

Shala, Albulena

## Article

# A review on accounts manipulation via loan loss provisions to manage earnings and impact of IFRS

**Provided in Cooperation with:**  
Danubius University of Galati

*Reference:* Shala, Albulena (2017). A review on accounts manipulation via loan loss provisions to manage earnings and impact of IFRS.

This Version is available at:  
<http://hdl.handle.net/11159/732>

## Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics  
Düsternbrooker Weg 120  
24105 Kiel (Germany)  
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)  
<https://www.zbw.eu/>

## Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte. Alle auf diesem Vorblatt angegebenen Informationen einschließlich der Rechteinformationen (z.B. Nennung einer Creative Commons Lizenz) wurden automatisch generiert und müssen durch Nutzer:innen vor einer Nachnutzung sorgfältig überprüft werden. Die Lizenzangaben stammen aus Publikationsmetadaten und können Fehler oder Ungenauigkeiten enthalten.

<https://savearchive.zbw.eu/termsfuse>

## Terms of use:

*This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence. All information provided on this publication cover sheet, including copyright details (e.g. indication of a Creative Commons license), was automatically generated and must be carefully reviewed by users prior to reuse. The license information is derived from publication metadata and may contain errors or inaccuracies.*

## A Review on Accounts Manipulation via Loan Loss Provisions to Manage Earnings and Impact of IFRS

Albulena Shala<sup>1</sup>, Skender Ahmeti<sup>2</sup>, Rezearta Sh. Perri<sup>3</sup>

**Abstract:** Nowadays there is extensive research on financial reporting in banking industry. We also find a lot of studies specifically devoted to investigation of the estimation techniques of the amount of provisions, which represent important accrual amounts for a bank. In this paper we employ a non-statistical technique of meta-synthesis, through which we try to research the motives, existence, and effects of IFRS in income smoothing of banking institutions. As the theory of agency implies, the management can apply income smoothing because they may be oriented towards bonuses and wage increases more than towards the benefit of the economic entity. Factors such as their own reputation regarding the prediction of incomes, avoiding lack of analysts' expectations on incomes, to signal information on incomes, also contribute to earnings management. We find that most of the research find income smoothing in the banking sector, but also in other industries. Another issue that seems to emerge is that, based on research, the application of IFRS-es does not seem to have decreased the income smoothing phenomena in most of the countries where the studies were conducted.

**Keywords:** Income Smoothing; Discretionary Accruals; Earnings Management; Accounting Choices;

**JEL classification:** M4

### 1. Introduction

The practice of earnings management has attracted attention of academic studies since 1960 (Rath & Lan, 2008). In the recent years, earnings management has raised many serious questions on financial market regulators, investors and academic researchers in many developed countries and markets. Moreover, a certain popularity of earnings management among companies is important to lawmakers and supervising institutions. Banking industry and institutions are not an exception to this. Bank managers may have important motives to approve income smoothing procedures. Adjusting the current performance of a bank branch with the average levels of the bank as a whole or to approximate the threshold of the market, allows managers to provide a sustainable flow of dividends for bank shareholders, ensure stability of stock prices, decrease unstable profit, provide timely compensation for managers, attract new investors, etc. Specific ratios and financial statement amounts are periodically monitored by regulating and supervising agencies, and, by adjusting these figures and managing earnings, the company can undergo investigation and not attract "negative" attention.

<sup>1</sup> University of Pristina, Faculty of Economy, Department of Bank, Finance and Accounting, University of Pristina, "Hasan Prishtina", Republic of Kosovo, E-mail: albulenashala594@gmail.com.

<sup>2</sup> Professor, PhD, University of Pristina, Faculty of Economy, Department of Bank, Finance and Accounting, University of Pristina, "Hasan Prishtina", Republic of Kosovo, E-mail: skender.ahmeti@uni-pr.edu.

<sup>3</sup> Professor, PhD, University of Tirana, Faculty of Economy, Department of Accounting, E-mail: rezartaperri@feut.edu.al.

Healy dhe Wahlen (1999) emphasize that most of the academic studies have documented the phenomena of earnings management, but do not provide arguments about its purpose and spread. Consequently, current arguments do not help to define standards that facilitate communication with investors, or whether they drive incomes management. The standard-setting institutions prefer provisions on loan losses to become a mechanism that promotes harmonization and transparency of financial balances everywhere, and emphasize that loans should be assessed in a fair and objective way. On the other side, bank supervisors demand provisions on loan losses to stabilize banking security and sustainability (Borio dhe Lowe, 2001).

In this study we have researched into motives that drive managers to manage accruals and to smoothe the income and earnings. We also research about the likely effects of IFRS on earnings management. Meta-synthesis is the most suitable technique to use. This is the non-statistical technique used to integrate, evaluate and interpret the findings of multiple qualitative research studies. Such studies may be combined to identify their common core elements and themes (Cronin, 2008).

The rest of the paper is organized as follows. In the second part of the paper we enlist the probable motives found in the literature review for earnings management. In the third section we focus on discussion about income smoothing through loan loss provision, while in the fourth section we present some findings on which are the effects of the IFRS on income smoothing. In the last section we present our main findings and conclusions.

## **2. Motives for Managing Discretionary Accruals**

According to Beaver and Engel (1996), the motives that managers apply to accruals are regulatory motives, related to financial reporting, taxing, and signaling. Motivations for discretion in financial reporting are diverse and can be explained partly by the fact that many implicit and explicit contracts of the bank refer to accounting numbers. Violation of these contracts (e.g., non-compliance with regulatory capital requirements) can affect the economic value of the bank (Beaver and Engel, 1996). Also Stolowy and Breton (2004) stated that three main categories of motives exist for income smoothing: job and bonus amounts, debt contracts motives and regulatory motives. These three main categories of motives have also been identified by Healy and Wahlen (1999). The second and third motives for the use of income smoothing are in general advantageous to the company, while the first motive for income smoothing is primarily related to the self-interest of the management of the company, therefore the agency problem. Ronen and Yari (2008) describe motives on income smoothing alongside four dimensions: capital markets, governance, competition, and regulation. Moyer (1990) provides evidence consistent with bank managers exercising discretion over the timing of reported loan loss provisions to avoid regulatory capital constraints. Godfrey and Jones (1999) also emphasize that discomforts related to workplace create motives for managers to smooth the incomes to suit their performance evaluation. Trueman and Titman (1988), argue that one of the motives that the management is committed in income smoothing is related to debt contracts and therefore with the cost of capital. Beneish M. (2001), in a research about earnings management reaches the conclusion that debt contracts are a motive for earnings management. The assumption is that debt contracts offer motives for managers to increase incomes so as to avoid the costs and penalties of contract breach. In

1996 Subramanyam conducts a research about accruals, tested to confirm whether his calculations on discretionary accruals help to: explain variability of share prices, to anticipate the incomes, to anticipate changes of dividend, and to improve anticipation of incomes. Using 'Jones model' (1991), Subramanyam (1996) concludes that discretionary accruals help managers do all the above mentioned actions and offers evidence that income smoothing improves sustainability and predictability of future profit. Kasznik et.,al. (1999) through a sample comprised of 366 companies between 1987 and 1991, focused on accruals as a means of earnings management. Using the Expanded Jones Model (1991) Dechow, Sloan, and Sweeney (1995), have investigated whether managers commit to achieve the projected incomes in order to avoid actions of shareholders and lose of their reputation. They found that managers use accruals to increase reported income if the income is expected to fall short of the company's expected amount (Kasznik, 1999). Fudenberg and Tirole (1995), state that another motive for the use of income smoothing is the concern of job contract security of the management. If the management's performance is not so good or falls below a certain benchmark the possibility exists that responsible management will be dismissed. Even if management has a good performance in the current year, this will not compensate for bad performance in future years. Companies are motivated to manage profits to at least achieve the following objectives on incomes, such as to avoid reporting a decrease on incomes, to avoid reporting loss, and to avoid absence of income expectations from analysts (Hamdi dhe Zarai, 2012). Butgstahler and Eames (1998) also provide evidence that the management use accounting manipulation to meet the expectations of the financial analysts. In particular, they state that management of the company manage the earnings upward to prevent reporting earnings to be lower than analysts' expectation. Income smoothing related to regulations on investors protection has been also studied by Cahan, Liu, and Sun (2008). Authors investigate whether protection of investors affect managers' motivation to efficiently communicate their private information on future perspectives by means of income smoothing. Moreover, they investigate whether the basic motive to manage incomes varies among countries with higher or lower investor protection measures. Results show that in countries with poor regulations on protection of investors, companies' managements are expected to engage in income smoothing for their own interest, while in countries with stronger regulations on protection of investors, managements mainly use income smoothing to convey their private information about future earnings. (Cahan, Liu & Sun, 2008). Dichev and Tang (2008) also support the evidence that smoothed incomes improve short-term and long-term prediction of incomes up to five years in the future. Hepworth (1953) advanced the idea that stable earnings give owners and creditors a more confident feeling toward management. On the other hand, Takasu dhe Nakano (2012), in their study about the Japonese industry, emphasize that Japonese managers are motivated to smoothe income because thus, they may be able to pay long-term dividends in the future. Grant et., al. (2009) emphasize that if managers are given their bonuses, they will not give up on risky projects to make sure that the current course of the business continues and that bonuses in cash also continue.

### **3. Income Smoothing Through Loan Loss Provision**

The banking sector is vital to national and global economies and banks play a key role as depository institutions and lender to firms, individuals and governments (Lobo, 2016). Given the importance of



banks, loan loss provision (LLP) estimates play a key role for bank stability and soundness while fulfilling their lending functions to society. Managers use loan loss provisions for their income smoothing because in general, reduced variability is supposed to represent a reduced risk. Bushman and Williams (2012) also find banks that smooth earnings through LLP have less risk-taking discipline, possibly because the reduced transparency makes external monitoring more difficult, whereas banks that recognize LLP in a more timely manner exhibit greater such discipline. Shrieves and Dahl (2003) attribute income positive association with loan loss provisions to the use of bank management discretion in determining the magnitude and the timing of those provisions. Greenwalt and Sinkey (1988) included a sample of 106 banks in USA over the period between 1976 and 1984 and their results were in favor of the income smoothing hypothesis. Ma (1988), based his study on a sample of 45 banks for the period from 1980 to 1984, and concluded that banks use loan-loss provisions to smooth reported earnings. Perez et. al. (2006) research data of financial statements from 142 Spanish banks over the period from 1986 to 2002. Banks are subject of minimal capital demands, and income smoothing through LLP-s can be a result of accounting practices that aim at fulfilling these demands (Perez et. al., 2006). Authors find clear evidence of income smoothing through general and specific provision on loan loss, but there is no capital management among Spanish banks. Empirical analysis of Kanagaretnam et. al. (2003) is based on 4,166 observations of American banks for the period 1987-2000, investigating LLP-s and bank performances. Banks with better current performance and poor expected performance, will 'save' profit for the future, thus reducing current incomes through accruals, specifically by decreasing LLP. On the other side, banks with poorer current performance and better expected performance in the future, will increase current incomes "borrowing" from future incomes through provisions (Kanagaretnam et. al., 2003). Authors provide evidence that managers who face discomforts about their workplace security, are going to use LLP on income smoothing. To the contrary, a study by Wetmore and Brick (1994) finds no evidence of income-smoothing behavior among banks. Bhat (1996) has tested the hypothesis on income smoothing for big banks that have reported their incomes during the period 1981-1991 finding that banks smooth their incomes. Income smoothing should be done using professional judgement and should be in accordance with general accounting principles. (Bhat, 1996). Another recent trend in earnings management literature focuses on muslim countries. Taktak et., al. (2010) investigates income smoothing practices on islamic banks. Research investigates income smoothing practices in a sample of 66 islamic banks in 12 countries during the period 2001-2006, using Beidleman and Eckel coefficient, as well as a linear regression model to analyze whether artificial income smoothing of banks has been done through loan loss provision. According to coefficients, results show that islamic banks have smoothed their incomes but not through LLP. Later, Taktak (2011) expands the study on practices of income smoothing in islamic banks, by including 79 islamic banks on 19 countries over the period 2001-2006. In this study, the author concludes that banks commit on natural income smoothing practices. Misman and Ahmedi (2011) investigate LLP for two types of islamic and traditional banks in Malaysia during 1993-2009. They find that both islamic (based on islamic principles) and traditional banks in Malaysia use LLP in profit and capital management. Anandarajan et al. (2007) show that publicly traded commercial banks in Australia, commit in earnings management practices. Using a sample of 878 US bank holding companies in a US study, El Sood (2012) found strong evidence for income smoothing. In a research Pinho and Martins (2009), related

to determiners of general and specific provisions, authors test the data from all financial institutions operating in Portugal between 1990 and 2000, using a regression model. Pinho and Martins (2009) divide banks in two groups, due to as they claim, they have different rules for local Portuguese banks and foreign banks operating in their market. Income smoothing and capital management is identified from two groups of banks (Pinho et. al., 2009). Collins et. al. (1995) find that banks do use LLPs as a tool for earnings management. They follow a bank-by-bank approach and found that approximately two-thirds of the banks in their sample of 160 U.S. banks used LLPs for income smoothing purposes. In an analysis from Norden and Stoian (2014) based on three months data of 85 Dutch banks (of which 36 use local GAAP) that covers the period from 1998 until year 2012, where general LLP of banks are not subtractable from the taxes and are not either recognized as part of Pillar 2, show that banks have smoothed their incomes using LLP. Kanagaretnam et. al.(2004) also identified that loan loss provision is used on income smoothing. On one hand, Collins, Shackelford, and Wahlen (1995), Collins, Shackelford and Wahlen (1995), Liu and Ryan (1995), Kanagaretnam, Lobo, and Mathieu (2003), and Kanagaretnam, Lobo, and Yang (2004) Curcio and Hassan (2013), Norden and Stoian (2014), document the use of loan loss provisions for income smoothing purposes. On the other hand, Beatty, Chamberlain, and Magliolo (1995) and Ahmed, Takeda, and Thomas (1999) find no support for such hypothesis. Ahmed et al. (1999) found no evidence to support the income smoothing hypothesis after the implementation of Basel 1. Overall, the literature documents more positive evidence of smoothing via LLP. Nevertheless, accounting standards as applied in all countries weaken initiatives on solving loan problems. Even on the role and impact of IFRS on income smoothing in different countries, literature provides different evidence.

#### **4. The Effects of IFRS on Income Smoothing**

At the end of each reporting year the bank managers have to estimate the expected losses in different categories. Accounting rules determine in what extent are the potential losses recognized in specific loan assessment or loan portfolios.

International Accounting Standard 39 (IAS 39) used to describe the approach on “*caused losses*”. This approach aims to reduce managements’ incentives to create hidden reserves, that could lead to earnings management. IAS 39 leads entities towards choosing best loss assessment approach possible.

Incurred Loss Model (ILM) on loan provisions in accordance to International Financial Reporting Standards (IFRS) allows a lot of space for consideration, that could result on insufficient provisions. (Aiyar Sh. et. al., 2015). On 24th July 2014, *International Accounting Standards Board (IASB) released International Financial Reporting Standard 9 (IFRS 9) - Financial Instruments, to replace IAS 39 — Financial Instruments: Recognition and Measurement*. IFRS 9 also replaces the Incurred Loss Model (ILM) as an approach for loan devaluation and other financial activities, determined by IAS 39 with a new model – Expected Loss Model – ELM (Onali & Ginesti, 2015). Elnahass, M. et., al. (2016) emphasize that ILM of loans is related to the past, in what has been caused by past events, before the LLP has been created, not offering any help in accumulation during revival periods to ensure needed sources to survive upcoming hits from the loan. According to ELM model, banks base on creating provisions for 12 upcoming months. Provision under IAS 39, as it is applied, often does

not fulfill supervision demands from the perspective of loan risk review and capital sufficiency assessment (Gaston & Song, 2014). Meanwhile the last model on ELM provisions on loan loss are created before a loan event has occurred. (Elnahass, et. al., 2016) IAS 39 model can remain active until year 2018 (Camfferman, 2004). Jeanjean and Stollowy (2008) have studied earnings management before and after the endorsement of IFRS-s in Australia, France, and Great Britain, and found that there was no decrease on the level of earnings management, and that in fact there is an increase in France after the start of moving to IFRS. They conclude that IFRS application includes more considerable subjective judgements. In a study Adzis, A. (2010) investigates the impact of IFRS-s in income smoothing activities through bank provisions in Australia and New Zealand for the period 1995-2009. After applying IFRS-s, loan loss provisions have been subject of manipulation by management. Results show that there is no concrete evidence that IFRS-s, especially IAS 39 is related to decrease on income smoothing activities in Australia and New Zealand. Nevertheless, income smoothing activities decreased in Australian public banks after endorsing IFRS-s. Leventis et., al. (2012), using a sample of 91 EU banks, found that income smoothing is more present among risky banks but this smoothing behavior is less aggressive after implementation of IFRS. Curcio and Hassan (2013) find strong evidence on income smoothing among loan institutions outside Euro-zone. They research income and capital management, for a sample of 218 banks from 11 Euro-zone countries during 11 year period from 1996 to 2006, using data from Bankscope database. Ozili, P.K. (2015) found evidence of income smoothing through loan loss provision (LLP) on banking system of Nigeria after adopting IFRS-s. Additionally, the author provides evidence on increased bank provisions after 2008 crisis. Heemskerk and Van der Tas, (2006) identify that IFRS-s do not lead to a decrease on using discretionary accruals for earnings management, but in fact have lead towards an increase of earnings management. Furthermore they also find evidence that income smoothing has increased since the entering of IFRS-s in a sample of 160 financial reports of German and Swiss companies. In Germany, a relatively large number of companies have chosen to voluntarily apply IFRS-s before 2005. Tendeloo and Vanstraelen (2005) have also investigated voluntary approval from German companies during the period 1999-2001. Their results show that companies which have adopted IFRS-s commit more on income smoothing, but this increase in income smoothing after IFRS application has significantly decreased when the company is audited from a "Big 4" company. Hope (2003) in a research in 22 countries for 1,309 observations argues that without appropriate application, even best accounting standards are insignificant. Based on this, we understand that even though IFRS-s are of a higher quality than the Generally Accepted Accounting Principles (GAAP) in the country, it cannot result in improvement of accounting quality in countries with weak application because these standards cannot be applied as they should. Gebhardt, G. and Novotny-Farkas, Z. (2011) analyzed consequences of forced approval of IFRS-s on accounting quality of banks in 12 European Union countries. They offer evidence that the restriction to recognise only incurred losses under IAS39 significantly reduces income smoothing. Healy and Wahlen (1999) state that examining specific accruals allows researchers to provide direct evidence for standard setters concerning which standards work well and where there may be room for improvement.

## 5. Conclusion

The majority of accounting research in the banking sector focuses on how bank managers use their reporting discretion. Bank managers have flexibility when preparing financial statements. Based on broad literature on earnings management and specifically on income smoothing, there are many motives for the management to engage in income smoothing practices through accruals. Management can apply income smoothing because of regulatory motives or costs that relate to financing debt, to avoid reporting a decrease on income, to avoid reporting a loss, to avoid absence of income expectations from analysts, and to convey information on incomes. Except this, management can choose to do income smoothing based on self-interest purposes that are related to job and bonus contracts, dividends, their reputation regarding the prediction of incomes, etc. Institutions that set international accounting standards admit that managers may have motives to use loan loss provision to manipulate reported numbers. Improvement of transparency and comparability of financial reports is one of the goals of IFRS application. Otherwise, it is believed that earnings management has a negative impact in this transparency and comparability. Nevertheless, most of the studies identify income smoothing before and after IFRS-s. For future studies, it would be of interest to investigate reasons of income smoothing presence after IFRS application, and impact of Basel regulation on income smoothing. Considering that there is little research for Balkan countries in earnings management, a highly important topic would be the identification of income smoothing presence in this part of Europe.

## 6. References

- Adzis, A.A.; Tripe, D.W. & Dunmore, P.V. (2010). *International Financial Reporting Standards (IFRS) and Income Smoothing Activities of Banks*. Evidence from Australia and New Zealand Commercial Banks.
- Aiyar, Shekhar et al. (2015). *A Strategy for Resolving Europe's Problem Loans*, IMF Staff Discussion Note. No. SDN/15, 19, Washington, D.C.
- Anandarajan, A.; Hasan, I. & McCarthy, C. (2007). Use of loan loss provisions for capital, earnings management and signalling by Australian banks *Accounting and Finance*, Vol. 47, pp. 357-379.
- Beaver, W.H. & Engel, E.E. (1996). Discretionary behavior with respect to allowance for loan losses and the behavior of securities prices. *Journal of Accounting and Economics*, 22(1-3), pp. 177-206.
- Beneish, M.D. (2001). Earnings management: A perspective. *Managerial Finance*, 27(12), pp. 3-17.
- Bhat, V. (1996). Banks and income smoothing: an empirical analysis. *Applied Financial Economics*, Vol. 6 No. 6, pp. 505-510.
- Borio, C. & Lowe, P. (2001). To provision or not to provision. *BIS Quarterly Review*, 9.
- Bushman, R.M. & Williams, C.D. (2012). Accounting discretion, loan loss provisioning, and discipline of banks' risk-taking. *Journal of Accounting and Economics*. 54(1), pp. 1-18.
- Cahan, S.F.; Liu, G. & Sun, J. (2008). Investor protection, income smoothing and earnings informativeness. *Journal of International Accounting Research*, Vol. 7, No. 1. pp. 1-24.
- Camfferman, K. (2015). The emergence of the incurred-loss model for credit losses in IAS 39. *Accounting in Europe*, 12(1), pp.1-35.



- Collins, J.; Shackelford, D. & Wahlen, J. (1995). Bank differences in the coordination of regulatory capital, earnings and taxes. *Journal of Accounting Research*, Vol. 33, No. 2, pp. 263-292.
- Curcio, D. & Hasan, I. (2015). Earnings and capital management and signaling: the use of loan-loss provisions by European banks. *The European Journal of Finance*, 21(1), pp. 26-50.
- Cronin, P.; Ryan, F. & Coughlan, M. (2008). Undertaking a literature review: a step-by-step approach. *British journal of nursing*, 17(1), p. 38.
- Dichev, I.D. & Tang, V.W. (2009). Earnings volatility and earnings predictability. *Journal of Accounting and Economics*, vol. 47, no. 1-2, pp. 160-181;
- El Sood, H.A. (2012). Loan loss provisioning and income smoothing in US banks pre and post the financial crisis. *International Review of Financial Analysis*, 25, pp. 64-72.
- Elnahass, M.; Izzeldin, M. & Steele, G. (2016). The Expected Loan Loss Model and Earnings Management: Evidence from Contemporary Practices. *Working Paper*, Lancaster University, UK.
- Fudenberg, D. & Tirole, J. (1995). A theory of income and dividend smoothing based on incumbency rents. *Journal of Political Economy*, Vol. 103, No.1, pp. 75-93.
- Gaston, E. & Song, M.I. (2014). *Supervisory roles in loan loss provisioning in countries implementing IFRS*, No. 14-170. International Monetary Fund.
- Gebhardt, G.U. & Novotny-Farkas, Z. (2011). Mandatory IFRS adoption and accounting quality of European banks. *Journal of business finance & accounting*, 38(3-4), pp. 289-333.
- Godfrey, J.M. & Jones, K.L. (1999). Political cost influences on income smoothing via extraordinary item classification. *Accounting and Finance* (November 1999), Vol. 39, No. 3, pp. 229-254.
- Grant, J.; Markarian, G. & Parbonetti, A. (2009). CEO Risk-Related Incentives and Income Smoothing. *Contemporary Accounting Research*, vol. 26, no. 4, pp. 1029-1065.
- Greenawalt M.B. & Sinkey J.F. Jr. (1988). Bank loan loss provisions and the incomesmoothing hypothesis: an empirical analysis, 1976-1984. In *Journal of financial services research*, Vol. 1, n. 4, pp. 301-318.
- Hamdi, F.M. & Zarai, M.A. (2012). Earnings management to avoid earnings decreases and losses: empirical evidence from Islamic banking industry. *Research Journal of Finance and Accounting*, 3(3), pp. 88-107.
- Healy, P.M. & Wahlen, J.M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting horizons*, 13(4), pp. 365-383.
- Heemskerk, M. & Van der Tas, L. (2006). Veranderingen in resultaatsturing als gevolg van de invoering van IFRS. *Maandblad voor Accountancy en Bedrijfseconomie*, 80(11), pp. 571-579.
- Hepworth, S.R. (1953). Periodic income smoothing. *The Accounting Review*, 28(1) (January), pp. 32-39.
- Hope, O.K. (2003). Disclosure practices, enforcement of accounting standards, and analysts' forecast accuracy: An international study. *Journal of accounting research*, 41(2), pp. 235-272.
- Jeanjean, T. & Stolowy, H. (2008). Do accounting standards matter? An exploratory analysis of earnings management before and after IFRS adoption. *Journal of accounting and public policy*, 27(6), pp. 480-494.
- Kanagaretman, K.; G.J. Lobo & Mathieu, R. (2003). Managerial incentives for income smoothing through bank loan loss provisions. *Review of Quantitative Finance and Accounting*, vol. 20, January, pp. 63-80
- Kanagaretnam, K.; Lobo, G.J. & YANG, D.H. (2004). Joint tests of signaling and income smoothing through bank loan loss provisions. *Contemporary Accounting Research*, 21(4), pp. 843-884.
- Kasznik, R. (1999). On the association between voluntary disclosure and earnings management. *Journal of Accounting Research*, 37, pp. 57-81.
- Leventis S.; Dimitropoulos P.E. & Anandarajan, A. (2012). Signalling by banks using loan loss provisions: the case of the European Union. *Journal of Economic Studies*, vol. 39, n. 5, pp. 604-618.
- Lobo, G.J. (2016). Accounting research in banking—A review. *China Journal of Accounting Research*.

- Ma, C.K. (1988). Loan loss reserve and income smoothing: the experience in the US banking industry. *Journal of Business Finance & Accounting*, Vol. 15, No. 4, pp. 487-497.
- Misman, F.A. & Ahmed, W. (2011). Loan loss provisions: evidence from Malaysian Islamic and conventional banks. *International Review of Business Research Papers*, Vol. 7, No. 4, pp. 94-103.
- Moyer, S. (1990). Capital adequacy ratio regulations and accounting choices in commercial banks. *Journal of Accounting and Economics*, 13(July), pp. 123-154.
- Norden, L. & Stoian, A. (2014). Bank earnings management through loan loss provisions: a double-edged sword?. *De Nederlandsche Bank Working Paper*, No. 404. Available at SSRN: <https://ssrn.com/abstract=2369798>.
- Onali, E. & Ginesti, G. (2015). New Accounting Rules for Loan Loss Provisions in Europe: Much Ado about Nothing?. MPRA paper.
- Ozili, P.K. (2015). *Loan Loss Provisioning, Income Smoothing, Signaling, Capital Management and Procyclicality: Does IFRS Matter? Empirical Evidence from Nigeria*.
- Pérez, D.; Salas, V. & Saurina, J. (2006). Earnings and capital management in alternative loan loss provision regulatory regimes. *Working Paper*, N. 614, Banco de España.
- Pinho, P.S. & Martins, N.C. (2009). Determinants of Portuguese bank's provisioning policies: discretionary behaviour of generic and specific allowances. *Journal of Money, Investment and Banking*, No. 10, pp. 43-56, special issue.
- Rath, S. & Sun, L. (2008). The development of earnings management research. *International Review of Business Research Papers*, 4(2), pp. 265-277.
- Ronen, J. & Yaari, V. (2008). *Earnings management: emerging insights in theory, practice and research series*. Springer series in accounting scholarship.
- Stolowy, H. & Breton, G. (2004). Accounts manipulation: a literature review and proposed conceptual framework. *Review of Accounting & Finance*, Vol. 3, No. 1, pp. 5-66.
- Subramanyam, K.R. (1996). The pricing of discretionary accruals. *Journal of Accounting and Economics*, 22, pp. 249-281.
- Shrieves, R.E. & Dahl, D. (2003). Discretionary accounting and the behavior of Japanese banks under financial duress. *Journal of Banking and Finance*, 27(7), pp. 1219-1243.
- Takasu, Y. & Nakano, M. (2012). What do smoothed earnings tell us about the future?. *The Japanese Accounting Review*, Volume 2, pp. 1-32.
- Taktak, N. (2011). The nature of smoothing returns practices: the case of Islamic banks. *Journal of Islamic Accounting & Business Research*, Vol. 2, No. 2, pp. 142-152.
- Taktak, N.; Zouari, S. & Boudrigua, A. (2010). Do Islamic banks use loan loss provisions to smooth their results?. *Journal of Islamic Accounting & Business Research*, Vol. 1, No. 2, pp. 114-127.
- Trueman, B. & Titman, S. (1988). An explanation for accounting income smoothing. *Journal of Accounting Research* (Supplement), Vol. 26, pp. 127-139.
- Van Tendeloo, B. & Vanstraelen, A. (2005). Earnings management under German GAAP versus IFRS. *European Accounting Review*, 14(1), pp. 155-180.
- Wetmore, J.L. & Brick, J.R. (1994). Loan loss provisions of commercial banks and adequate disclosure: a note. *Journal of Economics and Business*, 46, pp. 299-305.