

Project Title
Earning management and bank capital
Investigators
Amir Amei-Zadeh
Faculty/Department
Judge Business School

1. Activities and Achievement Questionnaire

Non-Technical Summary

A 1000 word (maximum) summary of the main research results, in non-technical language, should be provided below. It should cover the aims and objectives of the project, main research results and significant academic achievements, dissemination activities and potential or actual impacts on policy and practice.

Aim, objectives and results

This project considers the role of earnings management in generating incentives for financial institutions to carry risk on their balance sheet. The role of mark-to-market accounting and asset sales have been emphasized as a problem for restructuring loan portfolios and recapitalizing banks, but there is less investigation of this channel in creating balance sheet problems in the first place. In particular, we examine how market sentiment affects the valuation of different sources of bank earnings, interest income versus trading gains, over the economic cycle. If mark-to-market generated income attracts a higher market valuation during economic booms, bank managers will, in the short run, be inclined to cater to market sentiment in their quest to maximize value thus holding more assets on their balance sheet that are susceptible to market movements. We believe this hypothesis is underemphasized in the crisis and efforts at reform.

In time-series test we find that different sources of bank earnings, interest income and trading gains, i.e., cash versus mark-to-market generated income, are valued differently throughout the economic cycle. In particular, trading gains seem to attract a valuation premium during economic booms generating incentives for bank to provide more mark-to-market related income during economic upturns. The time-series results are robust to different data sorts and specifications of mark-to-market income. In the second phase we aim to relate the time-series evidence to cross-sectional variation in banks holdings of trading related assets.

Academic achievements, dissemination and impacts

Project is still at the empirical investigation stage

2. Dissemination

A. Please outline any specific plans you have for further publication and/or other means of dissemination of the outcomes and results of the research.

B. Please provide names and contact details of any non-academic research users with whom the research has been discussed and/or to whom results have been disseminated.

3. Outputs

Please give full details of the outputs which should accompany this report. For each research paper, please, provide:

- a) the title
 - b) an abstract
 - c) web link where the paper can be downloaded
 - d) bibliographical reference in case the paper is accepted for publication.
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c) details regarding conferences or seminars where the paper has been presented.

For other outputs (such as software, datasets), please, provide a description of the output and a web link through which the output can be downloaded. If a web link is not available then provide an electronic copy with this report. **If the grant included arranging conferences, please complete the separate conference form as well.**

4. Major difficulties

Please detail below any major difficulties, scientific or administrative/logistical, encountered during your research and comment on any consequent impact on the project. Further details can be included in section 11 at the end of this report, including any advice *you* might have for resolving such problems in future projects.

Time constraints of my co-author, robustness of empirical results, data availability

5. Other issues and unexpected outcomes

Please describe any outcomes of your research, beneficial or otherwise that were not expected at the outset or other issues which were important to the research, where these are not addressed above. Further details can be included in section 11 at the end of this report.

6. Nominated Rapporteur

Please suggest the name of one person who would be suitable to act as an independent rapporteur for our project. Please state full address, email and telephone number.

Prof Geoff Meeks, g.meeks@jbs.cam.ac.uk

7. Nominated User Rapporteur (Optional)

Please suggest the name of one non-academic user who would be suitable to act as an independent rapporteur for your project. Please state full address, email and telephone number.

8. Web Links

Please insert here any web links to relevant outputs and websites.

9. End-of-Award Report

This final section can be used to provide any additional information that may be relevant.

We are still working on this project testing the robustness of our initial results. However, the project might not lead to output if the results do not hold up to expectations of my co-author, in which case I might continue to work on related aspects of the project individually.

