Journal of Accounting, Auditing & Finance

SEC Supervisory Activity in the Financial Industry

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First Published June 2, 2018 | Research Article | Check for updates
https://doi.org/10.1177/0148558X18772417

Abstract

This study documents a higher incidence of SEC Comment Letters among financial institutions characterized by abnormal levels of loan loss provisions (LLPs). In particular, results show that this effect is stronger for banks overestimating LLPs, suggesting an asymmetric attitude of the SEC Research Division toward overestimations compared with LLPs underestimations, especially in the pre-financial crisis period. Finally, the study demonstrates that after receiving a Comment Letter by the SEC, financial institutions change the way they account for LLPs by basing their computation more on historical data, thereby reducing the level of discretion embedded in their calculation.

Keywords

SEC Comment Letters, financial institutions, loan loss provisions, accounting manipulation, financial crisis

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