J. Account. Public Policy 51 (2025) 107317

Contents lists available at ScienceDirect

Journal of Accounting and Public Policy

journal homepage: www.elsevier.com/locate/jaccpubpol

Full length article

# Accounting for wrongdoing. The financial consequences of bank misconduct

Jose Fernandez de Bilbao [a,*], Isabel Catalina Figuerola-Ferretti [b], Ioannis Paraskevopoulos [b], Álvaro Santos [b]

[a] ICADE, Universidad Pontificia Comillas, Spain
[b] Quantitative Finance Group, ICADE, Universidad Pontificia Comillas, Spain

ARTICLE INFO

*JEL:*
G21- Banks
G28- Financial Institutions and Services: Government Policy and Regulation
M48: Accounting and Auditing
Government Policy and Regulation

*Keywords:*
Bank misconduct
Bank accounting
Financial disclosures
Bank shareholder value

ABSTRACT

This paper investigates the determinants influencing banks' decisions to disclose P&L misconduct-related charges and assesses the extent to which these P&L charges can predict future misconduct penalty announcements. Previous research has largely focused on the penalty announcements as the primary indicator for the financial consequences of bank misconduct. However, the P&L impact of misconduct is influenced by accounting rules that drive banks to disclose a provision or cost ahead of the announcement of a future penalty. Using a sample of hand collected data for Global Systemically Important Banks, we establish that disclosure of misconduct provisions is primarily determined by accounting standards. We also demonstrate that misconduct provisions are accrued prior to a penalty being announced and provide advance indication of the amount of forthcoming penalties. While misconduct provisions, when available, could be considered the optimal measure of misconduct, the empirical evidence shows that their disclosure is limited. On the other hand, banks often make known their misconduct-related P&L costs on their quarterly financial documents. These disclosures are frequent, comprehensive and pervasive across different accounting standards, with expected penalty size as the primary determinant of their disclosure. P&L misconduct costs also share the forward-looking nature of provisions. This implies that, when P&L misconduct related costs are disclosed, markets react accordingly, anticipating a future penalty. Our research provides the first analysis of the accounting elements of bank misconduct, the interaction between misconduct disclosures and penalty announcements and the influence of these disclosures on stock returns.

## 1. Introduction

This paper examines how the misconduct-related costs are represented in a bank's financial statements. The relationship between bank misconduct and bank financial performance has previously been examined through the use of announced penalties[1] as a proxy for

* Corresponding author.
*E-mail address:* jmfernandezbilbao@comillas.edu (J. Fernandez de Bilbao).

[1] Throughout this paper, we use the terms "announced penalties" to refer to public information available on fines, settlements and financial penalties levied on banks. From a legal perspective penalty refers to any type of retribution levied as a punishment for misconduct, fine refers to a monetary penalty by a court or authority, enforcement action refers to a civil or criminal prosecution or injunction and settlement refers to an agreement to resolve a misconduct-related regulatory process in exchange for accepting a certain penalty or fine. For the purposes of bank misconduct research, there is no difference between these 3 terms (Köster & Pelster, 2017, 2018).

https://doi.org/10.1016/j.jaccpubpol.2025.107317