

Swiss Doctoral Program Network in Accounting Research
Empirical Research on Financial Reporting by Banks and for Financial Instruments
Professor Stephen Ryan
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20-22 April 2016
University of Neuchatel – Institute of Financial Analysis

Course Objectives: The primary purpose of this course is for the participants (i.e., me and you) to critically evaluate existing empirical research on topics of inherent importance and current salience related to financial reporting by banks and for financial instruments, particularly in light of the stability issues raised by the recent global financial crisis. Secondary purposes are: (1) to help participants think about how to identify and empirically implement such topics and (2) to discuss any ongoing or potential future research on such topics by course participants.

Program Overview:

Wednesday 20 April

9:00-12:00: Introduction to Financial Reporting by Banks and for Financial Instruments
and Related Stability Issues

13:30-16:30: Loan Loss Provisioning

Thursday 21 April

9:00-12:00: Fair Value Accounting: Relevance and Reliability

13:30-16:30: Fair Value Accounting: Stability Issues

Friday 22 April

9:00-12:00: Securitizations

13:30-16:30: Risk Disclosures and Student Presentations (the latter will take precedence)

Your Responsibilities and ECTS: You should have read and thought about the main readings for each session prior to the session. Thinking about papers includes asking whether the topic is important and sensible and whether the empirical implementation (e.g., identification) and exposition are convincing. It also involves trying to identify interesting but unanswered questions suggested by the papers or otherwise related to the topic. Three ECTS will be granted upon successful participation.

For Students Researching Related Topics: If you are engaged in ongoing research on a topic related to this course that you would like to discuss in the final session of the class, please e-mail me by the end of March a working paper of reasonable length or, if you do not have a paper yet, a short description of hypotheses and work completed to date. If you are considering such a topic that you would like to discuss, please send me a short proposal with hypotheses and any

other critical information. If sufficient students are interested in presenting research, the afternoon session on 22 April will be devoted entirely to that activity.

Readings:

Wednesday 20 April

9:00-12:00: Introduction to Financial Reporting by Banks and for Financial Instruments and Related Stability Issues

Main reading:

Acharya, V., and S. Ryan, "Banks' Financial Reporting and Financial System Stability." *Journal of Accounting Research*, forthcoming. Published online at <http://onlinelibrary.wiley.com/doi/10.1111/1475-679X.12114/epdf>.

Optional/Background readings (long!):

Ryan, S. "Accounting in and for the Subprime Crisis." *The Accounting Review*, November 2008, 1605-1638.

Ryan, S., "Discussion of 'Were Information Intermediaries Sensitive to the Financial Statement-based Leading Indicators of Bank Distress prior to the Financial Crisis?'" *Contemporary Accounting Research*, forthcoming. Published online at <http://onlinelibrary.wiley.com/doi/10.1111/1911-3846.12224/epdf>.

Ryan, S., "Financial Reporting for Financial Instruments," *Foundations and Trends in Accounting*, 2011 (published December 2012), 6: 3-4, pp. 187-354.

Beatty, A., and S. Liao. "Financial Accounting in the Banking Industry: A Review of the Empirical Literature." *Journal of Accounting & Economics* 58 (2014): 339-383.

Ryan, S. *Financial Instruments and Institutions: Accounting and Disclosure Rules*. 2nd Edition. John Wiley & Sons: Hoboken, N.J., 2007.

13:30-16:30: Loan Loss Provisioning

Main readings:

Beatty, A., and S. Liao. "Do Delays in Expected Loss Recognition Affect Banks' Willingness to Lend?" *Journal of Accounting and Economics* 52 (2011): 1-20.

Bushman, R., and C. Williams. "Accounting Discretion, Loan Loss Provisioning, and Discipline of Banks' Risk-taking." *Journal of Accounting and Economics* 54 (2012): 1-18.

Background readings:

Liu, C., and S. Ryan. "Income Smoothing over the Business Cycle: Changes in Banks' Coordinated Management of Provisions for Loan Losses and Loan Charge-offs from the Pre-1990 Bust to the 1990s Boom." *The Accounting Review* 81 (2006): 421-441.

Ryan and Keeley, "Discussion of 'Did the SEC impact banks' loan loss reserve policies and their informativeness?'" *Journal of Accounting & Economics*, December 2013, 66-78.

Bhat, G., J. Lee, and S. Ryan. "Utilizing Loan Loss Indicators by Loan Type to Sharpen the Evaluation of the Determinants and Implications of Banks' Loan Loss Accruals." Working paper, Southern Methodist University, July 2014.

Bhat, G., S. Ryan, and D. Vyas. "The Implications of Credit Risk Modeling for Banks' Loan Loss Provision Timeliness and Loan Origination Procyclicality." Working paper, New York University, November 2015.

Ng and Roychowdhury, "Do Loan Loss Reserves Behave Like Capital? Evidence from Recent Bank Failures," *Review of Accounting Studies*, September 2014: 1234-1279.

See also Ryan (2011, Chapter 3) and the various sections discussing provisions for loan losses in Beatty and Liao (2014) from the background readings for the morning session.

Thursday 21 April

9:00-12:00: Fair Value Accounting: Relevance and Reliability

Main readings:

Hodder, L., P. Hopkins, and J. Wahlen, "Risk-Relevance of Fair-Value Income Measures for Commercial Banks," *The Accounting Review* (March 2006): 337-375.

Barth, M., L. Hodder, and S. Stubben. "Fair Value Accounting for Liabilities and Own Credit Risk." *The Accounting Review* 83 (2008): 629-664.

Badia, M., M. Duro Rivas, F. Penalva, and S. Ryan. "Conditionally Conservative Fair Value Measurements." Working paper, IESE Business School, University of Navarra, February 2016.

Background readings:

Vyas, D. "The Timeliness of Accounting Write-downs during the Recent Financial Crisis." *Journal of Accounting Research* 49 (2011): 823-860.

Badertscher, B., J. Burks, and P. Easton (2012), 'A convenient scapegoat: fair value accounting by commercial banks during the financial crisis', *The Accounting Review*, 87 (1).

Blankespoor, E., T. Linsmeier, K. Petroni, and C. Shakespeare, "Fair value accounting for financial instruments: Does it improve the association between bank leverage and credit risk?" *The Accounting Review*, July 2013, 1143-1177.

See also Ryan (2011, Chapter 4) and the various sections discussing fair value accounting in Beatty and Liao (2014) from the background readings for the Wednesday morning session.

13:30-16:30: Fair Value Accounting: Stability Issues

Main readings:

Ellul, A., C. Jotikasthira, C. Lundblad, and Y. Wang. "Mark-to-Market Accounting and Systemic Risk: Evidence from the Insurance Industry." *Economic Policy* 29 (2014): 297-341.

Xie, B. "Does Fair Value Accounting Exacerbate the Pro-cyclicality of Bank Lending?" Working paper, Penn State University, 2015.

Laux, C., and T. Rauter. "Procyclicality of US Bank Leverage." Working paper, Vienna University of Economics and Business Administration, 2015.

Background readings:

Ellul, A., C. Jotikasthira, C. Lundblad, and Y. Wang. "Is Historical Cost Accounting a Panacea? Market Stress, Incentive Distortions, and Gains Trading." *Journal of Finance* LXX (2015): 2489-2537.

Merrill, C., T. Nadauld, R. Stulz, and S. Sherlund. "Were there Fire Sales in the RMBS Market?" Working paper, Ohio State University, 2014.

Amel-Zadeh, A., M. Barth, and W. Landsman. "The Contribution of Bank Regulation and Fair Value Accounting to Procyclical Leverage." Rock Center for Corporate Governance at Stanford University Working paper no. 147, 2015.

Laux, C., and Leuz, C., 2010, Did Fair-Value Accounting Contribute to the Financial Crisis? *Journal of Economic Perspectives*, Winter 2010, 93-118.

See also Acharya and Ryan (2016), the main reading for the Wednesday morning session.

Friday 22 April

9:00-12:00: Securitizations

Main readings:

Barth, M., Ormazabal, G. and Taylor, D., 2012. Asset securitizations and credit risk. *The Accounting Review* March 2012: 423-448.

Cheng, M., D. Dhaliwal, and M. Neamtiu. "Asset Securitization, Securitization Recourse, and Information Uncertainty." *The Accounting Review* 86 (2011): 541-563.

Ryan, S., J. Tucker, and Y. Zhou, "Securitization and Insider Trading," *The Accounting Review*, forthcoming, March 2016. Published online at <http://aaajournals.org/doi/pdf/10.2308/accr-51230>.

Background readings:

Chen, W., C. Liu, and S. Ryan. "Characteristics of Securitizations that Determine Issuers' Retention of the Risks of the Securitized Assets," *The Accounting Review*, September 2008, pp. 1181-1215.

Dechow, P., and C. Shakespeare. 2009. Do managers time securitization transactions to obtain accounting benefits? *The Accounting Review* 84 (1): 99-132.

Dou, Y., Y. Liu, G. Richardson, and D. Vyas. 2014. The risk-relevance of securitization during the recent financial crisis. *Review of Accounting Studies* 19: 839-876.

Oz, S. "Did SFAS 166/167 Decrease Information Asymmetry of Securitizing Banks?" Working paper, McGill University, 2015.

See also Ryan (2011, Chapter 5) and the various sections discussing securitization in Beatty and Liao (2014) from the background readings for the Wednesday morning session.

13:30-16:30: Risk Disclosures and Student Presentations (the latter will take precedence)

Main readings:

Ahmed, A., Kilic, E. and Lobo, G., 2011. Effects of SFAS 133 on the risk-relevance of accounting measures of banks' derivative exposures. *Accounting Review*, 86 (3), 769–804.

Bhat, G., and S. Ryan. "The Impact of Risk Modeling on the Market Perception of Banks' Estimated Fair Value Gains and Losses for Financial Instruments." *Accounting, Organizations and Society* 46 (2015): 81-95.

Background readings:

Ryan, S. "Risk Reporting Quality: Implications of Academic Research for Financial Reporting Policy." *Accounting and Business Research* 42 (2012): 1-30.

See also Ryan (2011, Chapter 6) from the background readings for the Wednesday morning session.