Washington University in St.Louis
OLIN BUSINESS SCHOOL

ACCOUNTING RESEARCH CONFERENCE

2012 Schedule

Thursday, November 8, 2012

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

1:00 Welcome and cake service in honor of Nick Dopuch - Bauer Hall, Room 210.
By: Dean Mahendra Gupta

1:45-2:40 Did Going Public Impair Moody's Credit Ratings?
By Simi Kedia, Shivaram Rajgopal and Xing (Alex) Zhou

Moderator: Xiumin Martin
Presented by: Shiva Rajgopal, Emory University
Discussant: Sam Bonsall, Ohio State (10 min)

We investigate a prominent allegation in Congressional hearings that Moody's loosened its standards for assigning credit ratings after it went public in the year 2000 in an attempt to chasemarket share. We exploit a difference-in-difference design by benchmarketing Moody's ratings for a common set of corporate bonds with the ratings assigned by its rival S&P before and after 2000. Consistent with Congressional allegations, we find that Moody's credit ratings for new and existing corporate bonds are significantly more favorable to issuers relative to S&P's, after Moody's went public in 2000. Consistent with allegations of conflict of interest impairing the quality of Moody's ratings, such relative loosening of credit standards at Moody's after its IPO is more pronounced for (i) large and frequent issuers; and (ii) firms that are more likely to benefit from better ratings, on the margin. Our findings have implications for incentives created by a public offering for gatekeepers and professional firms.

(10 minute break)

3:00-3:55 Managing for the Moment: The Role of Real Activity versus Accruals Earnings Management in SEO Valuation
By: S.P. Kothari, Natalie Mizik and Sugata Roychowdhury

Moderator: Xiumin Martin
Presented by: Sugata Roychowdhury, Boston College
Discussant: Aiyesha Dey, University of Minnesota (10 min).

Accruals manipulation (AM) and real activities manipulation RAM) are two means of achieving earnings management. Our primary finding is that RAM is more closely and predictably linked with post-SEO stock market under-performance than AM, indicating that firms engaging in real activity manipulation are more over-valued at the time of equity issuance. Our results suggest that market mispricing, in particular overvaluation, is more likely when managers actively engage in more opaque and potentially more costly channels to overstate earnings, namely RAM. Further, prior research examining the

influence of abnormal accruals on post-SEO under-performance incorrectly attributes mispricing to accruals, while in fact, it is primarily driven by earnings inflation via RAM.

(10 minute break)

4:15-5:10 The Implications of Banks' Credit Risk Modeling for their Loan Loss Provision Timeliness and Loan Origination Procyclicality
By: Gauri Bhat, Stephen G. Ryan, and Dushyantkumar Vyas

Moderator: Jared Jennings, Washington University in St. Louis
Presented by: Gauri Bhat, Washington University in St. Louis
Discussant: Christopher Williams, University of Michigan (10 min)

We examine the iimplications of banks' credit risk modeling (CRM) for the timeliness of their loan loss provisions (LLP) and the procyclicality of their loan originations. We identify two distince types of CRM from disclosures in banks' financial reports: (1) overall credit risk measurement modeling, typically statistical analysis of loan performance statuses and underwriting criteria (MODEL); and (2) stress testing of credit losses to possible adverse future events (STRESS). We expect these two CRM activities to have different implications, because MODEL is primarily historically focused whereas STRESS is primarily forward-looking. Statistical analysis of historical data places discipline on banks' loan loss reserving during stable economic times and for homogeneous loans, but is limited at sharp turns in economic cycles and for heterogeneous loans, when forward-looking CRM becomes essential. We predict and find that MODEL is associated with timelier LLPs on average across our 2002-2010 sample period and late in the financial crisis after banks had experienced heightened credit losses for a period of time, and that STRESS is associated with timelier LLPs early in the financial crisis.

We argue that CRM enhances LLP timeliness because it yeields informationally richer LLPs that are less sensitive to summary underwriting criteria. Consistent with this argument, we find that MODEL reduces the reliance of banks' LLPs on the loan-to-income ratio (estimated using disclosures required under the Home Mortgage Disclosure Act), for their homogeneous single-family mortgages.

Following Beatty and Liao (2011), we expect banks with higher LLP timeliness to exhibit lower loan origination procyclicality: We find that MDOEL is associated with less procyclical loan originations, particularly for homogenous loans, and that STRESS is associated with less procyclical originations of heterogeneous loans.

6:00 p.m. Cocktails & Seated Dinner at the Whittemore House.

Friday, November 9, 2012

7:30 a.m. Continental Breakfast, John E. Simon Hall, Room 112.

8:00-8:55 The Effect of Corporate Transparency on Bank Risk-Taking and Banking System Fragility
By: Sudarshan Jayaraman and S.P. Kothari

Moderator: Jared Jennings, Washington University in St. Louis
Presented by: Sudarshan Jayaraman, Washington University in St. Louis
Discussant: Regina Wittenberg Moerman, University of Chicago (10 min)

We show real effects of financial reporting transparency on the domestic banking sector. Transparent financial reporting facilitates non-financial firms' access to arm's-length financing from external capital markets and foreign banks. This diminishes non-financial firms' reliance on domestic banks for their

financial services. Domestic banks thus face increased competition from the alternate providers of financing and are expected to react as follows. First, domestic banks take on more risk and reduce their cost structure. Second, corporate transparency enhances bank development by forcing banks to research and identify profitable ventures. Third, the overall effect of these activities is to lower the likelihood of a banking crisis in countries with greater corporate transparency. Additional tests suggest that risk-taking is channeled more through non-lending than lending activities, pointing to the beneficial role of diversification in reducing bank fragility. Tests using the mandatory adoption of International Financial Reportings Standards (IFRS) as a shock to corporate transparency indicate that endogeneity is unlikely to be driving our findings. A difference-in-differences design shows that bank risk-taking, cost efficiency and bank development in IFRS adopting countries are more salient than those in non-adopting countries. Overall, the evidence suggests corporate transparency promotes vibrancy and stability in the domestic banking sector.

(10 minute break)

9:15-10:10 Analyst Recommendations, Traders' Beliefs and Rational Speculation
By: Karthik Balakrishnan, Catherine Schrand, and Rahul Vashishtha

Moderator: Gauri Bhat, Washington University in St. Louis
Presented by: Catherine Schrand, University of Pennsylvnia
Discussant: Paul Hribar, University of Iowa (10 min)

Rational speculative trading has been offered as an explanation for mispricing, which is defined as a deviation of stock price from expected intrinsic value (a "bubble"). When traders anticipate profits based on higher order beliefs about stock price, the resulting speculative trading sustains a bubble. This paper documents observable sources of traders' beliefs. For the technology bubble in 1999/2000, we show a strong positive relation between a concentration in analyst buy recommendations and bubble continuation, suggesting analyst buy recommendation concentration serves as an observable source for traders' higher order beliefs about speculative profits. Analyst buy recommendation concentration also explains a broader price anomaly of post-news one month ahead of returns. Analyst downgrades, in particular by All-star analysists, were associated with the crash of the tech bubble, consistent with downgrades serving to coordinate a revision in traders' beliefs about speculative profits that led to coordinated trading that ended the bubble.

(10 minute break)

10:30-11:25 Managerial Ability and Earnings Management
By: Sarah McVay, Peter Demerjian and Melissa Lewis

Moderator: Sudarshan Jayaraman, Washington University in St. Louis
Presented by: Sarah McVay, , University of Washington
Discussant: Radha Gopalan, Washington University in St. Louis

We investigate how managerial ability affects the intentional distortion of financial statements (earnings management). On the one hand, better managers receive a compensation premium for their percieved ability, and to the extent that earnings management would tarnish their reputations, we expect them to manage earnings less. On th eother hand, better managers may be more able to extract rents through earnings management, for example, by managing earnings to maximize the value of their stock options, while still offering shareholders superior returns over that of lower-quality managers. We investigate this empirically by examining the relation between manageial ability and both accruals management and real earnings management. Regardless of how prevalent earnings management is among different managers, we expect the consequences to the earnings management to vary with the manager's ability.

In particular, we expect that better managers will manage earnings more successfully, experiencing fewer negative outcomes such as lower sales or future financial restatements.

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

1:30 St. Louis Fun Trolley tour
The tour will begin and end in front of the Knight Center.

Get acquainted with the popular sights and local favorites that St. Louis has to offer during a fully narrated, 75-minute tour (ending about 2:45 pm) aboard an authentic, climate controlled trolley with brass rails, bells and all!