Internet Appendix to:

Accounting for Financial Stability: Bank Disclosure and Loss Recognition in the Financial Crisis*

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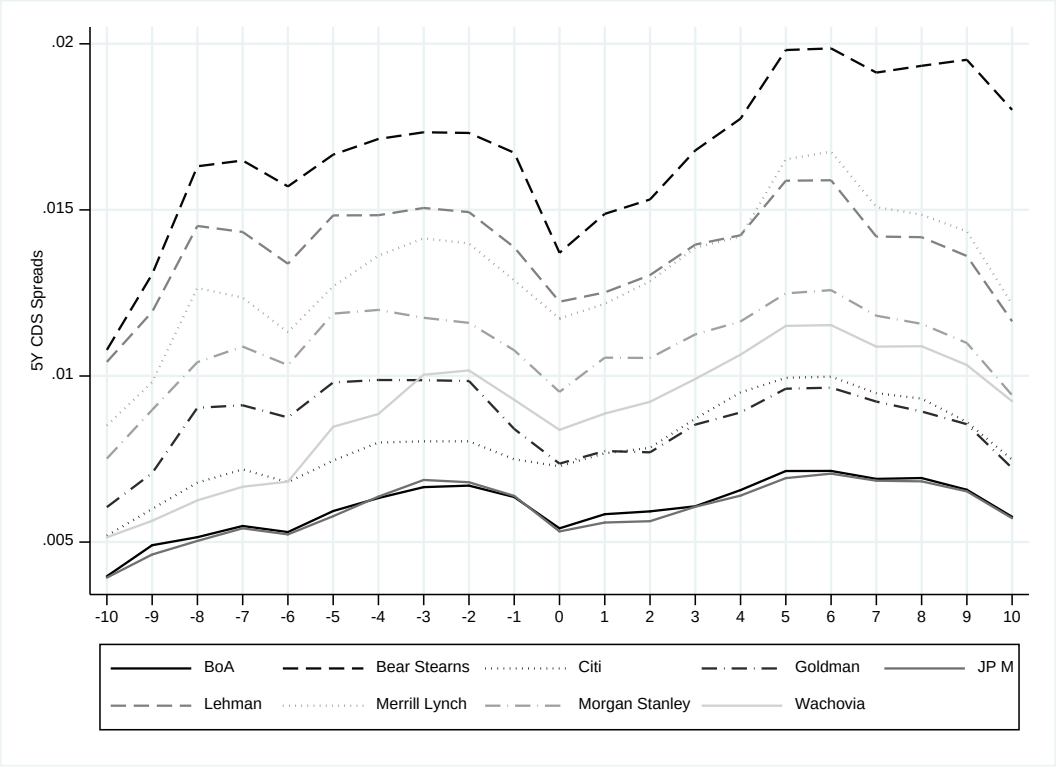
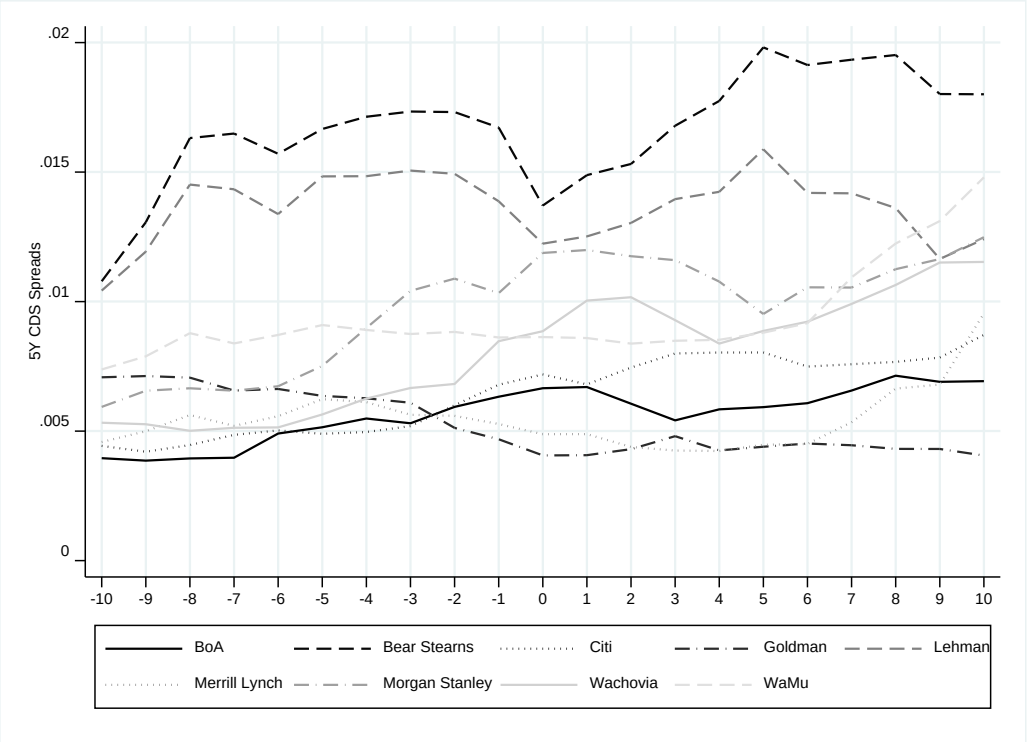
Figure A1: Market Reactions around the Initial Disclosures of Subprime Exposures by Bear Stearns and Lehman on November 14, 2007



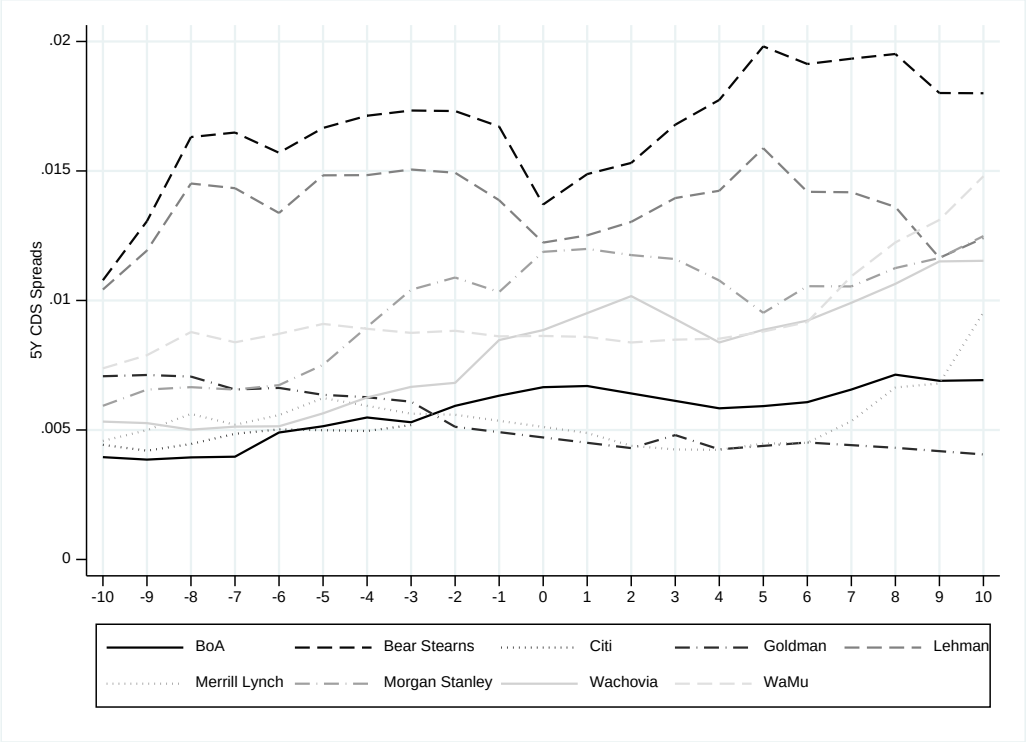
The figure plots the 5-year CDS spreads for nine US banks around the disclosures by Bear Stearns and Lehman on November 14, 2007. We exclude Washington Mutual from the graph because its spreads are about twice as large and would be outside the graph's range. However, the pattern of Washington Mutual's CDS spreads around its initial disclosure is identical to what we show for the other banks, just at a different scale. All CDS pricing data comes from IHS Markit. We restrict the data to 5-year CDS contracts denominated in USD, with modified restructuring clauses, and of senior unsecured debts.

Figure A2: Excluding Days with Potentially Confounding Events in Figure 1, Panel A

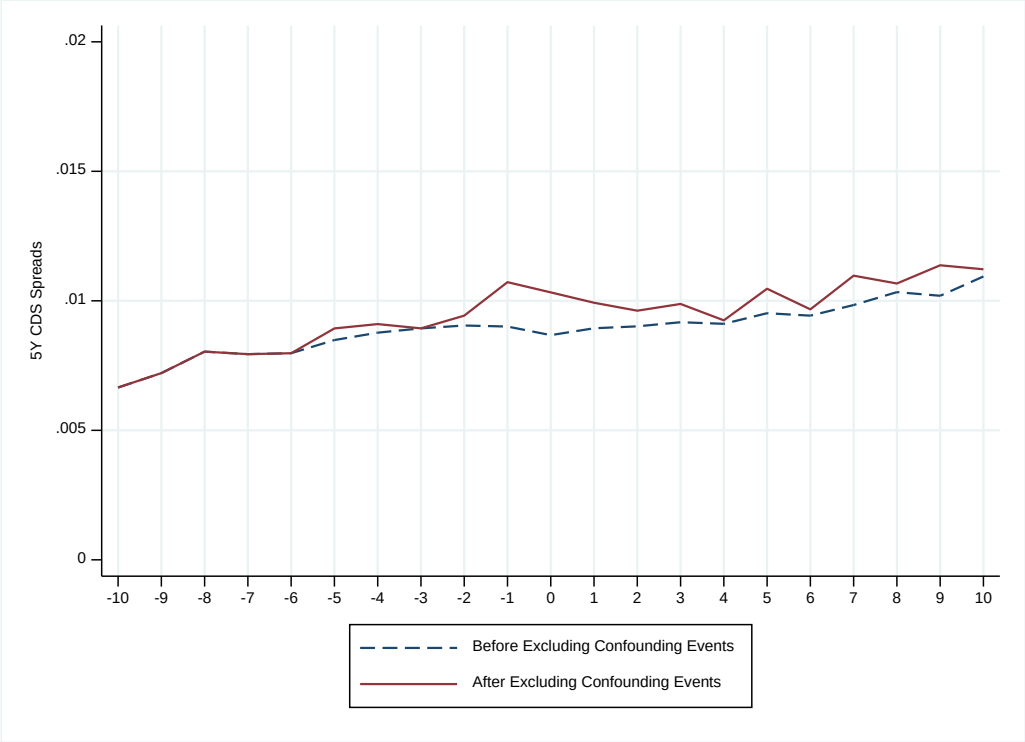
Panel A: Excluding Manually Identified Bank-Days



Panel B: Excluding Automatically Identified Bank-Days



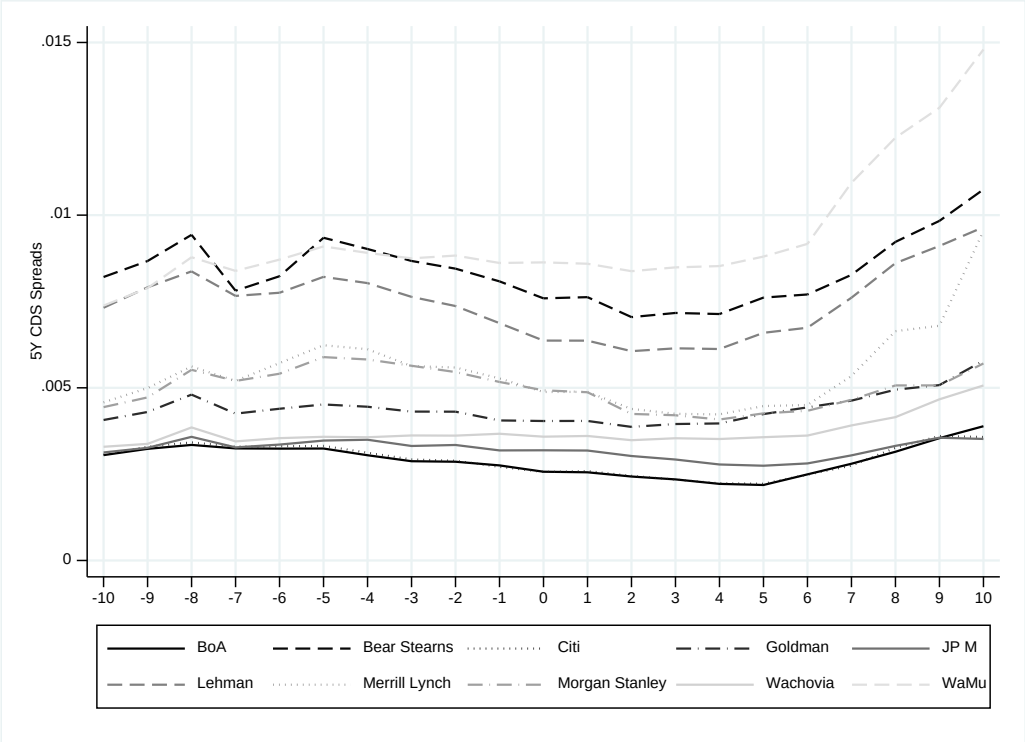
Panel C: Sample Average Before and After Excluding Bank-Days with Potentially Confounding Events



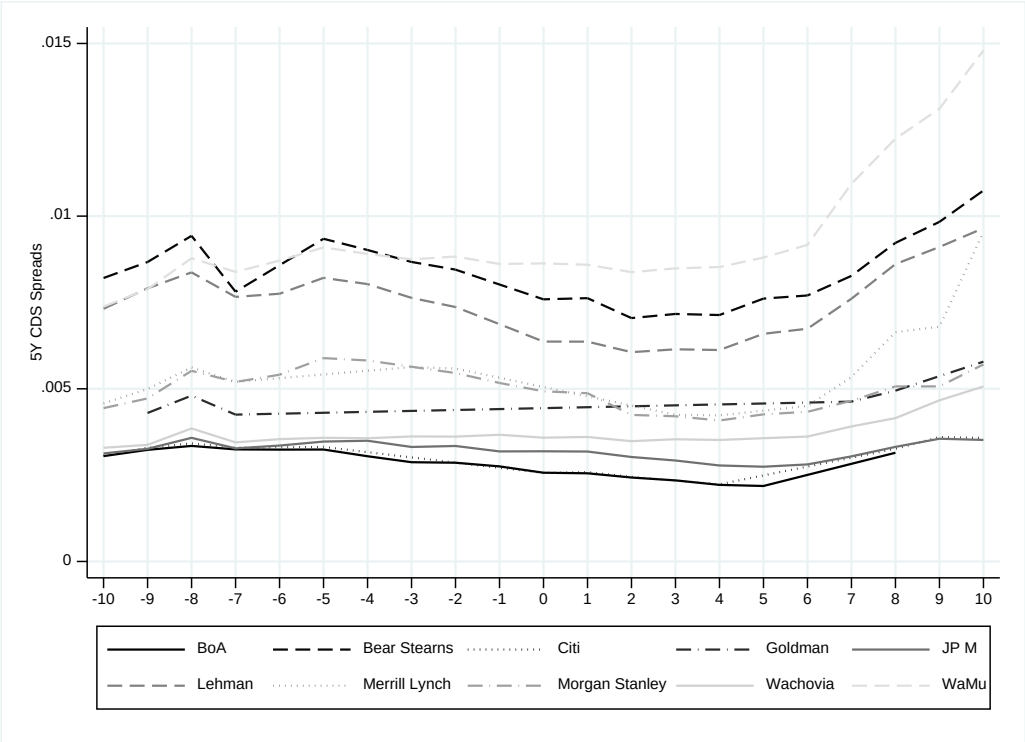
The above figures in Panels A and B replicate Figure 1, Panel A in the paper and plot the 5-year CDS spreads for nine US banks around their initial disclosures of subprime exposures after excluding bank-days for which there are other potentially confounding news during the event window. We have used the Dow Jones Factiva database to systematically search all U.S. newspapers for company news of the nine sample banks. The search yields a total of 7,627 news items. To find major news events, we identify the bank-days for which the number of bank-specific news items exceeds 200% of the average number of daily hits during the time window. The events on those days presumably have been picked up by several outlets, which led to more hits in Factiva, indicating that they are important. This procedure leaves us with 28 bank-days for Figure 1, Panel A in the paper. In a follow-up analysis, we manually investigate these 28 events and identify two bank-day observations that in our best judgment are most relevant and could potentially confound our analysis and figure. Based on these findings, we produce three alternatives for the graph. Panel A excludes the two manually identified bank-day observations, Panel B excludes the 28 automatically identified bank-day observations, Panel C reports sample averages for each trading day before and after excluding the same automatically identified bank-day observations as in Panel B. As Panel C shows, these other potentially confounding events do not change the average pattern in the CDS spreads in a material way. All CDS pricing data come from IHS Markit. We restrict the data to 5-year CDS contracts denominated in USD, with modified restructuring clauses, and of senior unsecured debts.

Figure A3: Excluding Days with Potentially Confounding Events in Figure 1, Panel B

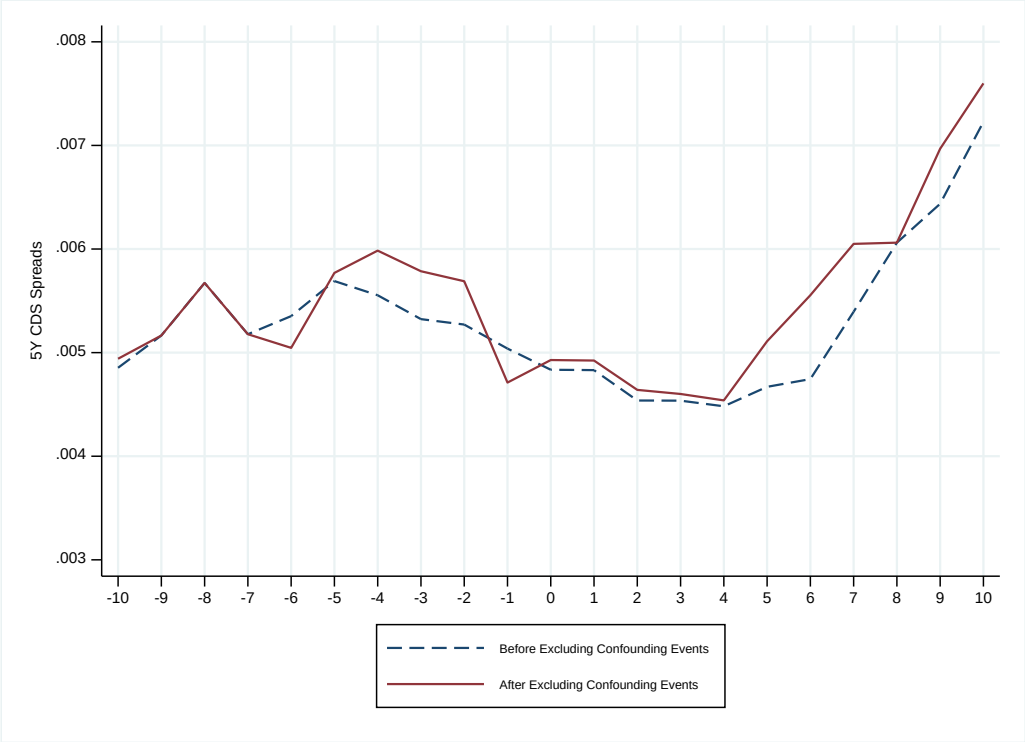
Panel A: Excluding Manually Identified Bank-Days



Panel B: Excluding Automatically Identified Bank-Days



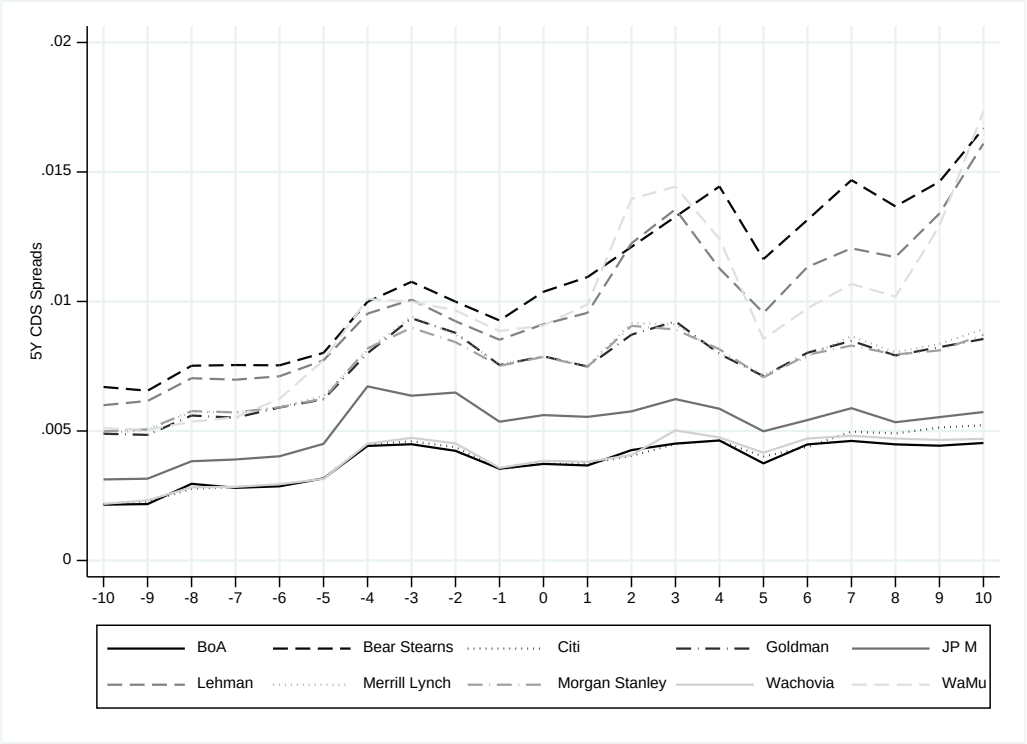
Panel C: Sample Average Before and After Excluding Bank-Days with Potentially Confounding Events



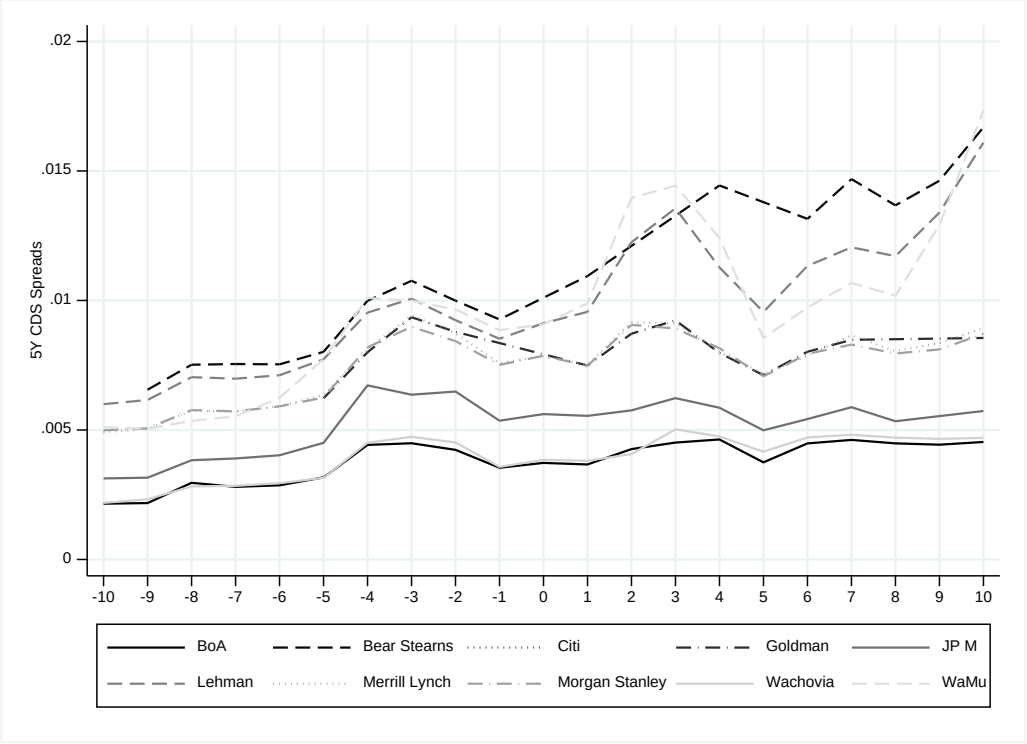
The above figures in Panels A and B replicate Figure 1, Panel B in the paper and plot the 5-year CDS spreads for ten US banks around the disclosures by Merrill Lynch and Washington Mutual on October 5, 2007, after excluding bank-days for which there are other potentially confounding news during the event window. We have used the Dow Jones Factiva database to systematically search all U.S. newspapers for company news of the ten sample banks. The search yields a total of 7,433 news items. To find major news events, we identify the bank-days for which the number of bank-specific news items exceeds 200% of the average number of daily hits during the time window. The events on those days presumably have been picked up by several outlets, which led to more hits in Factiva, indicating that they are important. This procedure leaves us with 40 bank-days for Figure 1, Panel B in the paper. In a follow-up analysis, we manually investigate these 40 events and identify six bank-day observations that in our best judgment are most relevant and could potentially confound our analysis and figure. Based on these findings, we produce three alternatives for the graph. Panel A excludes the six manually identified bank-day observations, Panel B excludes the 40 automatically identified bank-day observations, Panel C reports sample averages for each trading day before and after excluding the same automatically identified bank-day observations as in Panel B. As Panel C shows, these other potentially confounding events do not change the average pattern in the CDS spreads in a material way.All CDS pricing data come from IHS Markit. We restrict the data to 5-year CDS contracts denominated in USD, with modified restructuring clauses, and of senior unsecured debts.

Figure A4: Excluding Days with Potentially Confounding Events in Figure 2

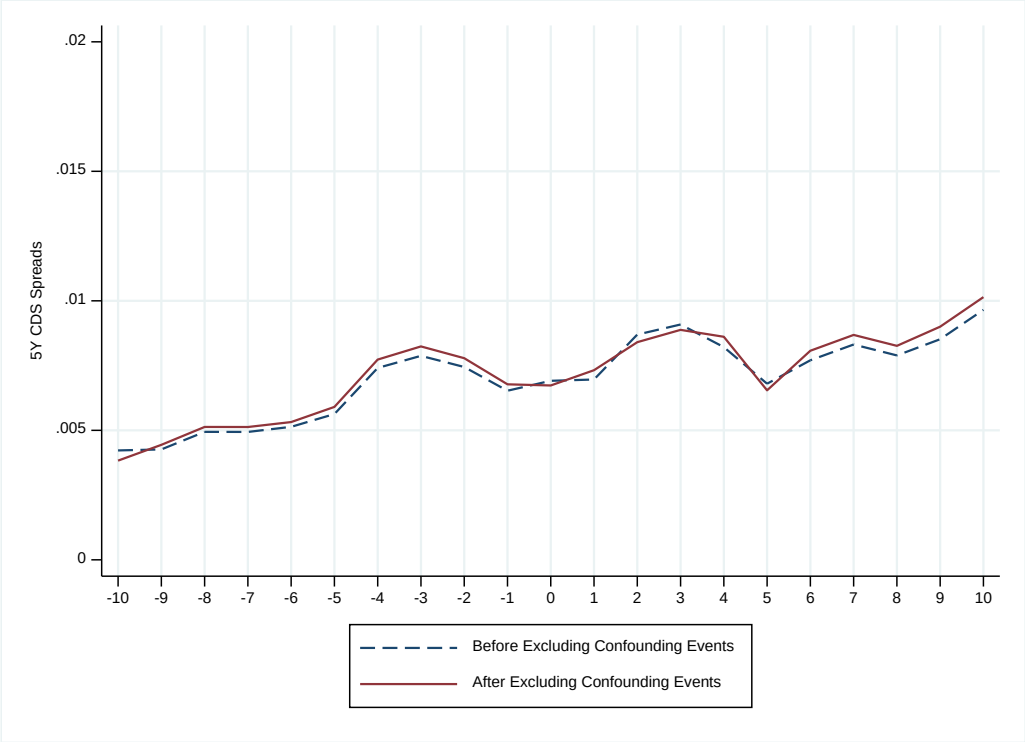
Panel A: Excluding Manually Identified Bank-Days



Panel B: Excluding Automatically Identified Bank-Days



Panel C: Sample Average Before and After Excluding Bank-Days with Potentially Confounding Events



The above figures in Panels A and B replicate Figure 2 in the paper and plot the 5-year CDS spreads for ten US banks around the publication of the SEC's letter to Lehman on August 1, 2007, after excluding bank-days for which there are other potentially confounding news during the event window. We have used the Dow Jones Factiva database to systematically search all U.S. newspapers for company news of the ten sample banks. The search yields a total of 9,027 news items. To find major news events, we identify the bank-days for which the number of bank-specific news items exceeds 200% of the average number of daily hits during the time window. The events on those days presumably have been picked up by several outlets, which led to more hits in Factiva, indicating that they are important. This procedure leaves us with 53 bank-days for Figure 2 in the paper. In a follow-up analysis, we manually investigate these 53 events and identify three bank-day observations that in our best judgment are most relevant and could potentially confound our analysis and figure. Based on these findings, we produce three alternatives for the graph. Panel A excludes the three manually identified bank-day observations, Panel B excludes the 53 automatically identified bank-day observations, Panel C reports sample averages for each trading day before and after excluding the same automatically identified bank-day observations as in Panel B. As Panel C shows, these other potentially confounding events do not change the average pattern in the CDS spreads in a material way. All CDS pricing data come from IHS Markit. We restrict the data to 5-year CDS contracts denominated in USD, with modified restructuring clauses, and of senior unsecured debts.

Table A1: Sample and Summary Statistics for the Analysis of Reported and Disclosed Loan Loss (N=237)

	Mean	*Std. Dev.*	*P1*	*P25*	*P50*	*P75*	*P99*
Reported and Disclosed Loan Losses:							
Loss Allowance / Gross Loans	0.0161	0.0071	0.0044	0.0118	0.0143	0.0189	0.0429
Disclosed Fair Value Loss / Gross Loans	-0.0005	0.0391	-0.0705	-0.0182	-0.0053	0.0037	0.1370
Independent Variables:							
Market Estimate	0.0739	0.0207	0.0346	0.0697	0.0732	0.0770	0.0947
Future Charge-Offs (2009-11)	0.0431	0.0298	0.0020	0.0203	0.0368	0.0572	0.1388
% Residential Mortgage Loans	0.2386	0.1301	0.0234	0.1492	0.2305	0.2956	0.7244
% CRE Loans	0.4185	0.1613	0.0424	0.3167	0.4315	0.5347	0.7653
% C&I Loans	0.1681	0.1042	0.0133	0.0956	0.1479	0.2112	0.5282
Forward-Looking 8-K Disclosure (Dummy)	0.0338	0.1810	0.0000	0.0000	0.0000	0.0000	1.0000
Total Capital Ratio	0.1336	0.0212	0.0977	0.1182	0.1319	0.1456	0.1929
Tier 1 Ratio	0.1170	0.0221	0.0728	0.1019	0.1155	0.1285	0.1785
Current Charge-Offs	0.0079	0.0083	0.0000	0.0025	0.0048	0.0098	0.0354
Loans Past Due & Not Accruing	0.0208	0.0178	0.0004	0.0077	0.0160	0.0280	0.0762
Size	14.9922	1.6175	12.6563	13.8324	14.6333	15.6948	21.3232
RWA / Total Assets	0.7700	0.1113	0.4453	0.7094	0.7805	0.8450	0.9881
Return on Assets	0.0002	0.0172	-0.0594	0.0005	0.0051	0.0080	0.0156
Deposits / Total Liabilities	0.7916	0.1187	0.2992	0.7475	0.8117	0.8666	0.9892
Net Interest Margin	0.0352	0.0073	0.0185	0.0310	0.0343	0.0384	0.0542

The sample comprises all observations of publicly listed US Bank Holding Companies for which we have the necessary accounting data from the 2008 FR Y-9C filings (source: Chicago Fed) and disclosure data from 2008 10-K filings (source: SEC). See Table 3 for variable definitions.

Table A2: Sample and Summary Statistics for the Analysis of AQR Loan Loss Adjustments (N=76)

	Mean	*Std. Dev.*	*P1*	*P25*	*P50*	*P75*	*P99*
AQR Loan Loss Adjustments:							
LLP Adjustments (bp)	0.6686	0.9806	0.0000	0.0870	0.2784	0.7202	5.0069
LLP Adjustments / Total Assets	0.0035	0.0053	0.0000	0.0002	0.0012	0.0042	0.0247
Independent Variables:							
CET1 Ratio	12.2895	5.1503	-3.7100	9.9500	11.6700	14.6700	37.2800
Corrective Action Score (Pre-AQR)	0.2128	0.3276	0.0000	0.0000	0.0000	0.5000	1.0000
Size	11.1459	1.3231	8.1513	10.4543	10.9542	11.8869	14.3104
RWA / Total Assets	3.3848	2.1719	0.9712	1.8755	2.8591	3.7872	12.6454
Return on Assets	0.0207	0.0124	-0.0026	0.0110	0.0188	0.0287	0.0511
Leverage Ratio	0.4817	0.2341	0.0208	0.2786	0.4658	0.6813	0.9054

The sample comprises all observations of financial institutions from the Eurozone that participated in the European Central Bank's Comprehensive Assessment and for which we have the necessary data from SNL Financial. See Table 4 for variable definitions.

Table A3: Sample and Summary Statistics for the Analysis of Prudential Filters and Corrective Actions (N=2,198)

	Mean	*Std. Dev.*	*P1*	*P25*	*P50*	*P75*	*P99*
Corrective Actions:							
Corrective Action Score (PCA)	-0.0001	0.0078	-0.0151	-0.0040	-0.0006	0.0030	0.0198
Corrective Action Score (# Cuts)	0.4345	0.2334	0.0000	0.2500	0.5000	0.5000	1.0000
Dividend Payouts	0.0039	0.0075	0.0000	0.0000	0.0020	0.0050	0.0288
Dividend Cuts	0.2621	0.4399	0.0000	0.0000	0.0000	1.0000	1.0000
Risk-Weighted Assets	0.6196	0.2033	0.1451	0.4981	0.6316	0.7578	1.0521
RWA Cuts	0.5655	0.4958	0.0000	0.0000	1.0000	1.0000	1.0000
Leverage	0.3747	0.1984	0.0506	0.2107	0.3656	0.4942	0.9166
Leverage Cuts	0.4950	0.5001	0.0000	0.0000	0.0000	1.0000	1.0000
Share Capital	0.0355	0.0410	0.0000	0.0100	0.0265	0.0497	0.1753
Capital Raising	0.4154	0.4929	0.0000	0.0000	0.0000	1.0000	1.0000
Independent Variables:							
Prudential Filter	0.5551	0.4971	0.0000	0.0000	1.0000	1.0000	1.0000
AFS Result	0.0015	0.0060	-0.0133	-0.0004	0.0003	0.0026	0.0230
AFS Loss	0.3280	0.4696	0.0000	0.0000	0.0000	1.0000	1.0000
Trading Result	0.0014	0.0039	-0.0052	0.0000	0.0005	0.0020	0.0183
Return on Assets	0.0325	0.0210	0.0038	0.0229	0.0301	0.0384	0.0869
Total Capital Ratio	16.2719	10.3452	8.3200	12.2500	14.6750	17.5800	47.4900
Size	9.5925	2.3334	5.1180	7.7264	9.5499	11.1994	14.7155

The sample comprises all banks using IFRS for financial reporting from 39 countries with available firm-year observations over the 2001 to 2015 period (source: BvD Bankscope). See Table 5 for variable definitions.