

**B9015 – Accounting Research for Financial Institutions
Fall 2024**

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Class Hours: Mondays, 9:00 – 12:15 PM (B Term), Kravis 830
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COURSE DESCRIPTION

This course aims to enable Ph.D. students to generate, test, and promote impactful ideas in accounting research on financial institutions (e.g., banks and insurance companies). The course focuses on applying core concepts and tools needed in students' current and future research to questions in accounting research on financial institutions. The course covers various topics of my specific research interests, such as loan loss provisioning, the role of accounting in financial stability, and the role of regulators on financial institutions' financial reporting. The course consists of mini-lectures, in-class discussions of assigned readings, and presentations of students' research ideas. The course is mainly for Ph.D. students; however, M.S. and M.B.A. students interested in accounting research can join the course after consulting with me.

REQUIRED COURSE MATERIALS

Most materials will be made available on Canvas or can be found on www.ssrn.com, except books with copyright.

CLASSROOM NORMS AND EXPECTATIONS

Students are expected to adhere to CBS Core Culture by being Present, Prepared, and Participating. Students are explicitly encouraged to actively participate by asking critical questions, providing constructive feedback, and preparing assigned readings and assignments.

ASSIGNMENTS

Each topic has a set of readings. General readings will introduce you to the topic and provide an overview and a background for the class discussion. Assigned readings are required and will be discussed in more detail. One student will lead the discussion of each assigned paper, and the lead discussant should prepare brief slides. Also, each student should be prepared to discuss the following questions for each assigned paper:

1. What are the research question and the main takeaway of the paper?
2. What is the paper's motivation and contribution?
3. What are the institutional settings and knowledge that the paper mainly relies on?
4. What is the paper's empirical design?
5. What are the strengths and weaknesses of the paper?

WRITE-UPS

Each student is required to submit a short write-up of each assigned paper (but not for the general readings). The write-up (type B2) should be shorter than a page and can be bullet points. It should briefly state your view of contribution, design, and major issues. It should not be just an abstract. The write-ups are not graded but should be submitted on Canvas before the class starts. You receive full credit if you make a good-faith effort and submit them.

REFeree REPORT

This assignment (type B2) requires you to prepare one review of a current working paper. Your reviews should be as authentic as possible, including a letter to me (the fictitious editor) containing a brief summary and a recommendation, as well as a referee report that is shared with the authors. Please consider the following aspects and the questions above are a good starting point:

- Research question
- Motivation and potential contribution
- Theory and hypothesis development
- Sample and research design choices
- Empirical execution and evaluation of author's interpretation of evidence

There is no set page limit, although a referee report beyond five to six pages (double-spaced) is probably too long. Try to be constructive and specific. Make sure you have a clear recommendation to the editor.

RESEARCH PROJECT

This assignment (type B2) involves presenting a research proposal with the objective of “jump-starting” your own research and learning how to evaluate potential research ideas. Your research proposal should cover the following areas:

1. Research question
2. Related literature
3. Why is this project important, and what is its incremental contribution to the literature?
4. Research approach (field study, analytical, experimental, logical argument, large-sample empirical archival) and why it is appropriate
5. Research design
6. Source of data and sample (if it is empirical/archival)
7. Identify strengths and weaknesses of your proposed research strategy vis-à-vis alternatives
8. Identify potential limitations of the proposed study

Please keep the write-up of the research project to no more than ten double-spaced pages of text (12-point font). A clear and concise writing style is essential and will be assessed along with the substantive content of your work. You are not allowed to use projects you have prepared for other classes.

GRADING

Class participation (presentations and comments in class)	30%
Weekly write-ups	20%
Referee report	20%
Research project	30%

ATTENDANCE POLICY

Students are required to attend each class. Students should reach out to the instructors regarding excused absences (for religious observances; personal, medical, and family emergencies; military service; court appearances such as jury duty). Unexcused absences will affect your course grade.

ASSIGNMENT TYPES

Type	Designation	Grade	Preparation of submission	Discussion of Submission*	Discussion of Concepts**
A	Group Work	Same grade for all group members	By the group	Permitted to discuss (within the group)	Permitted
B ¹	Individual w/ Discussions of Concepts and Submission	Individual grade	Individual preparation	Permitted to discuss; sharing solutions or submission files is not allowed	Permitted
B ²	Individual w/ Discussions of Concepts Only	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Permitted
C	Individual	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Not permitted***

INDIVIDUAL AND GROUP WORK DEFINITIONS

* Submission means any work and/or output pertaining to the specific assignment. If an assignment submission contains a calculation or decision related to a specific set of data and setting, discussing the details of how to make this calculation or decision with regard to the data/setting is to discuss the submission. Providing another student with a draft of the calculation or decision is sharing the submission.

** Concepts mean any ideas, examples, readings, or other related materials from the class/course. Conceptual discussion should not be based on a specific set of data or setting related to a calculation or decision required in the assignment but could be based on other related examples, preferably those from class/course materials.

*** As no conceptual discussion is permitted, Type C is akin to a take-home exam.

INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS

At Columbia Business School, we believe that diversity strengthens any community or business model and brings greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias based on gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact Columbia University's Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University's Office of Disability

Services online at www.health.columbia.edu/docs/services/ods/index.html or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff, and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff, and faculty. “Gender-based misconduct” includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see <https://sexualrespect.columbia.edu/university-policy>.

COURSE SCHEDULE AND READING LIST

Session 1: Bank Accounting and Financial Stability (1)

Assigned Papers

Acharya, V., and S. Ryan. 2016. “Banks’ Financial Reporting and Financial System Stability.” *Journal of Accounting Research* 54 (2): 277-340.

Bischof, J., C. Laux, and C. Leuz. 2020. “Accounting for Financial Stability: Bank Disclosure and Loss Recognition in the Financial Crisis.” *Journal of Financial Economics* 141 (3): 1188–1217.

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

Bushman, R., and C. Williams. 2015. “Delayed Expected Loss Recognition and the Risk Profile of Banks.” *Journal of Accounting Research* 53 (3): 511–553.

General Readings

Ahmed, A., C., Takeda, and S. Thomas. 1999. “Bank loan loss provisions: A reexamination of capital management, earnings management, and signaling effects.” *Journal of Accounting and Economics* 28: 1–25.

Beatty and Liao. 2014. “Financial Accounting in the Banking Industry: A Review of the Empirical Literature.” *Journal of Accounting and Economics* 58: 339–383.

Bhat, G., J. Lee, and S. Ryan. 2022. “Utilizing Loan Loss Indicators by Loan Type to Sharpen the Evaluation of the Determinants and Implications of Banks’ Loan Loss Accruals.” *Accounting Horizons* 35 (3): 69–91.

Bushman, R., and C. Williams. 2012. “Accounting Discretion, Loan Loss Provisioning, and Discipline of Banks’ Risk-Taking.” *Journal of Accounting and Economics* 54 (1): 1–18.

Harris, T., U. Khan, and D. Nissim. 2018. “The Expected Rate of Credit Losses on Banks’ Loan Portfolios.” *The Accounting Review* 93 (5): 245–271.

Liu, C., and S. Ryan. 2006. “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 (2): 421–441.

Nicoletti, A. 2018. “The effects of bank regulators and external auditors on loan loss provisions.” *Journal of Accounting and Economics* 66 (1): 244–265.

Ryan, S. 2007. “Financial Instruments and Institutions: Accounting and Disclosure Rules.” second edition. John Wiley & Sons: Hoboken, NJ.

Ryan, S., 2011. “Financial Reporting for Financial Instruments.” *Foundations and Trends in Accounting* 6 (3-4): 187-354.

Wheeler, P. B. 2021. “Unrecognized Expected Credit Losses and Bank Share Prices.” *Journal of Accounting Research* 59 (3): 805–866.

Session 2: Bank Accounting and Financial Stability (2)

Required Reading

Ryan S. 2019. “The CECL Approach.” *Banking Perspectives*.

Assigned Papers

(Supplemental Topic: Writing a Dissertation)

Kim, S. 2022. “Delays in Banks’ Loan Loss Provisioning and Economic Downturns: Evidence from the U.S. Housing Market.” *Journal of Accounting Research* 60 (3): 711–754.

López-Espinosa G., G. Ormazabal, and Y. Sakasai. 2021. “Switching From Incurred to Expected Loan Loss Provisioning: Early Evidence.” *Journal of Accounting Research* 59 (3): 757–804.

Ertan, A. 2022. “Expected Losses, Unexpected Costs? Evidence from SME Credit Access under IFRS 9.” Working paper. <https://ssrn.com/abstract=3504708>

Kim, S., S. Kim, A. Kleymenova, and R. Li. 2020. "Current Expected Credit Losses (CECL) Standard and Banks' Information Production." Working paper.
<https://ssrn.com/abstract=4117869>.

General Readings

Barth, M.E., and W. R. Landsman. 2010. "How did financial reporting contribute to the financial crisis?" *European Accounting Review* 19 (3): 399-423.

Chen, Q., Goldstein, I., Huang, Z., Vashishtha, R., 2022. "Bank transparency and deposit flows." *Journal of Financial Economics* forthcoming.

Dou, Y., S. Ryan, and B. Xie. 2018. "The Real Effects of FAS 166/167 on Banks' Mortgage Approval and Sale Decisions." *Journal of Accounting Research* 56 (3): 843-882.

Goldstein, I., Sapra, H., 2014. "Should banks' stress test results be disclosed? An analysis of the costs and benefits." *Foundations and Trends in Finance* 8 (1): 1-54.

Jiménez, G., S. Ongena, J. Peydró, and J. Saurina. 2017. "Macroprudential Policy, Countercyclical Bank Capital Buffers, and Credit Supply: Evidence from the Spanish Dynamic Provisioning Experiments." *Journal of Political Economy* 125 (6): 2126-2177.

Laeven, L., and G. Majnoni. 2003. "Loan loss provisioning and economic slowdowns: too much, too late?" *Journal of Financial Intermediation* 12 (2): 178-197.

Ryan, S. 2017. "Do the Effects of Accounting Requirements on Banks' Regulatory Capital Adequacy Undermine Financial Stability?" *Annual Review of Financial Economics* 9: 1-20.

Ryan, S. 2018. "Recent Research on Banks' Financial Reporting and Financial Stability" *Annual Review of Financial Economics* 10: 101-123.

Vyas, D. 2011. "The Timeliness of Accounting Write-Downs by U.S. Financial Institutions During the Financial Crisis of 2007-2008." *Journal of Accounting Research* 49 (3): 823-860.

Session 3: Fair Value Accounting and Financial Institutions

Assigned Papers

Laux, C., and C. Leuz. 2010. "Did Fair-Value Accounting Contribute to the Financial Crisis?" *The Journal of Economic Perspectives* 24 (1): 93-118.

Hanley, K. W., A. D., Jagolinzer, and S. Nikolova. 2018. "Strategic Estimation of Asset Fair Values." *Journal of Accounting and Economics* 66 (1): 25-45.

Sen, I., and V. Sharma. 2020. "Internal Models, Make Believe Prices, and Bond Market Cornering." Working paper. <https://ssrn.com/abstract=3534313>

Kim, S., S. Kim, and S.G. Ryan. 2019. "Economic Consequences of the AOCI filter Removal for Advanced Approaches Banks." *The Accounting Review* 94 (6): 309-335.

General Readings

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): 59–90.

Barth, M. 1994. "Fair Value Accounting: Evidence from Investment Securities and the Market valuation of banks." *The Accounting Review* 69 (1): 1–25.

Barth, M.E., J. Gomez-Biscarri, R. Kasznik, and G. López-Espinosa. 2017. "Bank Earnings and Regulatory Capital Management using Available for Sale Securities." *Review of Accounting Studies* 22 (4): 1761–1792.

Bhat, G., R. Frankel, and X. Martin. 2011. "Panacea, Pandora's Box, or Placebo: Feedback in Bank Holdings of Mortgage-backed Securities and Fair Value Accounting." *Journal of Accounting and Economics* 52 (2–3): 153–173.

Chircop, J., and Z. Novotny-Farkas. 2016. "The Economic Consequences of Extending the Use of Fair Value Accounting in Regulatory Capital Calculations." *Journal of Accounting and Economics* 62 (2-3): 183–203.

Hodder, L., P. Hopkins, and J. Wahlen. 2006. "Risk-Relevance of Fair-Value Income Measures for Commercial Banks." *The Accounting Review* 81 (2): 337–375.

Huizinga, H., and L. Laeven. 2012. "Bank Valuation and Accounting Discretion during a Financial Crisis." *Journal of Financial Economics* 106 (3): 614–634.

Khan, U., S. Ryan, and A. Varma. 2019. "Fair Value versus Amortized Cost Measurement and the Timeliness of Other-than-Temporary Impairments: Evidence from the Insurance Industry." *The Accounting Review* 94 (6) 285-307.

Plantin, G., H. Sapra, and H. Shin. 2008. "Marking-to-market: Panacea or Pandora's box?" *Journal of Accounting Research* 46 (2): 435–460.

Xie, B. 2016. "Does Fair Value Accounting Exacerbate the Procyclicality of Bank Lending?" *Journal of Accounting Research* 54 (1): 235-274.

Session 4: Bank Regulation, Regulators, and Financial Reporting

Assigned Papers

Gopalan, Y., 2022. “The Effects of Ratings Disclosure by Bank Regulators.” *Journal of Accounting and Economics* 73 (1): 101438.

Granja, J., and C. Leuz. 2022. “The Death of a Regulator: Strict Supervision, Bank Lending and Business Activity.” Working Paper. <https://ssrn.com/abstract=3092284>

Kleymenova A. and R. Tomy. 2022. “Observing Enforcement: Evidence from Banking.” *Journal of Accounting Research* 60 (4): 1583–1633.

(Supplemental Topic: Surviving the Review Process)

Kim S., and S. Kim. 2022. “Fragmented Securities Regulation, Information-Processing Costs, and Insider Trading.” Working paper. <https://ssrn.com/abstract=3416204>

General Readings

Agarwal, S., Lucca, D., Seru, A., Trebbi, F., 2014. “Inconsistent Regulators: Evidence from Banking.” *Quarterly Journal of Economics* 129 (2): 889–938.

Balakrishnan K., E. T. De George, A. Ertan, and H. Scobie. 2021. “Economic Consequences of Mandatory Auditor Reporting to Bank Supervisors.” *Journal of Accounting and Economics* 72 (2–3): 101431.

Bischof, J., Daske, H., Elfers, F., Hail, L., 2020. “A Tale of Two Supervisors: Compliance with Risk Disclosure Regulation in the Banking Sector.” *Contemporary Accounting Research* 39 (1): 498–536.

Costello, A., J. Granja, and J. Weber. 2019. “Do Strict Regulators Increase the Transparency of the Banks?” *Journal of Accounting Research* 57 (3): 603–637.

Ertan, A., M. Loumioti, and R. Wittenberg-Moerman. 2017. “Enhancing Loan Quality Through Transparency: Evidence from the European Central Bank Loan Level Reporting Initiative.” *Journal of Accounting Research* 55 (4): 877–918.

Gallemler, J., 2022. “Bank Financial Reporting Opacity and Regulatory Intervention.” *Review of Accounting Studies* forthcoming.

Granja, J. 2018. “Disclosure Regulation in the Commercial Banking Industry: Lessons from the National Banking Era.” *Journal of Accounting Research* 56 (1): 173–216.

Lambert T. 2019. “Lobbying on Regulatory Enforcement Actions: Evidence from U.S. Commercial and Savings Banks.” *Management Science* 65 (6): 2545–2573.

Morrison, A.D., L. White. 2013. “Reputational Contagion and Optimal Regulatory Forbearance.” *Journal of Financial Economics* 110 (3): 642–658.

Session 5: Financial Institutions and ESG

Assigned Papers

Houston, J.F., and H. Shan. 2022. “Corporate ESG Profiles and Banking Relationship.” *The Review of Financial Studies* 35 (7): 3373–3417.

Wang L. L. 2022. “Transmission Effects of ESG Disclosure Regulations through Bank Lending Networks.” Working paper. <https://ssrn.com/abstract=4092506>

Basu S., J. Vitanza, W. Wang, and X. Zhu. 2022. “Walking the Walk? Bank ESG Disclosures and Home Mortgage Lending.” *Review of Accounting Studies* 27: 779–821.

Kim, S., N. Kumar, J. Lee, and J. Oh. 2022. “ESG Lending.” Working paper. <https://ssrn.com/abstract=3865147>.

General Readings

Amiram, D., I. Gaviols, C. Jin, and X. Li. 2021. “The Economic Consequences of Firms’ Commitment to ESG Policies.” Working paper. <https://ssrn.com/abstract=3838462>.

An B., R. M. Bushman, A. Kleymentova, and R. E. Tomy. 2022. “Social Externalities of Bank Enforcement Actions: The Case of Minority Lending.” Working paper. <https://ssrn.com/abstract=3825119>

Choy, S., S. Jiang, S. Liao, and E. Wang. 2022. “Public Environmental Enforcement and Private Lender Monitoring: Evidence from Environmental Covenants.” Working paper. <https://ssrn.com/abstract=3860178>

Dou, Y. and Y. Roh. 2020. “Public Disclosure and Consumer Financial Protection.” Working paper. <https://ssrn.com/abstract=3647491>

Flammer, C. 2021. “Corporate Green Bond.” *Journal of Financial Economics* 142 (2): 499–516.

Javadi, S. and A. Masum. 2021. “The Impact of Climate Change on the Cost of Bank Loans.” *Journal of Corporate Finance* 69.

Session 6: Presentation and Discussion of Research Proposals