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CPA-Canada Accounting and Governance Research Centre
RESEARCH SEMINAR SERIES

Bruce McConomy, PhD
Professor
Lazaridis School of Business and Economics
Wilfred Laurier University

Bruce is a Professor at the Lazaridis School of Business and Economics. He is the Director of the CPA Ontario Centre for Capital Markets and Behavioural Decision Making and Director of Laurier's – Graduate Diploma in Accounting. His research interests include earnings forecasts, auditing and environmental accounting, corporate governance, initial public offerings and voluntary disclosure. Bruce has articles published in Contemporary Accounting Research, the Journal of Accounting, Auditing and Finance, the Journal of Business, Finance and Accounting, the Accounting, Auditing & Accountability Journal and a selection of other peer-reviewed journals. He also has cases published in Issues in Accounting Education, the Journal of Accounting Case Research, and practitioner focused articles in CA Magazine and CMA Management. Bruce is a co-author of the best-selling "Kieso" Intermediate Accounting textbook.

Topic: «The Impact of Asset Retirement Obligations on Credit Ratings and Bank Loan Pricing»

Abstract:

We examine the impact of environmental liabilities on bank loan interest rates, credit ratings and collateral required by lenders. Using Asset Retirement Obligation (ARO) data, hand collected from firms' annual reports, our main focus is on whether these obligations are relevant to banks in their lending decisions and for credit rating agencies. AROs are environmental liabilities recognized by companies for the restoration of properties to their pre-exploitative state, and these liabilities are often quite material. Prior research has not examined the impact of AROs on debt markets, and industry reports suggest that AROs may have little or no impact on lenders and credit agency decision-making. Our results indicate that credit rating agencies take AROs into account when assessing firm risk. We also find that from a private debt market (bank loan) perspective, AROs are significant. That is, banks account for AROs when pricing their loans. So, even though in the U.S. companies are not generally required to separately prefund the environment liabilities associated with their AROs, they increase borrowers' riskiness. We also find that banks are less likely to accept assets as collateral for loans from firms with AROs, perhaps because these assets are seen to cause banks to be viewed as owner-operators (i.e., asset control can help establish bank's participation in management). In short, collateral assets can trigger additional liabilities for banks upon the default of a borrower. This result helps explain why prior studies find that banks are increasingly less likely to provide loans to firms that have higher environmental liabilities (Chang, 2016). We also discuss related policy considerations, such as the implications of abandoned mine land fees for hard rock mining.

TIME: **10 a.m. – 11:30 a.m., Friday, April 20, 2018 ****light lunch to follow at noon***
PLACE: **Desmarais Building, Room 7170**

RSVP Required **- contact Kathy Cunningham at CPA-Canada AGRC for more info**

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