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Center for Corporate Governance, Tsinghua University

【学术会议】

Accounting Discretion, Loan Loss Provisioning, and Discipline of Banks' Risk-Taking

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University of North Carolina-Chapel Hill

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April 2011

Abstract

Policy makers argue that loan loss accounting should allow bank managers' more discretion to incorporate forward-looking judgments into loan loss provisions. This paper explores potential consequences of such increased discretion for the role of accounting information in supporting outside discipline of bank risk-taking. Using a large sample of banks from 27 countries, we isolate three distinct aspects of discretionary loan provisioning practices within each country that reflect forward-looking orientation. We investigate the extent to which each aspect is associated with stronger or weaker discipline of bank risk-taking behavior. We model risk-taking discipline using two measures: (1) the sensitivity of changes in bank capital to changes in bank risk; and (2) the observed risk-shifting behavior of banks. We document that discretionary provisioning in the form of earnings smoothing dampens disciplinary

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pressure on risk-taking, consistent with smoothing reducing bank transparency and inhibiting monitoring by outsiders. In contrast, aspects capturing the extent to which provisions explicitly anticipate future changes in nonperforming loans and future loan growth are associated with enhanced discipline of bank risk taking. A main message of the paper is that discretion over loan loss provisioning can have beneficial or negative real consequences for discipline of bank risk-taking. Thus, care must be exercised when changing loan provisioning, as any gains to increased forward-looking provisioning from reduced pro-cyclicality can be offset by losses in bank transparency.

Keywords: Smoothing, Loan Loss Provisions, Discretion, Risk, Banks
JEL Classifications: E58, G21, G32, M41

Robert M. Bushman

The Forensic Accounting Distinguished Professor

Biography

Accounting professor Robert Bushman's research encompasses theoretical and empirical inquiry into issues of information in capital markets, performance measurement and incentive compensation design, and international aspects of corporate governance.

Dr. Bushman is The Forensic Accounting Distinguished Professor and an award-winning teacher. He teaches courses in corporate governance, financial accounting and structuring complex deals. He also has done extensive executive teaching for Andersen Consulting and GlaxoSmithKline, and has spoken to numerous executive groups.

Dr. Bushman has worked with Arthur Andersen LLP and TransUnion Corporation, and has been involved in several entrepreneurial enterprises.

He received a PhD from the University of Minnesota and a BBA in accounting from Ohio University. He has been a CPA since 1975.

The Effects of Market Development on Controlling Shareholders' Participation in Rights Offerings

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This draft: July 2011

Abstract

We examine the relation between the level of market development (that is, the extent to which resource allocations are guided by market mechanisms as opposed to government decisions) across regions in China and controlling shareholders' decisions to participate in Chinese public companies' rights offerings. We find significant positive relations between measures of market development and controlling shareholders' participation, and evidence that the decision to participate benefits minority shareholders. These results are consistent with the hypothesis that better market development creates a channel to deliver de facto protection for minority shareholders by creating implicit incentives for controlling shareholders to act in the interests of minority shareholders, holding constant minority shareholders' de jure rights. Our results support arguments that macro-level institutions, specifically, the level of market development, affect firm-level governance through a channel that is distinct from the direct channel of explicitly granting de jure rights to minority shareholders.

Katherine A Schipper

Thomas F. Keller Professor

Teaching / Research Interests:

Financial reporting, Corporate governance

Biography

Katherine Schipper is the Thomas F. Keller Professor of Business Administration at Duke University's Fuqua School of Business. She is a member of the accounting area. Ms. Schipper holds a BA degree from the University of Dayton, MBA, MA and PhD degrees from the University of Chicago and an honorary degree from Notre Dame University. Prior to joining Duke University's faculty, she was a member of the Financial Accounting Standards Board (FASB). She has also been a faculty member at Carnegie Mellon University and the University of Chicago.
Ms. Schipper has published research papers on a wide range of topics in financial reporting, corporation finance and corporate governance. She is a

frequent speaker on matters related to international accounting convergence, financial reporting standard setting and financial reporting quality. She has been named the American Accounting Association's Outstanding Educator and Distinguished International Lecturer, and has been elected to the Accounting Hall of Fame. She has served the American Accounting Association as Director of Research, as President and as President of the Financial Accounting and Reporting Section. She is or has been a member of the governing boards of a public company, a mutual fund and a not-for-profit entity.

Managers' Self-Serving Attribution Bias and Corporate Financial Policies

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University of Michigan

Abstract

The self-serving attribution bias ("SAB") refers to individuals taking responsibility for good outcomes and blaming others for bad outcomes. Consistent with the existence of managerial SAB, I find that managers tend to use more first-person pronouns (relative to second- and third-person pronouns) in the Management Discussions and Analysis Section of the 10-K filings when firm performance is better. A consequence of SAB is overconfidence (i.e., overestimating the mean and underestimating the variance of future cash flows). Consistent with this argument, managers with more SAB are more likely to issue forward-looking statements and make earnings forecasts, the tone (e.g., positive versus negative) of their forward-looking discussions has smaller variation, and their earnings forecasts tend to be more optimistic. Firms whose managers have more SAB have higher investment-cash flow sensitivity and experience more negative market reactions around acquisition announcements. These firms also tend to have higher leverage, are more likely to repurchase stocks, and are less likely to issue dividends.

Collectively, the evidence suggests that managers have self-serving attribution bias andthis bias has implications for corporate policies.

Feng Li

Ernst & Young Associate Professor of Accounting

Biography

TEACHING EXPERIENCE

Instructor for *Intermediate Financial Accounting* (Michigan undergraduate elective)

Teaching Assistant for *Financial Accounting, Managerial Accounting, Financial Statement Analysis, and International Accounting* (Chicago MBA programs)

Teaching assistant for *Financial Analysis for Non-financial Managers, Finance For Executives, and Financial Analysis for Consultants* (Chicago non-degree programs)

PROFESSIONAL ACTIVITIES
JAE Conferences 2002-2004
JAR conferences 2000-2005
Stanford Accounting Summer Camp 2003
Ad Hoc Referee, JAR 2002-2005

HONORS
Deloitte & Touche Fellowship 2003
AAA Doctoral Consortium 2002
Big Ten+ Doctoral Consortium 2001
University of Chicago GSB Fellowship 1999-2003
University of Chicago GSB First-year Summer Research Grant 2000

Political Incentives to Suppress Negative Information: Evidence from Chinese Listed Firms

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April 2011

Abstract

This paper tests the proposition that listed firms respond to incentives to suppress negative information around political events that raise the cost of releasing such news. Specifically, we examine the stock price behavior of Chinese listed firms around three visible political events:

meetings of the National Congress of the Chinese Communist Party, provincial-level political promotions, and the revelation of provincial-level political corruption investigations. To the extent that these events asymmetrically increase the cost of releasing bad news, local politicians and politically connected managers will have a heightened incentive to temporarily restrict the flow of negative information about firms under their control. The result will be fewer stock price crashes for affected and affiliated firms during these event windows. Consistent with these predictions, we find that both state-controlled and privately owned listed firms are significantly less likely to experience negative stock price crashes in the years of the National Congress; subsequent analyses reveal the effect to be a country-level phenomenon. In contrast, provincial-level promotion events produce local incentives to suppress negative information. The suppression around political promotion decision is strongest among politically connected, state-controlled entities, and in those regions where the cost of releasing negative information is likely to be the greatest for local politicians (i.e., provinces with meaningful capital market development activity, administrative autonomy and strong economic performance). Finally, we document evidence of suppression by state-controlled firms in advance of corruption investigations; however, that effect is sensitive to the inclusion of provincial level factors.

JEL Classification: G39, M41
Keywords: State ownership; information environment; corporate governance; political costs; China

Joseph D Piotroski

Associate Professor of Accounting

Biography

Professor Joseph Piotroski's research primarily focuses on financial reporting issues. Within this broad area, his research focuses on how capital market participants use financial accounting information for valuation and risk assessment purposes, how financial, legal, regulatory, and political institutions shape capital market behavior, (including financial reporting practices, governance practices, insider trading activity and foreign listing behavior) and the economic consequences of alternative financial reporting, information dissemination, and governance practices around the world.
Joseph Piotroski is an Associate Professor of Accounting at Stanford University's Graduate School of Business. Prior to this position, he was an Associate Professor of Accounting at the University of Chicago's Graduate School of Business (July 1999 to June 2007).

Determinants of Corporate Cash Policy: Insights from Private Firms

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First version: November, 2010 This version: July, 2011

Abstract

In this paper, we provide one of the first large sample comparisons of cash policies in public and private US firms. We first show that on average private firms hold less than half as much cash as public firms do. The higher cash holdings of public firms are partially caused by the fact that public firms add more to their cash reserves in a given year, even controlling for a number of spending and savings factors, than do similar private firms. At the same time, however, we find that among firms with excess cash holdings, public firms spend more of it than do private firms. Thus, public firm managers are more aggressive in both accumulating and spending cash reserves. Finally, consistent with the presence of financing frictions, we find that private firms' cash-to-cash flow sensitivity is higher than that of public firms. Overall, our evidence supports both the agency conflicts and the financing frictions views of corporate cash policy.

Keywords: cash holdings; cash-to-cash flow sensitivity; financing frictions; agency conflicts; private firms
JEL Classification: G30; G32

Kai Li

Professor of Finance
W. Maurice Young Chair in Finance

Biography

Professional Employment Record

2008 - W.M. Young Professor of Finance, Professor.
2004 - 2005 Visiting Associate Professor of Finance, MIT Sloan School of Management

Journal Articles
"Hedge Funds and Chapter 11," with W. Jiang, and W. Wang, Journal of Finance forthcoming.

"Privatization and Risk Sharing: Evidence from the Split Share Structure Reform in China," with T. Wang, Y.L. Cheung, and P. Jiang, 2011 (Winner of the Best Paper Award at the 14th Annual Conference of the Chinese Finance Association), Review of Financial Studies 24, 2499-2525.

Conference Proceedings and Other Publications
"Self-Selection Models in Corporate Finance," with N.R. Prabhala, 2007, Handbook of Corporate Finance:Empirical Corporate Finance Vol. I (Elsevier/North-Holland), ed. B. E. Eckbo, Chapter 2, 37-86. Reprinted in: Corporate Takeovers: Modern Empirical Developments. Volume 1: Takeover Activity, Valuation Estimates, and Sources of Merger Gains Vol. I, (Elsevier/Academic Press), ed. B. E. Eckbo, Chapter 3, 173-224, 2010.

Uninvited U.S. Investors? Economic Consequences of Involuntary Cross-listings

Peter Iliev, Darius P. Miller, and Lukas Roth

April 27, 2011

Abstract

We study a recent SEC deregulation intended to increase the competitiveness of U.S. capital markets. We document that disclosure deregulation, combined with incentives for fee income, caused depositary banks to cross list over 900 foreign companies without legal obligation to notify the firms or obtain their consent. This caused a fundamental shift in the cross-listing landscape to where forty percent of foreign firms trading in the U.S. are now here involuntarily and trade on the OTC rather than major U.S. exchange markets. We find that the net effect of the regulation change was a significant destruction of firm value. We also find that auditors subsequently charged higher fees for their services and firms held more cash, which is consistent with the involuntary cross-listing causing an increase in U.S. litigation risk. Our results provide evidence that the SEC regulatory change meant to advance U.S. economic interests also changed many non-U.S. firms' first best listing strategy which led to undesirable outcomes for many non-U.S. markets.

JEL classification: G15, G18, G38, K22, F30
Keywords: Cross-listing, Securities Regulation, SEC, Rule 12g3-2(b)

Darius Miller PhD

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Biography

Darius Miller is the Caruth Chair in Finance at Southern Methodist University, where he joined the faculty in 2005. Dr. Miller is an internationally recognized scholar in the fields of financial market regulation, corporate governance and financial disclosure. He has published numerous academic papers in premier journals, including the Journal of Finance, Journal of Financial Economics, Journal of Accounting Research, and the Journal of Financial and Quantitative Analysis. His work has been featured in business publications, such as the CFA Digest and the Bownes Review for CFOs & Investment Bankers, and has influenced important policy debates, including the mandatory auditor rotation provision of the 2002 Sarbanes-Oxley Act. He has received awards for research, including Journal of Financial Economics "All Star Paper Award" for research impact. He also is a multiple recipient of the Cox MBA Outstanding Teaching Award, the highest MBA teaching honor. Professor Miller holds a B.S. in Electrical Engineering from Tulane University, a MBA from Loyola University, and a Ph.D. in Finance from the University of California, Irvine and previously held appointments at Indiana University and Texas A&M University.

Corporate Bankruptcy and Creditor Incentives

Todd Gormley, Nandini Gupta, and Anand Jha

May 2011

Abstract

The bankruptcy process around the world can involve long delays that erode firm value and raise the cost of capital. These inefficiencies are likely to be greater in uncompetitive, government-dominated financial markets where creditors lack the incentive to monitor borrowers and recover assets. Using a unique dataset on corporate bankruptcy filings in India, we analyze the effects of bank entry deregulation on bankruptcy outcomes. Exploiting geographic variation in bank entry following deregulation, we find that private bank entry in a region is associated with an increase in frivolous filings by firms that are not financially distressed, but seek a stay on assets to escape increased

creditor scrutiny. We also observe a decrease in delays in the bankruptcy process and fewer liquidations, which take longer to resolve. In regions with stronger creditor rights, foreign bank entry is also associated with more bankruptcy filings. These findings suggest that the ownership and competitiveness of the banking sector can significantly affect bankruptcy outcomes.

Keywords: Bankruptcy, creditor rights, bank competition, government-ownership
JEL Classification Codes: G21, G23, G28, G38

Nandini Gupta

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Professional Interests

Corporate Finance, Financial Market Development, Privatization, Political Economy of Finance, Corporate Governance.

Background

Nandini Gupta is an Associate Professor of Finance at Indiana University's Kelley School of Business. She obtained her PhD in economics from the University of Pittsburgh. Her research is in the areas of corporate and international finance with a focus on reforms that facilitate the development of financial markets. She has looked at the design of these reforms, the political economy of the decision to adopt them, and their impact on financial market development and economic growth. In her work she considers the effect of the partial privatization of government-owned firms on the financial performance of firms, the political economy of the government's privatization decision, the effect of stock market liberalization on growth, and the political economy of the elimination of restrictions on foreign direct investment. Nandini Gupta's work has been published in the Journal of Finance, Journal of Financial Economics, Review of Financial Studies, Rand Journal of Economics, the European Economic Review, and by Columbia University Press.

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