SIZE*, *Leverage*, *Tobin's Q*, and *Asset Tangibility*, and obtain R^2 of the regression. We repeat this procedure for 500 times. Similar procedure is performed based on loans extended by IPO banks in their post-IPO period. 8090 loans were extended by IPO banks in their post-IPO period. Among them, 530 loans have non-missing interest spread information. The mean of the 500 R^2s for the pre- and post-IPO period is reported in columns (1) and (2), respectively. Column (3) reports the difference between columns (1) and (2). The symbols ***, **, and * indicate statistical significance based on two-sided t-tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)
Dependent variables	Pre-IPO	Post-IPO	Diff. (Post-IPO – Pre-IPO)
Loan Maturity	0.061	0.163	0.102**
Guarantee Requirement	0.106	0.211	0.105**
Interest Spread	0.135	0.284	0.149***

Table 4. The effect of going public on borrower financial reporting quality

This table presents OLS regression results testing the effect of bank IPO on borrower financial reporting quality (FRQ). Columns (1)-(6) report the regression results with FRQ as the dependent variable, measured using *STDDA*, *DA*, *NOI* and *Composite Score*, respectively. *STDDA* is the standard deviation of a firm's residual estimated based on Francis et al. (2005) over year t-5 to year t-1; *DA (+DA*, and *–DA)* discretionary accruals estimated based on Jones (1991) model augmented to include the piecewise modifications suggested by Ball and Shivakumar (2006); *NOI* (noncore operating earnings) equals to net income minus core operating income scaled by owners' equity; and *Composite Score* is obtained from principle component analysis using *STDDA*, *DA*, and *NOI*. For brevity, we do not report the coefficient estimates for fixed effects. See Appendix A for variable definitions. In parentheses are *p*-values based on robust errors. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)
	Dependent variable =			
	STDDA	*DA*	*NOI*	*Composite Score*
POSTIPOBANK	-0.002**	-0.026**	-0.004***	-0.080**
	(0.036)	(0.019)	(0.009)	(0.023)
IPOBANK	0.001	0.023	0.003	0.048
	(0.540)	(0.245)	(0.100)	(0.435)
BANK	-0.001	-0.010	-0.001	-0.020
	(0.444)	(0.601)	(0.846)	(0.714)
SIZE	0.001	0.009	-0.007***	0.061**
	(0.470)	(0.191)	(0.000)	(0.017)
QUICK	0.001	0.015***	-0.001**	0.011
	(0.753)	(0.000)	(0.011)	(0.300)
Leverage	0.002	-0.135***	0.016***	-0.114
	(0.495)	(0.000)	(0.000)	(0.236)
INVREC	0.007**	-0.050**	-0.020***	-0.078
	(0.038)	(0.033)	(0.000)	(0.390)
GROWTH	0.007***	-0.046***	-0.011***	0.234***
	(0.000)	(0.000)	(0.000)	(0.000)
FOREIGN	0.001	-0.016	0.005***	0.120***
	(0.674)	(0.166)	(0.000)	(0.001)
LOSS	0.007***	-0.073***	0.001	0.206***
	(0.000)	(0.000)	(0.529)	(0.000)
Firm & year fixed effects included	Yes	Yes	Yes	Yes
# of observations	18,026	19,667	17,513	15,921
Adjusted/Pseudo R^2	47.02%	9.95%	30.46%	44.60%

Table 5. The relation between banks' increased post -IPO reliance on borrower financial information and the change in borrower financial reporting quality

Panel A: Distribution of 17 bank-specific coefficient estimates on $ROA_{i,t-1} \times Post\ Bank\ IPO$

This table reports the first stage analysis on whether banks' increased reliance on borrower financial information post bank-IPOs contributes to the change in borrower reporting quality. In the first stage, we estimate equation (1) for loans originated by each IPO CSB excluding bank fixed effects and bank fixed effects interacted with borrower *ROA* over the sample period. This procedure yields 17 bank-specific coefficient estimates on $ROA_{i,t-1} \times Post\ Bank\ IPO$, which capture the change in each bank's reliance on borrower financial performance post bank-IPO. The dependent variables are *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans), respectively. The summary statistics on these coefficient estimates are reported in Panel A.

Dependent Variable	Obs.	Mean	STD	25th	Median	75th
Loan Maturity	17	1.478	1.655	0.295	1.167	1.651
Guarantee Requirement	17	-3.046	3.182	-3.903	-2.990	-0.401
Interest Spread	17	-1.028	1.592	-0.918	-0.538	-0.028

Table 5. The relation between banks' increased post-IPO reliance on borrower financial information and the change in borrower financial reporting quality

Panel B: Changes in borrower financial reporting quality: split-sample analysis based on banks' post-IPO increase in the reliance on borrower financial information

Panel B of Table 5 reports the second stage results of the two stage analysis. We partition the IPO SBs into high and low group based on their respective coefficient estimate from the first stage and then estimate equation (2) for firms borrowing from each of these two groups of lenders separately. Specifically, firms are partitioned into high and low groups based on loan maturity regression from the first stage in columns (1) and (2), guarantee requirement regression from the first stage in columns (3) and (4), and interest spread regression from the first stage in columns (5) and (6). We focus on the measure of composite score for firm reporting quality for brevity and tabulate the coefficient estimate on *POSTIPOBANK*. We omit reporting the coefficient on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE*, *Leverage*, *INVREC*, *GROWTH*, *FOREIGN*, and *LOSS*. *Composite Score* is obtained from principal component analysis using *STDDA*, *DA*, and *NOI*. See Appendix A for variable definitions. *P*-values based on robust standard errors are in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	High *Maturity Sensitivity*	Low *Maturity Sensitivity*	High *Guarantee Sensitivity*	Low *Guarantee Sensitivity*	High *Interest Sensitivity*	Low *Interest Sensitivity*
	Dependent variable = Composite Score					
POSTIPOBANK	-0.150***	-0.048	-0.077*	-0.091**	-0.150***	-0.049
	(0.000)	(0.223)	(0.089)	(0.017)	(0.000)	(0.207)
IPOBANK	0.073	0.042	0.062	0.048	0.060	0.056
	(0.250)	(0.503)	(0.333)	(0.435)	(0.344)	(0.377)
BANK	-0.032	-0.020	-0.025	-0.026	-0.028	-0.025
	(0.570)	(0.723)	(0.665)	(0.637)	(0.629)	(0.661)
Diff. in coefficient on *POSTIPOBANK*	*P*-value = 0.000		*P*-value = 0.546		*P*-value = 0.000	
Controls variables included	Yes	Yes	Yes	Yes	Yes	Yes
Firm and year fixed effects included	Yes	Yes	Yes	Yes	Yes	Yes
# of observation	14,218	14,304	13,994	14,528	14,233	14,289
Adjusted/Pseudo R^2	45.44%	45.04%	45.36%	45.11%	45.25%	45.32%

Table 6. The effect of bank IPO on bank reliance on borrower financial performance: Split-sample analysis based on bank corporate governance change

Panel A: Bank corporate governance change surrounding bank IPO

Panel A of Table 6 presents the univariate results of bank corporate governance changes from pre-IPO to the post-IPO period, where pre-IPO period starts from either 2001 or the first year that banks' financial information is available, whichever comes later, and ends in the year immediately before IPO; post-IPO period starts from the IPO year and ends in 2013. We measure banks' corporate governance using banks' board financial expertise (*Board Financial Expertise*) and board political connections (*Board Political Connections). Board Financial Expertise* is defined as the proportion of board members that are experts in financial industry (i.e., is or was employed by a financial institution such as venture capital firms, consumer lending companies, mutual funds, hedge funds, other banks, or a banking regulator). *Board Political Connection* equals 1 if the director serves as a current or former government bureaucrat and 0 otherwise. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

Variables		Pre-IPO (N = 34)	Post-IPO (N = 140)	Diff. (Post-IPO – Pre-IPO)
Board Financial Expertise	Mean	0.402	0.538	0.136***
	Median	0.342	0.547	0.205***
Board Political Connections	Mean	0.304	0.213	-0.091***
	Median	0.252	0.184	-0.068**

Table 6. The effect of bank IPO on bank reliance on borrower financial performance: Split-sample analysis based on bank corporate governance change (Cont'd)

Panel B: Changes in bank reliance on borrower financial performance surrounding bank IPO: Split-sample analysis based on changes in bank board financial expertise

Panel B presents OLS regression results from the split-sample analysis of the effect of bank IPOs on the relation between borrower performance and loan terms, where the subsample is further partitioned based on the sample median of *ΔBoard Financial Expertise (*change in banks' board financial expertise) from the pre- to the post-IPO regime. The dependent variables in Columns 1 and 2, 3 and 4, and 5 and 6 for both panels are, respectively, *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans). For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE, Leverage, Tobin's Q, Asset Tangibility, Loan Amount, and Loan Maturity*. *Composite Score* is obtained from principal component analysis using *STDDA*, *DA*, and *NOI*. See Appendix A for variable definitions. *P*-values based on robust errors adjusted for borrower-level clustering (Peterson (2007)) are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	High *ΔBoard Financial Expertise*	Low *ΔBoard Financial Expertise*	High *ΔBoard Financial Expertise*	Low *ΔBoard Financial Expertise*	High *ΔBoard Financial Expertise*	Low *ΔBoard Financial Expertise*
	Loan Maturity		*Dependent variable = Guarantee Requirement*		*Interest Spread*	
Post Bank IPO	0.002	0.189**	0.073**	0.067	-0.026	-0.090
	(0.938)	(0.038)	(0.024)	(0.250)	(0.555)	(0.351)
*ROA*Post Bank IPO*	1.521***	0.471	-1.012***	-0.429	-0.956**	0.965
	(0.000)	(0.545)	(0.000)	(0.403)	(0.041)	(0.463)
Diff. in coefficient on *ROA*POST Bank IPO*	*P*-value =0.114		*P*-value =0.072		*P*-value =0.225	
Controls variables included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects**ROA* included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects included	Yes	Yes	Yes	Yes	Yes	Yes
Industry and year fixed effects included	Yes	Yes	Yes	Yes	Yes	Yes
# of observations (Loan)	7,801	1,333	7,801	1,333	731	143
Adjusted/Pseudo R2	13.4%	18.5%	18.6%	16.8%	31.6%	57.9%

Table 6. The effect of bank IPO on bank reliance on borrower financial performance: Split-sample analysis based on bank corporate governance change (Cont'd)

Panel C: Changes in bank reliance on borrower financial performance surrounding bank IPO: Split-sample analysis based on change in bank board political connections

Panel C presents OLS regression results from the split-sample analysis of the effect of bank IPOs on the relation between borrower performance and loan terms, where the subsample is further partitioned based on the sample median of *-ΔBoard Political Connections* (reduction in banks' board political connection) from the pre- to the post-IPO regime. The dependent variables in Columns 1 and 2, 3 and 4, and 5 and 6 for both panels are, respectively, *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans). For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE, Leverage, Tobin's Q, Asset Tangibility, Loan Amount, and Loan Maturity*. *Composite Score* is obtained from principal component analysis using *STDDA, DA,* and *NOI.* See Appendix A for variable definitions. *P*-values based on robust errors adjusted for borrower-level clustering (Peterson (2007)) are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	High *-ΔBoard Political Connections*	Low *-ΔBoard Political Connections*	High *-ΔBoard Political Connections*	Low *-ΔBoard Political Connections*	High *-ΔBoard Political Connections*	Low *-ΔBoard Political Connections*
	Loan Maturity		*Dependent variable = Guarantee Requirement*		*Interest Spread*	
Post Bank IPO	0.011	0.063	0.093***	0.091*	-0.048	0.250
	(0.739)	(0.387)	(0.002)	(0.097)	(0.281)	(0.141)
*ROA*Post Bank IPO*	1.359***	0.971	-0.894***	-0.608	-1.046***	-2.919
	(0.000)	(0.226)	(0.001)	(0.309)	(0.007)	(0.228)
Diff. in coefficient on *ROA*POST Bank IPO*	*P*-value =0.119		*P*-value =0.123		*P*-value =0.135	
Controls variables included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects**ROA* included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry & year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
# of observations (Loan)	7,879	1,255	7,879	1,255	727	147
Adjusted/Pseudo R2	13.4%	18.7%	18.4%	18.7%	31.4%	47.4%

Table 7. The effect of bank IPO on borrower financial reporting quality: Split-sample analysis based on bank corporate governance change

Panel A: Changes in borrower financial reporting quality changes surrounding bank IPO: Split-sample analysis based on change in bank board financial expertise

Panel A presents OLS regression results from the split-sample analysis of the effect of bank IPOs on borrower reporting quality, where the sample is partitioned based on the sample median of *ΔBoard Financial Expertise (*change in banks' board financial expertise). The dependent variable is *Composite Score*, which is the composite measure of reporting quality constructed based on *STDDA*, *DA*, and *NOI*, obtained from principal component analysis. For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE, QUICK, Leverage, INVREC, GROWTH, FOREIGN,* and *LOSS*. See Appendix A for variable definitions. *P*-values based on robust errors are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)
	High *ΔBoard Financial Expertise*	Low *ΔBoard Financial Expertise*
	Dependent variable = Composite Score	
POSTIPOBANK	-0.122***	-0.049
	(0.004)	(0.179)
IPOBANK	0.059	0.052
	(0.349)	(0.374)
BANK	-0.027	-0.025
	(0.639)	(0.637)
Diff. in coefficient on *POSTIPOBANK*	*P*-value = 0.003	
Controls variables included	Yes	Yes
Firm and year fixed Effects included	Yes	Yes
# of observation	14,243	14,279
Adjusted/Pseudo R^2	45.32%	45.97%

Table 7. The effect of bank IPO on borrower financial reporting quality: Split-sample analysis based on bank corporate governance change (Cont'd)

Panel B: Changes in borrower financial reporting quality surrounding bank IPO: Split-sample analysis based on change in bank board political connections

Panel B present OLS regression results from the split-sample analysis of the effect of bank IPOs on borrower reporting quality, where the sample is partitioned based on the sample median of *-ΔBoard Political Connection* (reduction in banks' board political connection) from the pre- to the post-IPO regime. The dependent variable is *Composite Score*, which is the composite measure of reporting quality constructed based on *STDDA*, *DA*, and *NOI*, obtained from principal component analysis. For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE*, *QUICK*, *Leverage*, *INVREC*, *GROWTH*, *FOREIGN*, and *LOSS*. See Appendix A for variable definitions. *P*-values based on robust errors are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)
	High *-ΔBoard Political Connections*	Low *-ΔBoard Political Connections*
	Dependent variable = Composite Score	
POSTIPOBANK	-0.152***	-0.062
	(0.001)	(0.102)
IPOBANK	0.061	0.054
	(0.340)	(0.386)
BANK	-0.026	-0.028
	(0.646)	(0.623)
Diff. in coefficient on *POSTIPOBANK*	*P*-value = 0.010	
Controls variables included	Yes	Yes
Firm and year fixed effects	Yes	Yes
# of observations	13,968	14,554
Adjusted/Pseudo R^2	45.33%	45.15%

Table 8. The effect of bank IPO on bank lending and borrower financial reporting quality: Split-sample analysis based on change in bank state ownership

Panel A: Bank state ownership change surrounding bank IPO

Panel A reports the mean and median state ownership in IPO banks before and after their IPOs in the first two columns. Mean difference in state ownership between the pre and post bank IPO period is reported in the last column. The symbols ***, **, and * indicate statistical significance based on two-sided t-tests at the 1%, 5%, and 10% level, respectively.

Variables		Pre-IPO (N = 32)	Post-IPO (N = 112)	Diff. (Post-IPO – Pre-IPO)
Bank State Ownership (%)	Mean	70.28	40.94	-29.34 ***
	Median	76.92	39.13	-37.79 ***

Table 8. The effect of bank IPO on bank lending behavior and borrower financial reporting quality: Split-sample analysis based on the change in bank state ownership (Cont'd)

Panel B: Changes in bank reliance on borrower financial performance surrounding bank IPOs: Split-sample analysis based on change in bank state ownership

Panel B presents OLS regression results from the split-sample analysis of the effect of bank IPOs on the relation between borrower performance and bank loan terms, where the sample is partitioned based on the sample median of *-ΔState Ownership* (reduction in banks' state ownership) from the pre- to the post-IPO period. Columns 1, 3, and 5 (2, 4, and 6) report the regression results for loans from banks with high (low) reduction in state ownership. The dependent variables in Columns 1 and 2, 3 and 4, and 5 and 6 are, respectively, *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans). For brevity, we omit reporting control variables and fixed effects. The regression is estimated with control variables, which include *SIZE, Leverage, Tobin's Q, Asset Tangibility, Loan Amount, Loan Maturity*. See Appendix for variable definitions. *P*-values based on robust errors and adjusted for borrower-level clustering (Peterson (2007)) are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	High *-ΔState Ownership*	Low *-ΔState Ownership*	High *-ΔState Ownership*	Low *-ΔState Ownership*	High *-ΔState Ownership*	Low *-ΔState Ownership*
	Dependent variable =					
	Loan Maturity		*Guarantee Requirement*		*Interest Spread*	
Post Bank IPO	-0.034	-0.017	0.043	-0.004	0.005	-0.126***
	(0.607)	(0.731)	(0.233)	(0.921)	(0.928)	(0.003)
*ROA*Post Bank IPO*	1.497**	0.569	-0.932***	0.349	-0.878**	0.605
	(0.026)	(0.400)	(0.004)	(0.368)	(0.042)	(0.192)
Diff. in coefficient on *ROA*POST Bank IPO*	*P*-value=0.057		*P*-value=0.084		*P*-value=0.122	
Controls variables included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects**ROA* included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects included	Yes	Yes	Yes	Yes	Yes	Yes
Industry and year fixed effects included	Yes	Yes	Yes	Yes	Yes	Yes
# of observations (Loans)	3,977	4,897	3,977	4,897	396	455
Adjusted/Pseudo R2	13.5%	14.2%	18.8%	19.6%	30.2%	43.9%

Table 8. The effect of bank IPO on bank lending behavior: Split-sample analysis based on bank SOE status and ownership (Cont'd)

Panel C: Changes in borrower financial reporting quality surrounding bank IPO: Split-sample analysis based on change in bank state ownership

Panel C presents OLS regression results from the split-sample analysis of the effect of bank IPOs on borrower financial reporting quality, where the sample is partitioned based on the sample median of *-ΔState Ownership* (reduction in banks' state ownership) from the pre- to the post-IPO period. Column 1 (2) reports the regression results for subsamples with high (low) reduction in state ownership. The dependent variable is *Composite Score*, which is the composite measure of financial reporting quality constructed based on *STDDA*, *DA*, and *NOI*, obtained from principal component analysis. For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE*, *QUICK*, *Leverage*, *INVREC*, *GROWTH*, *FOREIGN*, and *LOSS*. See Appendix A for variable definitions. *P*-values based on robust errors are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)
	High *-ΔState Ownership*	Low *-ΔState Ownership*
	Dependent variable = Composite Score	
POSTIPOBANK	-0.131***	-0.050
	(0.003)	(0.176)
IPOBANK	0.054	0.055
	(0.395)	(0.345)
BANK	-0.024	-0.027
	(0.668)	(0.611)
Diff. in coefficient on *POSTIPOBANK*	*P*-value = 0.001	
Controls variables included	Yes	Yes
Firm and year fixed effects	Yes	Yes
# of observations	14, 115	14,407
Adjusted/Pseudo R^2	45.44%	45.86%

Table 9. The effect of bank IPO on bank reliance on borrower financial performance and borrower financial reporting quality: Split-sample analysis based on the adoption of new Chinese GAAP

Panel A: Changes in bank reliance on borrower financial performance surrounding bank IPO: Split-sample analysis based on the adoption of new Chinese GAAP

This table presents OLS regression results for sub-period analysis partitioned based on the pre- and post-new GAAP adoption (i.e., year < 2007 and year >=2007) in China. Panel A reports results for the effect of bank IPOs on the relation between borrower performance and loan terms, with Columns 1, 3, and 5 (2, 4, and 6) for the pre-(post-) adoption period. The dependent variable in Columns 1 and 2, 3 and 4, and 5 and 6 is, respectively, *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans). See Appendix A for variable definitions. For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE, Leverage, Tobin's Q, Asset Tangibility, Loan Amount, and Loan Maturity. P*-values based on robust errors and adjusted for borrower-level clustering (Peterson (2007)) are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Pre-2007	Post-2007	Pre-2007	Post-2007	Pre-2007	Post-2007
	Loan Maturity		*Guarantee Requirement*		*Interest Spread*	
Post Bank IPO	0.215**	0.024	-0.028	0.049	0.043	0.278*
	(0.043)	(0.544)	(0.537)	(0.734)	(0.698)	(0.054)
*ROA*Post Bank IPO*	0.082	1.993**	-0.274	-2.213**	0.271	-3.316**
	(0.177)	(0.025)	(0.136)	(0.027)	(0.333)	(0.041)
Diff. in coefficient on *ROA*POST Bank IPO*	*P*-value =0.091		*P*-value = 0.082		*P*-value =0.064	
Controls variables included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects**ROA* included	Yes	Yes	Yes	Yes	Yes	Yes
Bank fixed effects included	Yes	Yes	Yes	Yes	Yes	Yes
Industry and year fixed effects included	Yes	Yes	Yes	Yes	Yes	Yes
# of observations(Loans)	2,543	9,899	2,543	9,899	510	613
Adjusted/Pseudo R^2	22.12%	23.27%	18.25%	19.35%	45.13%	59.26%

Table 9. The effect of bank IPO on bank reliance on borrower financial performance and borrower financial reporting quality: Split-sample analysis based on the adoption of new Chinese GAAP (Cont'd)

Panel B: Changes in borrower financial reporting quality surrounding bank IPO: Split-sample analysis based on the adoption of new Chinese GAAP

Panel B presents results of the effect of bank IPOs on borrower financial reporting quality, with Columns 1 and 2 for the pre- and post-adoption period, respectively. The dependent variable is *Composite Score*, which is the composite measure of financial reporting quality constructed based on *STDDA*, *DA*, and *NOI*, obtained from principle component analysis. For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE, QUICK, Leverage, INVREC, GROWTH, FOREIGN,* and *LOSS*. See Appendix A for variable definitions. *P*-values based on robust errors are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)
	Pre-2007	Post-2007
	Dependent variable = Composite Score	
POSTIPOBANK	-0.021	-0.204**
	(0.449)	(0.030)
IPOBANK	-0.074	0.198*
	(0.215)	(0.075)
BANK	0.071	-0.054
	(0.209)	(0.419)
Diff. in coefficient on *POSTIPOBANK*	*P*-value = 0.058	
Controls variables included	Yes	Yes
Firm and year fixed effects included	Yes	Yes
# of observations	5,792	10,129
Adjusted/Pseudo R^2	65.63%	49.01%

Table 10. Additional robustness tests

Panel A: Changes in bank reliance on borrower financial performance based on borrowers that have at least one loan from a treatment lender and one loan from a control lender

The sample in Panel A comprises outstanding loans of firms that borrow from at least one "treatment" lender, that is, a CSB that has already issued an IPO and at least one "control" lender, that is, a lender that has either not yet issued an IPO or never does so within our sample period. The dependent variables in Columns 1-3 are *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans), respectively. For brevity, we omit reporting the intercept. See Appendix A for variable definitions. In parentheses are *p*-values based on robust errors adjusted for borrower-level clustering (Peterson (2007)). The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)
	Dependent variable =		
	Loan Maturity	*Guarantee Requirement*	*Interest Spread*
Post Bank IPO	0.127*	0.017	-0.012
	(0.061)	(0.630)	(0.823)
*ROA*Post Bank IPO*	1.094*	-0.829**	-0.774*
	(0.078)	(0.042)	(0.070)
SIZE	0.008*	0.055***	0.009
	(0.078)	(0.000)	(0.630)
Leverage	0.149*	0.571***	0.187*
	(0.076)	(0.000)	(0.084)
Tobin's Q	-0.008	0.019	0.043
	(0.609)	(0.141)	(0.332)
Asset Tangibility	0.270***	0.123**	-0.125*
	(0.003)	(0.013)	(0.070)
Loan Amount	0.083***	-0.084***	-0.019
	(0.000)	(0.000)	(0.260)
Loan Maturity		-0.013	-0.048*
		(0.341)	(0.058)
Bank fixed effects**ROA* included	Yes	Yes	Yes
Bank fixed effects included	Yes	Yes	Yes
Industry& year fixed effects included	Yes	Yes	Yes
# of observations	4,296	4,296	419
Adjusted/Pseudo R2	32.2%	25.9%	65.9%

Table 10. Additional robustness tests (Cont'd)

Panel B: Changes in bank reliance on borrower financial performance based on borrowers that initiated a loan from an IPO-issuing bank in both the pre-IPO period and the post-IPO period

The sample in Panel B is a constant sample of borrowers that have initiated at least one loan from an IPO-issuing CSB in both the pre- and post- IPO periods, along with all borrowers from non-IPO-issuing banks as part of the control group. The dependent variables in Columns 1-3 are *Loan Maturity* (natural logarithm of loan maturity), *Guarantee Requirement* (an indicator variable that equals 1 if there is any guaranteed or collateral requirement imposed on the loan), and *Interest Spread* (actual loan interest rate − the China central bank's base rate for loans), respectively. For brevity, we omit reporting the intercept. See Appendix A for variable definitions. In parentheses are *p*-values based on robust errors adjusted for borrower-level clustering (Peterson (2007)). The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)
	Dependent variable =		
	Loan Maturity	*Guarantee Requirement*	*Interest Spread*
Post Bank IPO	-0.007	0.026	-0.071
	(0.866)	(0.311)	(0.223)
*ROA*Post Bank IPO*	0.902**	-0.121*	-0.562*
	(0.049)	(0.055)	(0.071)
SIZE	0.025**	0.053***	-0.004*
	(0.034)	(0.000)	(0.087)
Leverage	0.076**	0.549***	0.286*
	(0.042)	(0.000)	(0.077)
Tobin's Q	0.012*	0.047***	0.050
	(0.072)	(0.000)	(0.102)
Asset Tangibility	0.130*	0.176***	-0.234**
	(0.084)	(0.000)	(0.025)
Loan Amount	0.064***	-0.088***	-0.022
	(0.000)	(0.000)	(0.102)
Loan Maturity		-0.004	-0.007
		(0.713)	(0.766)
Bank fixed effects**ROA* included	Yes	Yes	Yes
Bank fixed effects included	Yes	Yes	Yes
Industry& year fixed effects included	Yes	Yes	Yes
# of observations	8,172	8,172	528
Adjusted/Pseudo R2	21.7%	21.9%	64.3%

Table 10. Additional robustness tests (Cont'd)

Panel C: Changes in borrower financial reporting quality based on borrowers that initiated a loan from an IPO-issuing bank in both the pre-IPO period and the post-IPO period

The sample in Panel B is a constant sample of borrowers that have initiated at least one loan from an IPO-issuing CSB in both the pre- and post- IPO periods, along with all borrowers from non-IPO-issuing banks as part of the control group. The dependent variable is *Composite Score*, which is the composite measure of financial reporting quality constructed based on *STDDA*, *DA*, and *NOI*, obtained from principle component analysis. For brevity, we omit reporting coefficients on the control variables and fixed effects. The regression is estimated with control variables, which include *SIZE, QUICK, Leverage, INVREC, GROWTH, FOREIGN,* and *LOSS*. See Appendix A for variable definitions. *P*-values based on robust errors are reported in parentheses. The symbols ***, **, and * indicate statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

	Dependent variable = Composite Score
POSTIPOBANK	-0.129***
	(0.005)
IPOBANK	0.168**
	(0.039)
BANK	-0.087
	(0.235)
Controls variables included	Yes
Firm and year fixed effects included	Yes
# of observations	8,936
Adjusted/Pseudo R^2	45.23%