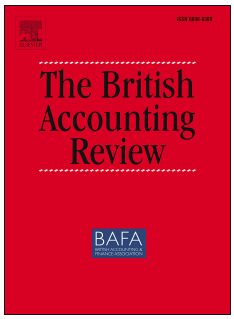
Accepted Manuscript



Bank loan loss accounting treatments, credit cycles and crash risk

Panayiotis C. Andreou, Ian Cooper, Christodoulos Louca, Dennis Philip

PII: S0890-8389(17)30015-X

DOI: 10.1016/j.bar.2017.03.002

Reference: YBARE 748

To appear in: *The British Accounting Review*

Received Date: 24 August 2016

Revised Date: 27 February 2017

Accepted Date: 8 March 2017

Please cite this article as: Andreou, P.C., Cooper, I., Louca, C., Philip, D., Bank loan loss accounting treatments, credit cycles and crash risk, *The British Accounting Review* (2017), doi: 10.1016/ j.bar.2017.03.002.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

ACCEPTED MANUSCRIPT

Bank loan loss accounting treatments, credit cycles and crash risk

Panayiotis C. Andreou[*†], Ian Cooper[‡],

Christodoulos Louca[*] and Dennis Philip[†]

Abstract

Banks that follow conditional conservatism in their loan loss accounting treatments benefit from a reduction in crash risk. The key discretionary loan loss accounting channels are provisions and allowances. We show that conditional conservatism reduces crash risk of small banks during periods of credit contraction and boom. Interestingly, for large banks, crash risk is not reduced by more conservative accounting even for those with higher levels of opacity. Hence regulation prompting for more conservative bank loan loss accounting does not present a significant opportunity to limit systemic effects arising from abrupt price declines in the stocks of large banks.

Keywords: Accounting conservatism, loan loss accounting, bank lending, crash risk

JEL classification: G21, G28

* Department of Commerce, Finance and Shipping, Cyprus University of Technology, Lemesos, Cyprus; emails: panayiotis.andreou@cut.ac.cy, christodoulos.louca@cut.ac.cy.

‡ London Business School, London NW1 4SA, England, UK; email: icooper@london.edu.

† Durham University Business School, Durham University, Mill Hill Lane, Durham DH1 3LB, England, UK; e-mail: dennis.philip@durham.ac.uk.

We are grateful to Lee Cohen, Marcia Cornett, Alan Marcus, and Hassan Tehranian for kindly providing their measure of earnings management. We also thank participants in EFMA 2015, FINEST Summer 2016, PFMC 2016, and the Uinversity of Zurich Banking and Finance seminar, as well as Bill Francis, Steven Ongena, and discussants Hussein Halabi and Florencio Lopez de Silanes. All remaining errors are our own.

Download English Version:

https://daneshyari.com/en/article/5107502

Download Persian Version:

https://daneshyari.com/article/5107502

Daneshyari.com