

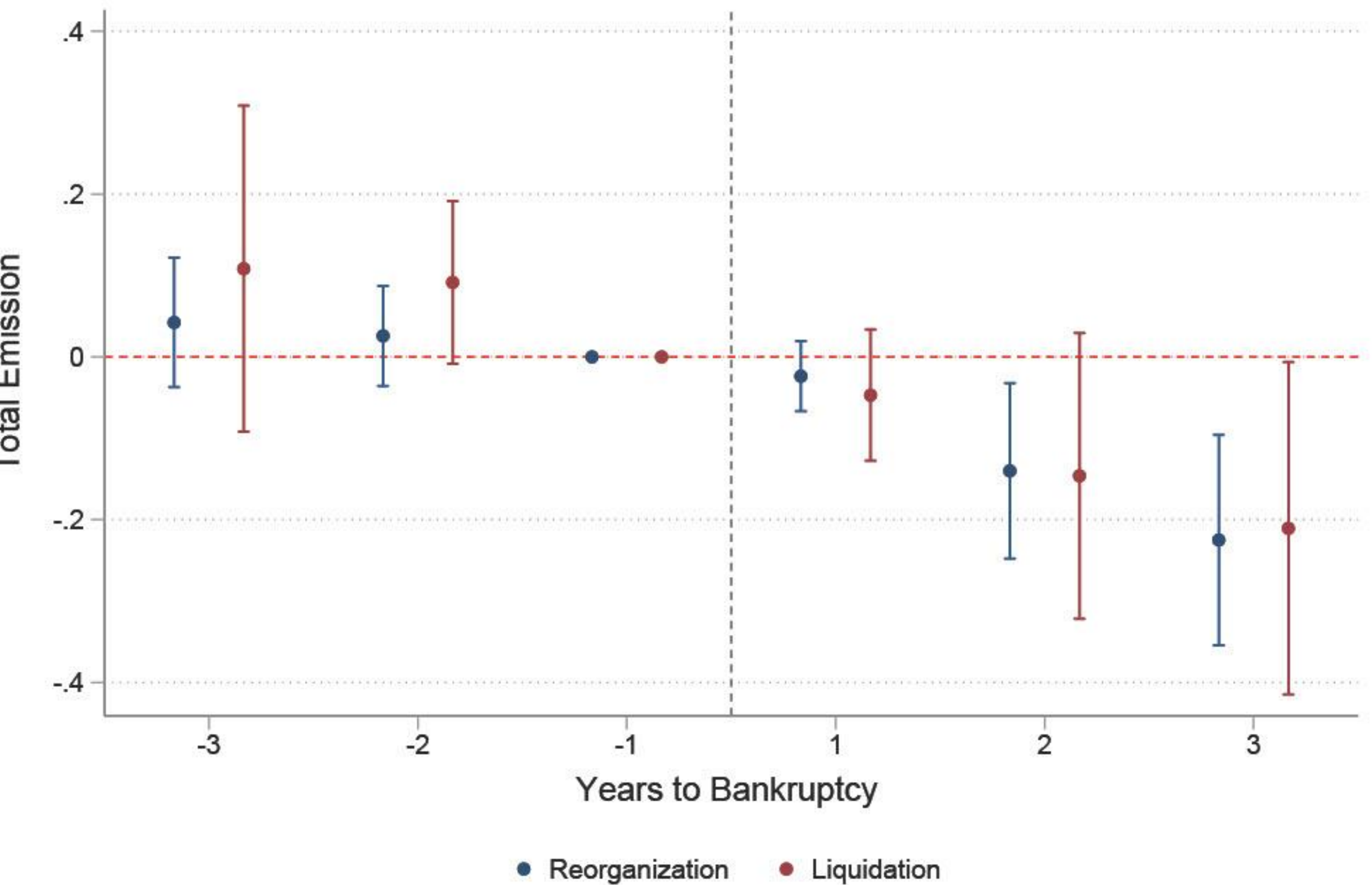
1 Motivation and Contribution

- 1) An effective free market/entrepreneurial economy depends on the existence of an **effective bankruptcy process** (Jackson and Skeel, 2013)
- 2) The unchecked **accumulation of greenhouse gas (GHG) emissions** is one of the starkest examples of **market failure worldwide** (Colmer et al., 2024)

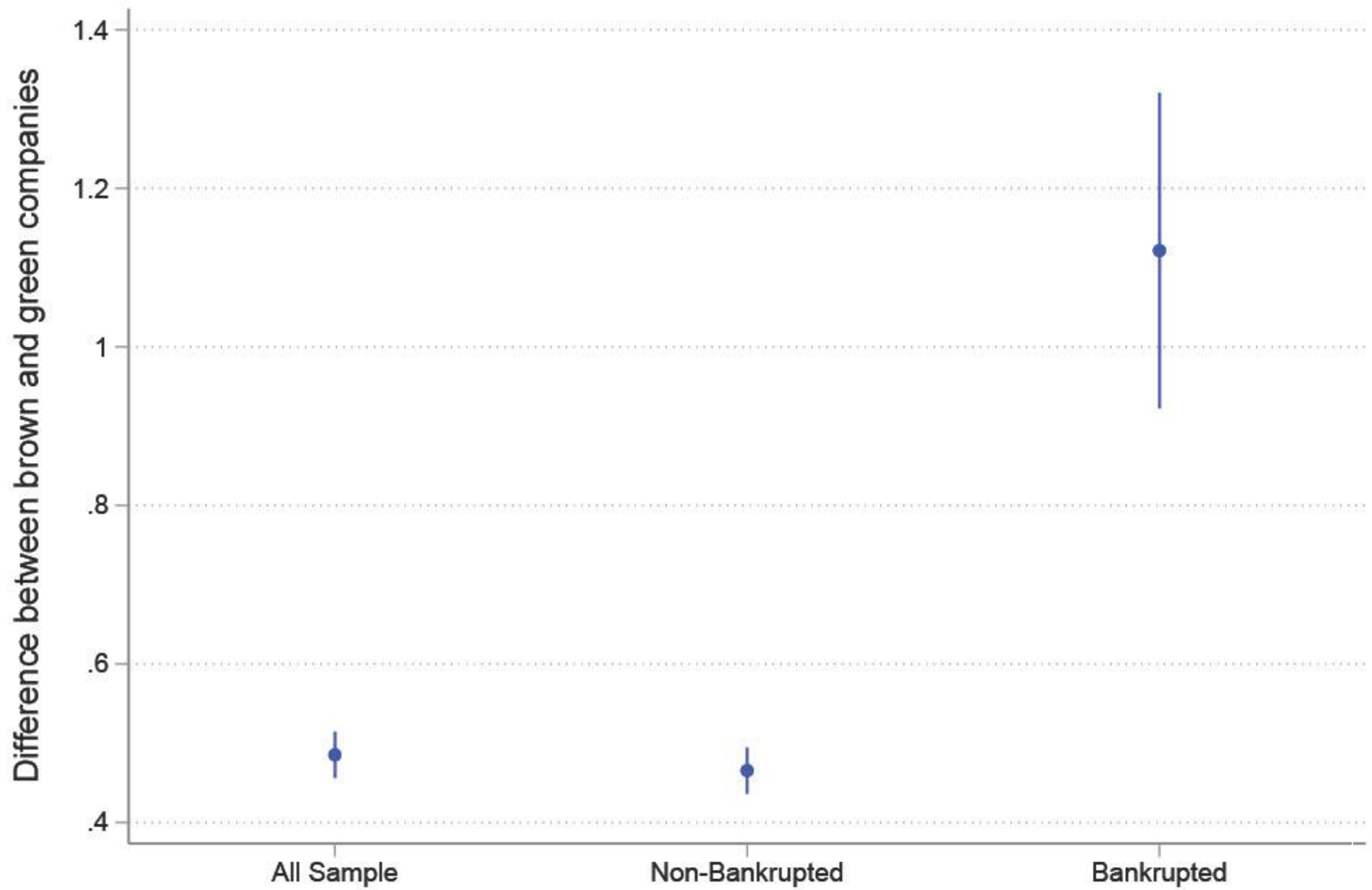
Considering the current climate crisis, we aim to investigate whether **the bankruptcy process is effective in allocating assets to companies facilitating the green transition or it creates a misallocation friction.**

Our contribution: This is the first study to assess the interaction of climate risk and environmental performance of firms with bankruptcy proceedings.

4 Changes in Total Emissions Around Bankruptcy



2 Are brown firms more likely to default?

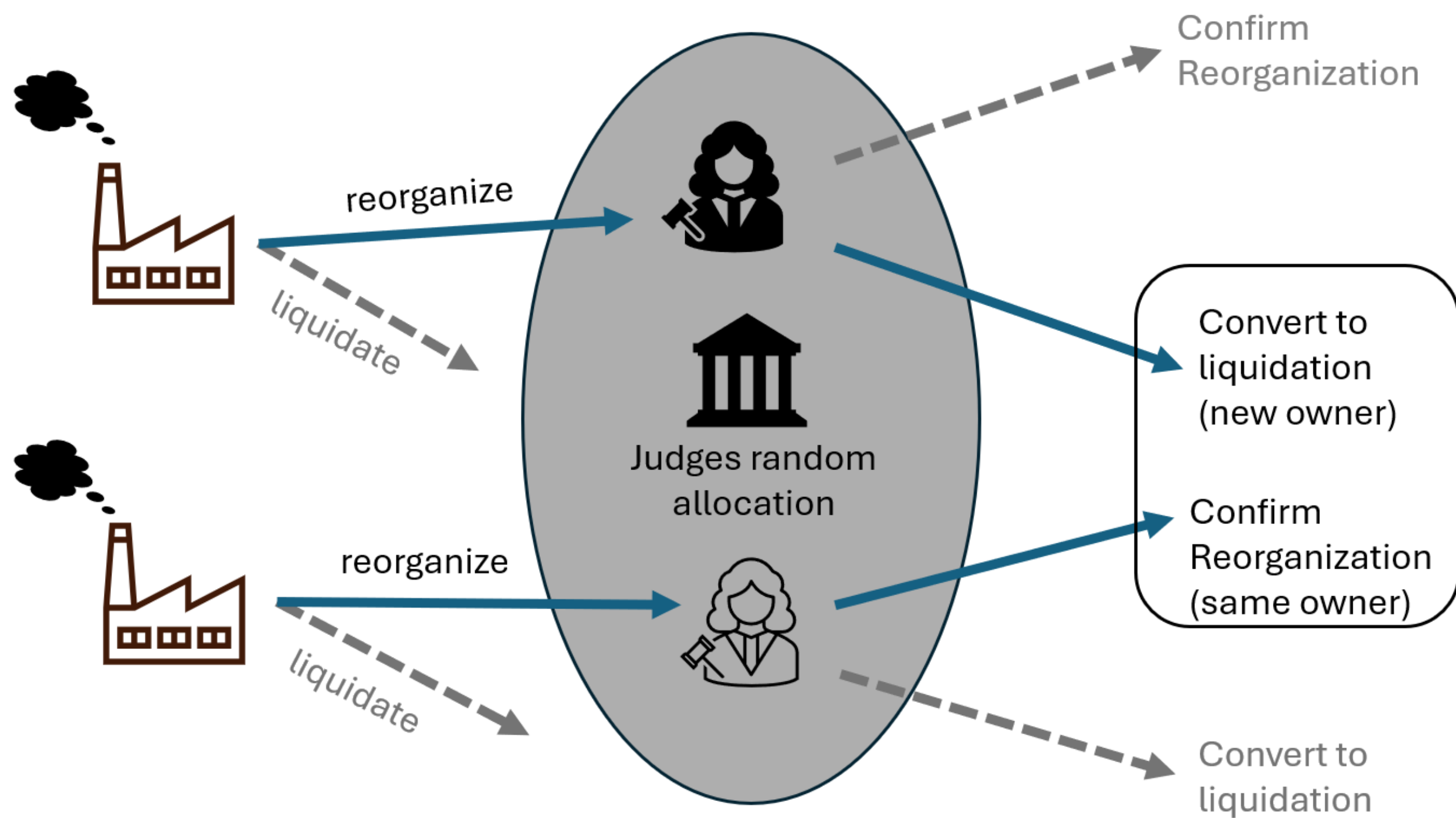


5 Results and Potential Mechanisms

Specification	(1) First-Stage Reorganization	(2) OLS: Second Stage log(Total Emission)	(3) IV: Second Stage log(Total Emission)
Continuation Bias	1.628*** (0.380)		
Reorganization		-2.102*** (0.333)	-7.063** (3.167)
F-Stat	18.40		
Controls	N	Y	Y
Adj. R ²	0.627	0.134	
N	1302	954	954

- 1) **Debt relief** - Post-bankruptcy companies have lower debt, allowing them to re-invest their profit into greener practices (Hartzmark and Shue, 2023)
- 2) **Greener management** - New management adopt greener practices (Martin et al, 2012)
- 3) **Under-utilisation** - Facilities are under utilised following bankruptcy (Bernstein et al., 2018)

3 Do firms' environmental performance improve after bankruptcy? Empirical Strategy



We compare emissions of facilities whose firms filed for bankruptcy with the same district, leveraging on **random assignment of judges with different degrees of pro-continuation bias** (Aloisio et al., 2023):

$$M_{bjd} = \frac{1}{N_{jd} - 1} \sum_{b' \neq b} C_{b'jd}$$

N_{jd} is the total number of cases assigned to judge j in judicial district d and $C_{b'jd}$ is an indicator function equal to one if bankrupt firm b continues in operation five years after bankruptcy, 0 if not.

$$\text{Log(Emissions)}_{pbjd}^T = \alpha_{dt} + \beta \widehat{\text{Reorganization}}_{bjd} + \gamma X_{pbjd,t-1} + \epsilon_{pbjd}$$

M_{bjd} as an instrument to exogenize the decision of a firm regarding reorganization (same owner) or liquidation (new owner)

β here captures the causal effect of reorganization (same owner) on plant emissions relative to liquidation (new owner)