Washington University in St. Louis
OLIN BUSINESS SCHOOL

ACCOUNTING RESEARCH CONFERENCE

2011 Schedule

Thursday, November 10, 2011

12:00 p.m. Buffet Lunch, Charles F. Knight Executive Education Center, Anheuser Busch Dining Room, 3rd floor.

1:00-1:10 Dean Mahendra Gupta's Welcome – Knight Center, Room 220.

1:10-2:20 Do Financial Market Developments Influence Accounting Practices? Credit Default Swaps and Borrowers' Reporting Conservatism
Guojin Gong, **Xiumin Martin*,** Sugata Roychowdhury

Our paper investigates whether the initiation of trading in credit default swaps (CDS) on a borrowing firm's outstanding debit is assocated with a decline in that firm's reporting conservatism. Lenders purchase credit default swaps (CDS) to transfer credit risk, but acquiring CDSs can diminish their incentives to monitor borrowers. Constracting theory predicts that lenders demand conservatism, in particular asymmetric timeliness of loss recognition, to effectively monitor borrowers. We hypothesize that the onset of CDS trading reduces lenders' demand for conservatism from borrowing firms. In empirical analyses, we find that the onset of CDS trading is associated with a reduction in borrowing firms' reporting conservatism. In cross-sectional analyses, we doucment that the decline in conservatism after CDS trade initiation is more pronounced among borrowing firms with smaller size, credit ratings below investment grade and a higher share of syndicated loans retained by the lead arranger.

2:20-2:50 Cake Service in Honor of Nick Dopuch.

2:50-4:00 The Capital Purchase Program and Subsequent Bank SEOs
Mozaffar Khan*, Dushyantkumar Vyas
Moderator: Professor Gauri Bhat

Bank recapitalization is a key macroprudential regulatory concern in banking crises. When common equity capital is eroded, banks face a debt overhang problem that makes recapitalization unattractive from the common shareholders perspective. However, adequate capital is needed for banks to maintain their financial intermediation function, and a number of recapitalization incentives have been debated by academics and regulators. We examine whether the Capital Purchase Program (CPP) restrictions were an impetus for recipients to recapitalize expeditiously after CPP receipt, if banks sought to avoid potential government interference in corporate decisions that would otherwise maximize shareholder value, and to relieve the political cost of CPP reeipts. The evidence suggests: (i) CPP recipients are more likely to issue common equity (SEO) in the subsequent four quarters; (ii) banks with an SEO are more likely to repay CPP funds in the subsequent four quarters; and (iii) SEO and CPP repayment positively predict loan growth. Collectively, this study provides new evidence on the realized consequences of the CPP program.

4:00-5:20 The Spillover Effect of Fraudulent Financial Reporting on Peer Firms' Investment Efficiency
Anne Beatty*, Scott Liao, Jeff Jiewei Yu
Moderator: Professor Gauri Bhat

We investigate how high-profile accounting frauds affect peer firms' investment. We document greater peer investments during fraud periods and show that the increase is consistent with peer firms reacting to the fraudulent reports, not merely driven by an association between fraud and investment booms. Peer firms' over-investments increase in fraudulent earnings overstatements, and in industries with higher investor sentiment, lower cost of capital and higher private benefits of control. We also find evidence consistent with an equity-financing channel facilitating the overinvestment and equity analysts transmitting the distorted signal. Overall, we provide systematic evidence that frauds result in industry peer over-investment.

6:00 -7:30 Seated Dinner at the Whittemore House.

Friday, November 11, 2011

8:00-8:10 a.m. Continental Breakfast, John E. Simon Hall, Room 112.

8:10-9:20 Bank Monitoring and Accounting Recognition: The Case of Aging-Report Requirements
Rich Frankel* Bong Hwan Kim, Tao Ma, Xiumin Martin
Moderator: Professor Sudarshan Jayaraman

We study changes in borrower accounting recognition surrounding initiation of loans requiring the provision of aging schedules to the lender. Our purpose is to understand how scrutiny by lenders of underlying transactions affects financial reporting incentives. We find that allowance for doubtful accounts increases significantly after loan initiation controlling for current and future write-offs, receivable turnover, and the beginning allowance balance. This increase is more pronounced for loans with increased monitoring frequency. We also find that write-offs are less persistent following implementation of bank monitoring, consistent with increased timeliness. Further study of the customer base finds customer concentration declines and credit quality of largest customers improves after initiation of borrowing base loans. Lastly, we find borrowers increase the frequency of allowance-for doubtful-accounts disclosure in their quarterly financial statements after loan initiation. Our results confirm two notions. Banks add to the oversight that already exists for public audited companies and banks influence borrowers to adopt more conservative accounting policies.

9:30-10:40 Analysis of Causes and Consequences of Transition Errors During the Adoption of IFRS
Anna Loyeung, Zoltan Matolcsy, **Joseph Weber*** and Peter Wells
Moderator: Professor Sudarshan Jayaraman

In this paper we focus on Australia's adoption of IFRS in 2005, providing evidence on factors affecting transition errors in financial reporting as Australian companies moved from Australian GAAP to IFRS, and some economic consequences of these errors. We find that characteristsics of the firm, the CFO and the firm's auditor are all associated with IFRS transition errors, and that these errors are associated with larger bid/ask spreads (i.e. greater information asymmetry) and increased audit fees as market participants react to the firm's difficulties adopting a new GAAP. We suggest that this evidence is helpful to both U.S. firms and regulators as the U.S. moves towards IFRS adoption, and also useful to academics, as it suggests the long term benefits of IFRS are likely understated, as transition errors may temporarily understate these benefits.

10:50-12:00 Repeated Lies? How Earnings Manipulators Guide Investors
Mai Feng, **Weili Ge*,** Chan Li, Nandu J Nagarajan
Moderator: Professor Sudarshan Jayaraman

This paper investigates the characteristics and consequences of management guidance issued by firms that manipulate their mandatory financial reports. We find that firms manipulating earnings are more likely to issue earnings guidance during the missstatement period than before the manipulation and also in comparison to non-manipulation firms. Further, the guidance issued by these firms is more in line with their manipulated earnings rather than with their restated true earnings. These findings are consistent with the argument that firms manipulating earnings strategically use earnings guidance to conceal their misstatements. Regarding the consequences, we find that earnings guidance delays the detection of accounting manipulations. However, when the earnings manipulations are detected, firms and managers issuing earnings guidance experience additional legal costs, as reflected in the higher settlement amounts paid by these firms, and a higher likelihood that the concerned managers will be banned from serving as officers, directors, or accountants of a public company in the future.

12:10 1:00 pm Buffet Lunch, Charles F. Knight Executive Education Center, Anheuser Busch Dining Room, 3rd floor.