

Do Managers Time Securitization Transactions to Obtain Accounting Benefits?*

Patricia M. Dechow
The Carleton H. Griffin Deloitte & Touche LLP Collegiate Professor of Accounting
Stephen M. Ross School of Business
University of Michigan
Ann Arbor, MI 48109
E-mail: dechow@umich.edu

And

Visiting Professor
Haas School of Business
University of California, Berkeley
Phone: (510) 642 2708

and

Catherine Shakespeare
Assistant Professor of Accounting
Stephen M. Ross School of Business
University of Michigan
Ann Arbor, MI 48109
E-mail: shakespe@umich.edu
Phone: (734) 647 6984

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Abstract

Relative to recording securitizations as collateralized borrowings, the “gain on sale” treatment allowable under SFAS 125/140 has several accounting benefits such as reducing leverage, increasing profits, and improving efficiency ratios. We argue that to maximize these accounting benefits managers will want to engage in securitizations at the end of the quarter. We document that securitization transactions occur with greater frequency in the last few days of the third month of the quarter. We also find that the end-of-quarter effect is stronger after the introduction of SFAS 125 that made it easier for firms to meet criteria for “gain on sale” treatment. We provide various robustness tests that suggest that the clustering is not due to the demand for the underlying assets, demand for financing, or a decision on the part of firms to systematically perform securitizations at month-end. Overall the consistent explanation for our findings is that flexibility to window-dress the financial statements is an attractive side benefit of engaging in securitizations.

Keywords: securitizations, window-dressing, timing, SFAS 125 SFAS 140

1. Introduction

The essential feature of a securitization is that a firm receives cash from outside investors and pays back this obligation with cash flows generated by a specific asset pool, e.g., accounts receivable. Securitizations are a form of financing that has several advantages over traditional bank financing. For example, firms no longer have to wait for customers to pay to obtain cash flows, and they often can obtain these cash flows at lower interest rates than required from a traditional bank. Our paper takes as given that there are economic benefits to securitizations. We assume that such transactions would occur regardless of the accounting treatment. Our objective is to investigate whether managers *time* their securitizations so as to maximize the accounting benefits.

There are two ways that firms can account for securitization transactions. The first is to treat the transaction as a collateralized borrowing. The justification for this treatment is that securitizations are a source of financing and so should be reflected in the financial statements in this way. Under this treatment the accounts receivables are left on the books until the customers pay, and any cash received from securitizations are recorded as loans. The second way is to treat the transaction as a sale of the accounts receivable. The justification for this treatment is that the firm no longer “owns” the receivables since they have been transferred to a bankruptcy-remote special purpose entity. Under this treatment, the receivables are removed from the books and replaced with cash and a “retained asset.” The retained asset represents the firm’s ownership stake in the future cash flows. A gain or loss ensures that all accounts balance. Since firms typically report gains, Wall Street terms the sales treatment “gain on sale” accounting.

A comparison of the two treatments reveals that the sales treatment has several accounting benefits. First, no loan is recorded so leverage is lower. Second, the receivables are

removed from the books even though the customers have not yet paid. Therefore, efficiency ratios such as days-sales-outstanding are improved and it is easier to hide any changes in credit policy. Third, the cash received from securitization is not classified as financing, so operating or investment cash flows (depending on the nature of the receivables) increases. Finally, since the manager is able to fair-value the future cash flows retained by the firm, and since these cash flows are not traded in active markets, the sales treatment offers considerable flexibility in valuing the retained asset and determining the size of the gain recorded in the income statement. No such ability to manipulate income is available under the collateralized borrowing treatment.

In this paper we investigate whether managers “time” their securitization transactions toward the end of the quarter. At the end of the quarter, managers know best how much “earnings” are needed to meet analysts’ forecasts; they know what number they would like to report for receivables and cash in the balance sheet; and they know what cash flows they would like to report from operations. By engaging in the securitization transaction in the last month of the quarter or in the last few days of the quarter, managers with the help of their investment banker can structure the deal to best achieve their financial reporting goals.

We investigate whether firms time their securitization transactions using a sample from ABSNET that consists of 11,218 securitization transactions undertaken between 1987 and 2005. This database has the advantage of being large, comprehensive and covering a long time period. It provides the name of the special purpose entity undertaking the securitization, and the date on which the transaction occurs. Its disadvantage is that it does not provide information on the ultimate parent company, and therefore we do not know the parent’s fiscal year-end. Therefore, our tests using this database assume that the majority of firms have calendar year-ends.

For the ABSNET sample we find significant clustering of securitization transactions at calendar quarter-ends. For the first three quarters we show that the volume of transactions peak in the third month of the quarter, with between 38% to 48% of the quarter's transactions occurring in this month. This is significantly greater than the 33% we would expect assuming that securitization transactions are distributed evenly across quarters. We then investigate whether transactions occur predominantly at the end of the month. We find that more than 20% of transactions occur in the last five days of the quarter. Thus, approximately half of the third month's activity (20%/38%) occurs within five days of the end of the quarter. For the fourth quarter, we find that about 39% of the activity for the quarter occurs in December. However, the activity tends to occur earlier in the month, probably because this is a peak vacation period with most people not working on December 31.

We examine several competing explanations for our results. The first is that the clustering is driven by the demand for the underlying asset to which the receivables relate. We compare automobile securitizations to sales of new automobiles, and mortgage securitizations to new home sales. In both cases, we do not find that the underlying assets exhibit the same type of clustering as observed in the securitization markets. In addition, if the clustering were demand driven then we would expect it to occur in some industries but not in others. However, we find the same type of securitization clustering over a range of different industries and asset classes.

A second potential explanation for our results is that firms prefer to obtain financing at quarter-ends regardless of the accounting. To investigate this explanation, we examine the timing of 143,568 public debt and 15,560 equity issuances. We do not observe the same type of clustering in either of these distributions, suggesting that financing needs are not fundamentally clustered at quarter-ends.

A third potential explanation for our results is that it could be due to some type of seasonality since we do not have information on fiscal year-ends. To mitigate this concern we report two results. First, we show that more than 85% of firms and 95% of financial firms on Compustat have financial year-ends in March, June, September, or December. Thus, error in our assumption concerning balance sheet end dates is likely to be small. Second, we collect a second sample that we term the 10K sample. This sample links the special purpose entity from ABSNET to the ultimate parent companies. This sample consists of 135 firms engaging in 4,745 transactions for the period 1987 to 2005. We document the same clustering of transactions at quarter-end for this sample of firms. In addition, we identify 24 firms with non-December fiscal year-ends and show the same quarter-end securitization clustering for this sub-sample.

A fourth potential explanation for our results is that firms that frequently securitize have internal accounting systems to automatically perform securitizations at the end of the month, and this drives the clustering rather than window-dressing. We investigate whether there is a difference in quarter-end clustering based on the frequency in which a firm engages in securitizations. If window-dressing is an important incentive, then we expect more quarter-end clustering for infrequent securitizers because they are less likely to have systems in place and so have more discretion in the timing of their securitizations. Consistent with window-dressing, we find that infrequent securitizers are more likely than frequent securitizers to engage in securitization in the last month of the quarter. In addition, we find that even with frequent securitizers there is significantly more clustering of transactions at the end of the quarter.

Finally, to further support the window-dressing hypothesis, we examine one implication. As discussed in more detail in the next section, accounting for securitizations as collateralized borrowings was more common prior to the release of SFAS 125. Therefore, if firms use

securitizations as a window-dressing tool, we expect stronger quarter-end clustering after the release of this standard. Consistent with this prediction, we find that the clustering at quarter-ends is significantly stronger after the introduction of SFAS 125.

Overall the explanation that appears to best explain the quarter-end clustering is that SFAS 125/140 created incentives for managers to *time* their securitization activity toward the end of the quarter. By doing so, managers can maximize the window-dressing benefits offered by the securitization accounting rules. Thus, we provide evidence in support of a concern raised by Ryan (2002, p. 189) that securitizers can increase or decrease earnings by timing securitizations. In addition, since firms are not required to make quarterly disclosures, and since SFAS 140 falls short of enabling investors to back-out the “sales treatment,” this window-dressing tool is likely to be quite effective at masking the “true” underlying economics of the firm. As a consequence our results suggest that reporting reliability is reduced for firms engaging in securitizations and corroborate Niu and Richardson (2004) who show that securitization gains are perceived by investors as less reliable than other components of earnings. Finally, our results provide evidence in support of Karaoglu (2005) and Dechow, Myers, and Shakespeare (2005) that show managers use the accounting flexibility offered under SFAS 125 to manage earnings and regulatory capital.

The next section discusses the securitization process and provides a simple example to highlight the accounting benefits of the “gain on sale” accounting treatment offered in SFAS 125/140. Section 3 provides our evidence concerning window-dressing of balance sheets and the timing of securitizations. Section 4 provides our conclusions.

2. The Securitization Transaction

2.1 Background

The accounting rules governing securitizations were originally promulgated in SFAS 77 and FASB Technical Bulletin No. 85-2. Sales treatment was allowed only when the securitizations were participations (i.e., the investors in the asset pools shared on a pro-rated basis in the cash flows of the assets).¹ If the firm used a more sophisticated structure for the securitization, it typically failed the participation requirements of SFAS 77. For example, if the firm wanted to issue debt securities with different maturity dates, then this would no longer meet the criteria for “participation” and so the transaction would be accounted for as a collateralized borrowing (SFAS 140, paragraph 121). However, more sophisticated structures were attractive to investors since the securities could be structured to meet their various needs (Davidson, Sanders, Wolff and Ching, 2003). Therefore, prior to 1997 it is likely that many securitizations failed to meet the criteria necessary to obtain the sales treatment and were treated as collateralized borrowings.

With the continual and rapid growth “in volume, variety and complexity” of securitization activity (SFAS 140, paragraph 116), the FASB released SFAS 125 in 1997 that attempted to standardize the accounting treatment used by securitizing firms.² Adopting a fair-value, balance sheet perspective, SFAS 125 made the gain on sale treatment easier to obtain. It clarified the requirements for derecognizing the securitized asset with the use of a “bankruptcy remote” special purpose entity. It also allowed firms issuing debt securities and retaining part of

¹ These securities are frequently referred to as pass through securities since the cash flows of the asset pool flow directly through to the investors (Fabozzi, Ferri, and Mann, 2000).

² At the end of 1995, there were \$2.4 trillion of asset-backed securities outstanding. By the end of the third quarter of 2003, the amount outstanding had risen by 183 percent to \$6.8 trillion.

the cash flows to treat the transaction as a sale (previously this would have failed the “sales” test). A growing problem with securitizations after the release of SFAS 125 was that very few firms were voluntarily disclosing details of securitization transactions. SFAS 140, released in 2000, did not change the accounting but required firms to separately disclose the gain from securitizations and provide sensitivity analysis relating to the value of the retained asset. SFAS 140 does not require quarterly disclosures, and it falls short of making it easy for users to accurately reverse out the sales treatment.³ There is however, demand for such information. Moody’s and the Federal Reserve Board, who can request additional private information from firms, both state that they generally back-out the “gain on sale” treatment and collateralize the loans when assessing the economic risk of the firm.⁴

Exhibit 1 presents a typical securitization transaction. A firm (the securitizer) transfers assets (the receivables) to a special purpose entity (SPE). This SPE determines with the help of a rating agency what proportion of the receivables’ cash flows can be sold so that the securities (typically in tranches) get the desired credit rating. Managers (with the help of investment bankers) also decide how to structure the payoffs. For example, some tranches could be interest only tranches, while others could be principal only. The buyers of these securities are pension funds, hedge funds, or banks. In order to obtain the desired ratings, the firm is typically required to retain some proportion of the cash flows. This portion is transferred back to the firm from the SPE. The tranche retained by the firm contains more credit risk and prepayment risk than the tranches sold to investors. This is why Wall Street terms the retained interest “toxic waste.” For

³ Landsman, Peasnell, and Shakespeare (2006) use an approximation to reverse the effects of gain on sale accounting in order to consolidate the securitization transactions. However, their method estimates the liability since the true liability is not disclosed and the accuracy of the measure will vary depending on the nature of the securitizations. Their method is similar to that used by Moody’s Investor Services.

⁴ Based on presentations by representatives of the Federal Reserve Board and Moody’s at the AAA/FASB Financial Reporting Issue Conference, December 2005. Both the Federal Reserve Board and Moody’s can and do demand additional private information from firms to help them reverse out the sales treatment.

many securitizations, the “toxic waste” is not sold to another party so there is no market value for this tranche.

[Exhibit 1 here]

2.2 Comparison of Financial Statements under “Gain on Sale” Versus Collateralized Borrowing

Exhibit 2 provides a simple example to clarify the accounting benefits of obtaining “gain on sale” accounting.

Assume a firm starts with \$600 inventory, \$100 cash, and equity of \$700. It sells the entire inventory and records sales and receivables (net of allowances) of \$1,000. It then immediately transfers all the receivables to a special purpose entity (i.e., there is no difference between the net book value and the market value of the receivables). Assume that the SPE then sells 95% of the cash flows relating to the receivables for \$900 cash to outside investors, and the firm retains the residual five percent. As the customers make their payments to the firm, they are used to pay back investors. We ignore the impact of servicing in this example. As a result of this securitization transaction the firm has \$900 cash.

SFAS 125/140 requires the firm to record the transaction as a sale if the firm relinquishes control over the assets (i.e., transfers the assets to an SPE that meets the legal requirements of being bankruptcy remote).⁵ In other words, the rules do not require consolidation of ownership interest.

Sale accounting requires that managers:

- a) Remove the receivables from the books (the \$1,000 is removed).
- b) Determine the fair value of the transaction. Here the firm receives \$900 from outside investors and retains only five percent of the cash flows. One could assume that in

⁵ Based on our discussions with securitizations professionals, it can be difficult to structure a transaction as a collateralized borrowing since the typical structures used are designed to achieve gain on sale accounting.

this case the firm would incur a loss. However, this is not necessarily the case because the retained component must be fair-valued using the market rate of interest (note that there is no observable market price for this component). Thus even though the lending rate to customers is say 10%, managers can use another discount rate, say 5%, to discount the retained cash flows. This is allowable because there is ambiguity in the standard as to what is meant by a “market interest rate,” and so a large range of rates can easily be justified. For the purposes of this example, we assume the managers value the retained cash flows at \$110 so that they can report a gain.⁶

- c) Record a gain or loss (a gain will be recorded when the cash received plus retained interest is greater than the receivables removed). In our example a gain of \$10 is created.

The alternative accounting treatment is to treat the securitization as a collateralized borrowing. In which case the firm has borrowed \$900 from investors (liabilities increase to \$900), and cash increases by \$900.

Exhibit 2 compares the balance sheet, income statement, and statement of cash flows under the two treatments. We also provide a comparison of common ratios used by investors and creditors. This comparison shows the accounting benefits of securitizations. The “gain on sale” firm appears to be *more efficient* at collecting receivables since the receivables have disappeared (even though the firm has retained the credit risk). Investors no longer can examine whether collection has slowed or credit policies have changed. The “gain on sale” firm appears *more profitable* (return on assets increase from 20% to 37%). The gain (often not disclosed) increases profits, while total assets are smaller. The “gain on sale” firm can classify cash flows from

⁶ Dechow, Myers, and Shakespeare (2005) provide more details on the discretion in valuing the retained interest. Consistent with managers using this discretion, they document that more than 75% on their sample report gains.

securitizations either as operating activities or investing activities depending on the nature of the underlying asset, under either definition *reported free cash flows improves*. Finally, the “gain on sale” firm appears to have *lower leverage*. All obligations are off-balance sheet. Therefore, the firm classifying the securitization as a sale can appear more liquid, less risky, more profitable, and have stronger free cash flows relative to a firm that classifies the transaction as a collateralized borrowing.

[Exhibit 2 here]

3. Results

3.1 Balance Sheet Window-dressing and Timing of Securitizations

We hand-collect 11,218 individual securitization transactions for eight different major asset classes from www.absnet.net provided by Lewtan Technologies for the period 1987 through 2005.⁷ We define major asset class as any asset class that has 250 or more transactions during the period. We refer to this sample as the ABSNET sample. The database provides details on individual securitization transactions including the date of the transaction, the amount securitized, the tranche structure, the SPE, the asset type, and the seller’s name. We collect the transaction date, asset type, the seller’s name, and the amount securitized, when available.

Figure 1 Panel A presents the distribution of the transactions by month. What is observable in Figure 1 is that a greater proportion of transactions occur in months 3, 6, 9, and 12.

⁷ ABSNET requires the following explanation to be disclosed when the data from the Web site is downloaded and used: “The information and data contained on this screen is derived from sources considered reliable, but Lewtan and its suppliers do not guarantee its correctness or completeness. The user is solely responsible for the accuracy and adequacy of any information used by it and the resultant output thereof, and Lewtan and its suppliers disclaim any and all liability therefore. Some information contained in ABSNet(tm) is also copyrighted (© 1998-2000) by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. While this information is based on sources considered reliable, neither Standard & Poor’s nor its affiliates guarantees the accuracy, adequacy, or completeness of the information and they are not responsible for errors, omissions re results obtained from use of the information. Standard & Poor’s receives compensation for ratings. Such compensation is based on the time and effort to determine the rating and is normally paid either by the issuers of securities or by the underwriters participating in the distribution thereof. The fees generally vary from \$2,500 to \$100,000. While Standard & Poor’s reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.”

These represent March, June, September, and December, which are typically fiscal quarter or fiscal year-ends. We also examine the total dollar value of securitizations by month (instead of total transactions). The distribution (not reported) is almost identical to Figure 1. Panel B reports the distribution of transaction by day of the month. September, April, June, and November have 30 days, while remaining months (except of course, February) have 31 days. In this Figure we use the classification “last day” to indicate the last day of the month (whether it is 30 or 31). Clearly, the last day of the month is very different from the first day of the month. Panel C presents the transaction data by day of the year. The largest securitization transaction days of the year are March 30/31, June 29/30, and September 29/30. December 30/31 does not exhibit such strong clustering. There are several explanations for this. First, anticipation of the holiday season (December 25 to January 1) could spur firms to engage in securitizations earlier in the month. Consistent with vacations playing a role, December has proportionally more transactions occurring between days 16 to 24 than other months. Second, auditors may view transactions occurring on the last day of the year with particular scrutiny, so by timing the transaction slightly earlier the firm avoids this obvious red flag.

[Figure 1 here]

Table 1 cumulates the data across time and reports the number of transactions occurring in each month as a percent of the total transactions occurring in the quarter (columns 2 and 3). An analysis across the quarters indicates that in the first quarter 48%, in the second quarter 42%, in the third quarter 38%, and in the fourth quarter 39% of transactions occur in the third month of the quarter. A Chi-Square test indicates that these proportions are significantly different from a uniform distribution across months within a year. Column 4 provides the number of transactions that occur in the last five days of the month. Column 5 provides the transactions that occur in the

last 5 days as a percentage of the total transactions that occur in the quarter. For the first quarter, 22%, for the second quarter 20%, and for the third quarter 19% of transactions occur on the last five days of the quarter. The Chi-Square test indicates that the distribution of the 12 five-day periods is significantly different from a uniform distribution. In the fourth quarter only 10% of transactions occur in the last five days of the year. December 31 is typically a vacation day and so this may explain the low volume. However, the volume of transactions is still higher than 5.5% (5/90), the amount expected were transactions to occur evenly throughout the quarter.

[Table 1 here]

3.2 Alternative Explanations and the Quarter-end Clustering

The findings reported in Figure 1 and Table 1 are consistent with firms timing securitization transactions to take advantage of the accounting benefits. We next examine competing explanations for the clustering we observe.

3.2.1 Demand for the Underlying Assets

One possible explanation is that the clustering is being driven by the underlying demand for specific assets being securitized. For example, perhaps people prefer to obtain mortgages at the end of the month. In Table 2 we separate observations into various asset classes. If the clustering is driven by demand for certain types of underlying assets, then we would expect some asset classes to exhibit clustering while others would not. The results indicate that *all* asset classes exhibit a third month of the quarter clustering. The underlying customers for the securitized assets could be buying cars, obtaining mortgages, leasing equipment, or buying manufactured homes. We can see no obvious reason why their consumption habits would be correlated across these activities and exhibit third month of the quarter clustering in demand. The

fact that we observe the clustering across all asset classes suggests that underlying demand is unlikely to be a complete explanation for the clustering we observe.

[Table 2 here]

To further examine this explanation we obtain macroeconomic distributions of two of the underlying assets that are securitized. The coverage in the ABSNET database prior to 1990 is sparse since securitizations were infrequent. Therefore, we collect macro-level variables for the period 1990 through 2005 when available.

Figure 2 compares monthly automobile securitizations (Panel A) to automobile sales (Panel B). We obtain monthly automobile unit sales from the Bureau of Economic Analysis for the period 1990 through 2005. The data on automobile sales is based on sales from the auto companies to dealers, and it is possible that the auto companies could force acceptance of vehicles toward the end of the quarter. However, the distribution of auto sales is relatively smooth, peaking in June. It does not show the saw-tooth pattern exhibited in the securitization market.

[Figure 2 here]

Figure 3 compares mortgage-backed securitizations (MBS) to new house sales. We obtain monthly new house sales from the U.S. Census Bureau for the period 1990 to 2005. This is not the perfect comparison since we should compare MBS transactions to mortgage originations.⁸ However, the comparison does give some idea of demand for underlying homes since financing is required at the time of the home sale. Housing sales appear to peak in March. Again, the distributions appear to be quite different.

⁸ Mortgage origination statistics are only available on a quarterly basis and are issued by the Department of Housing and Urban Development.

[Figure 3 here]

3.2.2 Demand for Financing

Another explanation is that the demand for financing by firms is clustered. For example, perhaps firms always require cash at the end of the quarter; and this demand, rather than window-dressing, explains our findings. To investigate the validity of this explanation we analyze the issuances of debt and equity. If there is a general demand for liquidity at the end of quarters, then we would expect to see this same demand in debt and equity markets. Note that from an accounting perspective the incentives to issue debt or equity differ from that of securitizations. When a firm issues debt, this increases leverage; and so, if anything, firms may prefer to avoid issuing debt on the last day of the quarter. It is unclear what incentives firms face issuing equity. We obtain data on U.S. equity and public debt issues identified by Securities Data Corporation (SDC) from January 1, 1990 to December 31, 2005. In a number of cases firms issued more than one type of security on a particular day. We treat each observation as a separate transaction. Results are very similar when we exclude multiple transactions occurring on the same day.

Figure 4 provides the distribution of 143, 568 debt issuances by a) month, b) day of the month, and c) day of the year. March appears to be a peak time to issue debt. However, June, September, and December show no obvious clustering. The distribution of transactions by day of the month indicates that demand for debt appears to peak in the middle of the month and not at the end. Finally, the distribution by day of the year does not exhibit the same peak-like pattern observed in Figure 1.

[Figure 4 here]

Figure 5 provides a similar breakdown for 15,560 issuances of equity. Here, the peak month for issuing equity is June. However, there is no obvious clustering in March, September, or December. Figure 5 b) provides the breakdown of transactions by day of the month. Similar to debt issuances, demand for equity appears to peak in the middle of the month, not at the end. Figure 5 c) provides the breakdown by day of the year. Interestingly, both the debt and equity markets show a much greater drop-off in activity in the last few days of December than the securitization market. Again, no obvious clustering in the last few days of the quarter is observable in the equity markets.

[Figure 5 here]

In summary, when firms issue debt or equity, they do not appear to cluster these transactions at the end of the month or more greatly in the third month of the quarter. This suggests that demand for financing is unlikely to explain the clustering we observe in the securitization market.

3.2.3 Calendar Quarter Versus Fiscal Quarter

One limitation of the ABSNET sample is that we do not know the fiscal year-end of the ultimate parent company undertaking the transactions. Therefore, one criticism of our results is that we could be observing some type of (unknown) seasonality effect rather than financial statement window-dressing. We provide two tests to alleviate this concern. The first test examines the fiscal year-ends of all firms on Compustat. This test provides indirect evidence on

the likely fiscal year-ends of parent companies. The second test examines a subset of securitizations where we know the parent fiscal year-end.

Table 3 provides information on fiscal year-ends for all firm-years reporting assets on Compustat between 1990 and 2005. The results indicate that 65 percent of firms have December year-ends. However, firms with a March, June, or September fiscal year-end also face similar incentives to a December fiscal year-end firm to window-dress their quarterly financial statements. The proportion of firms with March, June, September, and December year-ends is 85.72%. In the third column we separate financial firms since they predominantly engage in securitization transactions and are likely to be overrepresented in the ABSNET sample. For financial firms, 81% have December fiscal year-ends, and this increases to 95% when we include March, June, and September fiscal year-ends. These results suggest that error from misclassifying fiscal year-ends is unlikely to be a major concern.

[Table 3 here]

Our second test links the ABSNET sample to parent companies. This is a non-trivial exercise because the seller in the ABSNET database, when it is disclosed, is typically a subsidiary.⁹ Some sellers have names that are easily identifiable with the parent company (e.g., Ford Motor Credit Corp is the financing subsidiary of Ford). However, many sellers have names that are not so obvious (e.g., WMC Mortgage Corp is a subsidiary of General Electric). In addition, the sellers' names are not always reported nor are the full legal names of the subsidiaries always disclosed. For example, no sellers were disclosed for Collateralized Debt

⁹ ABSNET reports significant detail about the transaction structures. However, it was not possible to link most of this detail to the financial statements. For example, though the structure of the various tranches is typically disclosed, it is not possible to identify which tranches the seller may have bought back. In addition, the database discloses the current coupon rate for each security. It is not possible to link this coupon rate to the discount rate disclosed in the financial statements. The coupon rate may not reflect the underlying market risk since the security may have been issued at a discount or a premium. Or even more perversely, for some classes of securities referred to as Inverse Rate Floaters, the coupon rate may even move in the opposite direction to interest rates.

Obligations (CDO) securitizations. To link the companies we searched 10-K filings, Hoovers online, and googled (www.google.com) for the seller's name. Through these searches we were able to link 4,745 transactions (or 42% of the original sample) to 135 firms from the years 1987 to 2005.

Table 4 provides a distribution across industries of the 135 firm that we can link to the ABSNET database. As expected, financial institutions are strongly represented.

[Table 4 here]

Table 5 Panel A reports the asset classes of securitizations for the 135 firms. Automobiles (e.g., General Motors), Credit Cards (e.g., Citigroup), MBS (e.g., Wells Fargo) and Home Equity (e.g., Countrywide Financial) are strongly represented in the sample. The numbers 3, 6, 9, and 12 now represent the last month of the fiscal quarter. As can be seen from the totals listed at the bottom of the table, the four fiscal months with the greatest securitization activities are the last month of each of the fiscal quarters. The Chi-Square test indicates that the distribution of months is significantly different from a uniform distribution.

Table 5 Panel B reports the frequency of securitization transactions for 24 firms with non-December fiscal year-ends. As can be seen in the table, similar third month of the quarter clustering occurs for these firms. Interestingly, these firms appear to do more securitizations in the second month of the fourth quarter than in the third month of the fourth quarter. Perhaps, as mentioned earlier, firms prefer not to engage in large transactions on the last few days of the fiscal year because it raises red flags with the auditor. Nonetheless the results for the small sample of non-December year-end firms are consistent with firms timing their transactions at the end of the fiscal quarter, at least for the first three quarters.

[Table 5 here]

3.2.4 Internal Accounting Systems

Another explanation for our findings could be that firms set up their accounting systems to perform securitizations at the end of the month. Therefore, what we document is not balance-sheet management, but just the systematic application of each firm's internal accounting systems. To address this issue, we examine the frequency that firms engage in securitization transactions. A firm that engages frequently in securitization transactions must do them at times other than the third month of the quarter. However, the systematic application of the accounting system does not predict that there will be more transactions in the third month of the quarter, nor does it predict that there will be greater clustering of transactions in the last few days of the third month of the quarter. In addition, there is no reason that firms that engage in securitization infrequently should cluster their transactions in the third month of the quarter since they are unlikely to have systems in place that specify the timing of the transactions.

Table 6 provides the frequency distribution of securitization transactions for the 135 firms for the period 1987 through 2005. We classify 111 firms as low-volume (small) securitizers performing fewer than 50 securitizations in the period. We provide the conditional average number of transaction pre and post SFAS 125, since the volume of securitization mushroomed after the release of the standard. The averages are calculated conditional on the firm engaging in at least one securitization in a given year. Small securitizers perform one or two securitization per year. There are 18 firms that perform 50 transactions but fewer than 200 transactions over the period (classified as frequent). These firms are performing about five transactions pre SFAS 125 and 10 transactions post SFAS 125. Six firms perform more than 200 transactions over the sample period (Bank of America, Countrywide Financial, General Motors,

Wells Fargo, Lehman Brothers, Citigroup) and represent almost half the total transactions. These firms are engaging in approximately 12 transactions pre SFAS 125 and 32 transactions post 125.

[Table 6 here]

Frequent and super securitizers are likely to have systems in place so they can engage in securitizations at regularly spaced time intervals (e.g., once a month at the end of the month). However, there is no reason why they should engage in relatively more transactions in: a) the third month of the quarter or b) in the last few days of the third month of the quarter. Table 7 indicates that super securitizers consistently engage in more transactions in the third month of the quarter. The results indicate that 44%, 41%, 42%, and 35% of transactions occur in the third month of the first, second, third, and fourth quarters. The Chi-Square test indicates that the monthly distribution is significantly different from a uniform distribution.

Table 7 also reports the number and percentage of transactions occurring the last five days of the month for super securitizers. Consistent with internal accounting systems playing a role, the results indicate that around 20% of transactions occur in months other than the quarter-end. However, the results indicate that 33%, 29%, 29%, and 17% of the total transactions for the quarter occur on the last five days for the first, second, third, and fourth quarters. The Chi-Square test indicates that the proportion of transactions that occurs in the last five days of the month is not uniform across the 12 months. Again, quarter 4 is unusual since the proportion of transactions in the last five days of the third month is not greater than that of the first and second month. However, even so, more transactions occur in the third month (35%) relative to the first and second months.

Table 7 also provides the same analysis for frequent securitizers. Again, a greater proportion of transactions occur in the third month of the quarter (43%, 42%, 39%, and 36% for

quarters 1, 2, 3, and 4, respectively). Consistent with the “super” securitizers, a greater proportion of transactions also occur in the last five days of the third month of the quarter (21%, 20%, 17%, and 12% for quarters 1, 2, 3, and 4). Again, the fourth quarter is unusual only to the extent that a smaller proportion of transactions occur in the last five days.

Finally, Table 7 provides results for small securitizers. These firms only engage in transactions periodically, and so they are likely to have more discretion as to the timing of the transaction with the mechanical application of the accounting system playing less of a role. Infrequent securitizers show a greater tendency than either the frequent or super securitizers to engage in the transaction in the third month of the quarter. For the first quarter, 51% of the transactions occur in the third month, while for the second, third, and fourth quarters, 44%, 46%, and 37% of the transactions occur in the third month. These firms also show a greater tendency to engage in the transaction relatively more in the last few days of the third month of the quarter. For example, in the first quarter, 9% of transactions occur in the last five days of month 1, and this percentage doubles to 21% in last five days of month 3.

[Table 7 here]

To summarize, the results for the super and frequent securitizers suggest that the systematic application of the accounting system may play a role in month-end clustering. However, this explanation does not explain why: a) securitizers perform more transactions in the third month of the quarter and b) relatively more transactions occur in the last five days of the third month of the quarter. In addition, the results indicate that low-volume securitizers that potentially have greater discretion in the timing of their transactions tend to more strongly cluster the transactions in the third month of the quarter.

3.2.5 Investor Demand for Tranches

A final potential explanation for the clustering we observe is that investors (pension funds, hedge funds, etc) who purchase the securities demand the securities on the last few days of the quarter to window-dress their own books. We cannot directly determine who buys the tranches created by the SPEs since this information is not disclosed. However, we believe that several of our reported results make this explanation unlikely. First, if this was the case, then why would the same logic not hold for debt and equity issues that also are purchased by pension funds and hedge funds? Second, the results that we provide in the next section indicate that we observe stronger clustering after the sales treatment became easier. Why would such an accounting change affect investor demand? Third, swapping cash for securities has less impact on financial ratios than the sales treatment offered by SFAS 125. Therefore, it is hard for us to provide a solid explanation for why managers of hedge or pension funds would demand such an action on the part of securitizers.

3.3 Time-series Evidence on the Effect of SFAS 125 that made the Sales Treatment Easier

The tests in section 3.2 attempt to rule out competing explanations for the third month of the quarter clustering. In this section we provide further validity of the window-dressing explanation by examining one implication. As mentioned in section 2, SFAS 125 made the sales treatment easier to obtain and so increased the benefits of engaging in securitization transactions at the end of the quarter. SFAS 140, however, required increased disclosures in annual financial statements, therefore potentially reducing the benefits of securitizations as a window-dressing tool, at least in the fourth quarter. Therefore, we predict that after the release of SFAS 125 the third month of the quarter clustering is likely to increase. We also investigate whether incentives were changed after the release of SFAS 140.

Figure 6 provides a decomposition of the sample into three separate time periods: Pre SFAS 125 (before 1997), SFAS 125 (between 1997 and 2000), and SFAS 140 (after 2000).

Figure 6 shows the tremendous growth in securitization activity over time. It also shows that the quarter-end effect is more dominant in the post SFAS 125/140 period.

[Figure 6 here]

To formally investigate whether there is a difference in quarter-end clustering in the later time period, Table 8 reports the following regressions:

$$\text{Num_Trans} = \alpha_1 + \alpha_2 \text{Third_Mth} + \alpha_3 \text{SFAS125} + \alpha_4 \text{SFAS140} + \alpha_5 \text{Third_Mth} * \text{SFAS125} + \alpha_6 \text{Third_Mth} * \text{SFAS140} + \varepsilon \quad (1)$$

Where Num_Trans is the number of transaction per-month. Third_Mth is an indicator variable equal to 1 when the month is the third month of the quarter (equal to 3, 6, 9, or 12), zero otherwise. SFAS125 is an indicator variable equal to 1 when the transaction occurs after 1997, zero otherwise; and SFAS140 is equal to 1 if the transaction occurs in 2001 or later, zero otherwise. SFAS125 and SFAS140 are included in the regression to control for the general increase in the volume of transactions that has occurred over time. A positive coefficient on Third_Mth indicates that the third month of the quarter has an unusual level of activity even before the sales treatment was made easier to obtain. If incentives to engage in the securitization transaction in the third month of the quarter increased after the release of SFAS 125, then the interactive effect (Third_Mth* SFAS125) should be positive and significant. If incentives declined after the release of SFAS140 due to the disclosure requirements in 10Ks, then we expect the coefficient on Third_Mth* SFAS140 to be negative and significant.

Table 8 reports the results from regression (1). The coefficient on Third_Mth is significant (t-statistic of 2.16), suggesting that incentives to engage in securitizations in the third month existed prior to the release of SFAS 125/140. There has been significant growth in the number of transactions over the sample period. The average number of transactions per month during the period is 14.57 (t-statistic of 5.91). This grows by an additional 36.74 (t-statistic of 8.18) more transactions during the SFAS125 period and by an additional 44.54 (t-statistic of 8.85) more transactions during the SFAS140 period. The coefficient on Third_Mth* SFAS125 is statistically significant (t-statistic of 3.01), indicating that approximately 23.44 additional transactions occur in the third month of the quarter after the release of SFAS 125 that made the sales treatment easier to obtain. The insignificant coefficient on Third_Mth* SFAS140 suggests that no additional incentives to engage in transactions in the third month occurred after the release of SFAS140.

Regressions (2) and (3) of Table 8 investigate the post- 1997 time period and the post-2000 time period respectively. The results in regression (2) indicate that on average, 23.35 (t-statistic of 3.83) more transactions per month occur in the third month of the quarter after the release of SFAS125. The coefficient of 16.20 (t-statistic of 2.30) on Third_Mth* SFAS140 indicates that after 2000, approximately 16 additional transactions occur in the third month of the quarter.

[Table 8 here]

4. Summary and Conclusion

SFAS No. 125/140 requires sale accounting for the vast majority of securitizations. Under the sales treatment, when receivables are transferred to an SPE, the firm removes the receivables from its books, increases cash by the amount of cash received, and creates an asset

(called “retained interest”) that reflects the firm’s ownership stake in the future cash flows of the securitized assets. Any difference is recorded as a gain or loss from securitization and is reported in the income statement.

We investigate whether the accounting for securitizations provides management with incentives to time their securitization toward the end of the quarter to enhance their abilities to window-dress the financial statements. Consistent with window-dressing, we document that a significantly greater proportion of securitization transactions occur in the last month of the quarter and in the last few days of the quarter. We find that the clustering is consistently strongest in the first three quarters of the year. This is of particular concern since firms are not required to provide disclosures of these transactions in their quarterly financial statements.

We examine various competing explanations to window-dressing for our findings. The results from these tests show that the clustering does not appear to be driven by underlying customer demand for the assets. Nor does the clustering appear to be driven by a demand for quarter-end financing since we do not observe a similar clustering of transactions in debt and equity markets. Additional evidence indicates that our results are not likely to be due to noise in measuring financial year-ends, nor due to the systematic application of accounting systems.

We also investigate whether window-dressing is more prevalent for firms that engage in securitizations less frequently since they are likely to have more discretion in the timing of the securitization. We find that that incentives to perform securitization transactions in the third month of the quarter and in the last few days of the quarter hold across all types of firms, whether they engage in securitization every month, or whether they only do the transaction occasionally. However, we do find stronger third month of the quarter clustering for infrequent securitizers.

We provide an additional test to examine one implication of the window-dressing explanation. We show that the clustering of transactions in the third month of the quarter increased after the release of SFAS 125. This suggests that after the sales treatment became easier to obtain, more firms engaged in window-dressing.

We emphasize that window-dressing is not the only reason firms engage in securitizations. Securitizations have many economic benefits and would occur no matter what the accounting treatment. Our contribution is to highlight that one unintended consequence of allowing managers to use the sales treatment for securitization is an increase in the ability to window-dress the financial statement. In closing, we suggest that the FASB reconsider treating securitizations as collateralized borrowings in cases where firms retain an interest in the underlying cash flows. Such a change in accounting policy would reduce managers' ability to window-dress the financial statements and increase reporting reliability.

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Exhibit 1
A “Typical” Asset-Backed Securities Issue

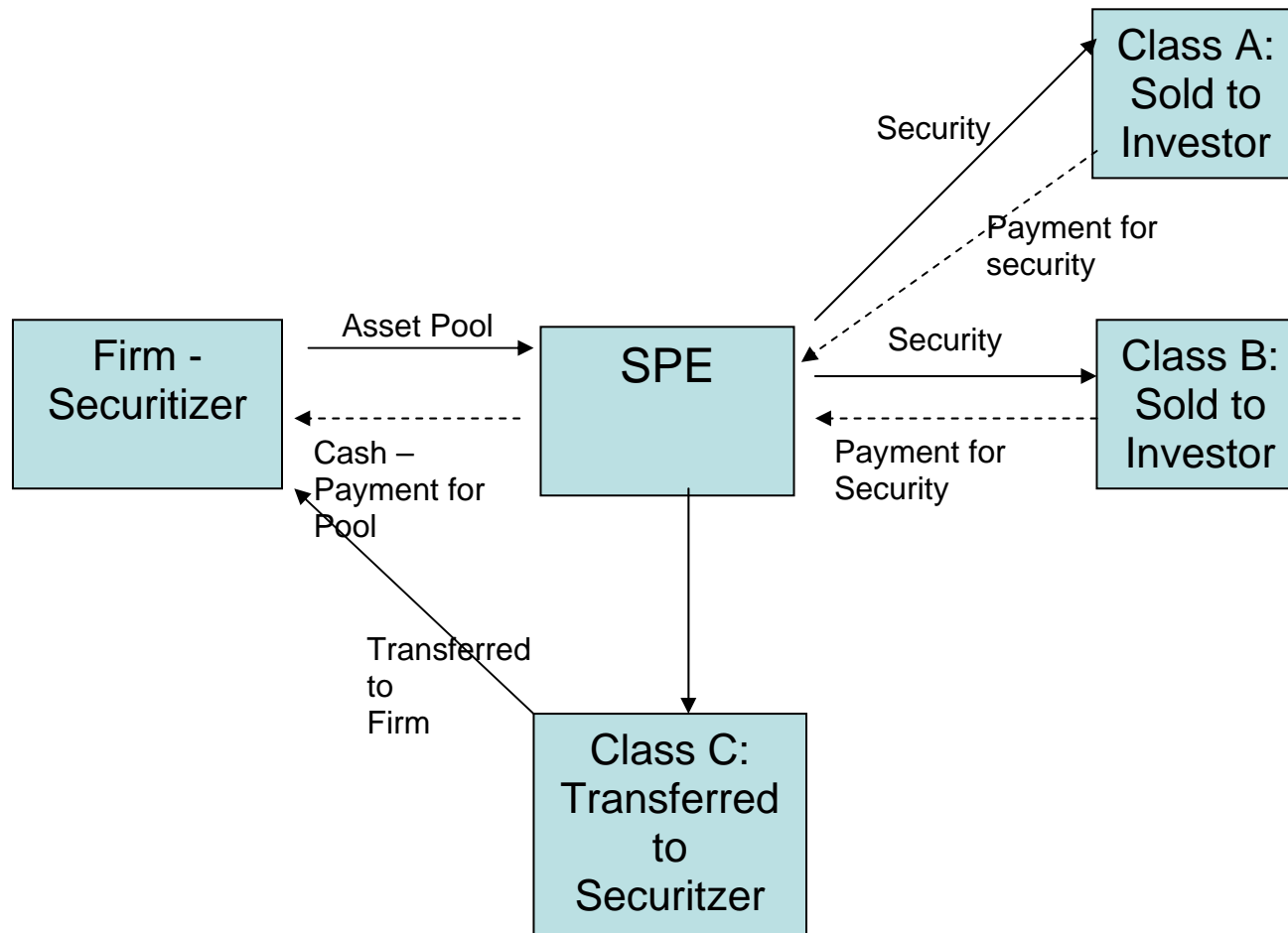


Exhibit 2

Comparison of Two Alternate Accounting Treatments for Securitization Transactions:
Collateralized Borrowing Versus Gain on Sale Accounting

Opening Balance Sheet

	\$
Cash	100
Accounts Receivable	0
Inventory	<u>600</u>
<i>Total Assets</i>	<u><u>700</u></u>
Equity	<u>700</u>
<i>Total Liability and Equity</i>	<u><u>700</u></u>

Firm sells all inventory on credit for \$1,000 and securitizes the accounts receivable receiving \$900 in cash from the SPE. The retained interest has a fair value of \$110.

Closing Balance Sheet**Collateralized Borrowing**

	\$
Cash	1,000
Accounts Receivable	1,000
Inventory	0
<i>Total Assets</i>	<u><u>2,000</u></u>
Liability	900
Equity	<u>1,100</u>
<i>Total Liability and Equity</i>	<u><u>2,000</u></u>

Gain on Sale

	\$
Cash	1,000
Accounts Receivable	0
Inventory	0
Retained Interest	<u>110</u>
<i>Total Assets</i>	<u><u>1,110</u></u>
Liability	0
Equity	<u>1,110</u>
<i>Total Liability and Equity</i>	<u><u>1,110</u></u>

Income Statement**Collateralized Borrowing**

	\$
Revenue	1,000
Cost of Goods Sold	600
	<hr/>
<i>Net Income</i>	<u>400</u>

Gain on Sale

	\$
Revenue	1,000
Cost of Goods Sold	600
Gain on Sale	10
	<hr/>
<i>Net Income</i>	<u>410</u>

Statement of Cash Flows**Collateralized Borrowing**

	\$
Cash from Operations	0
Cash from Investing	0
Cash from Financing	900
	<hr/>
<i>Change in Cash</i>	<u>900</u>

Gain on Sale

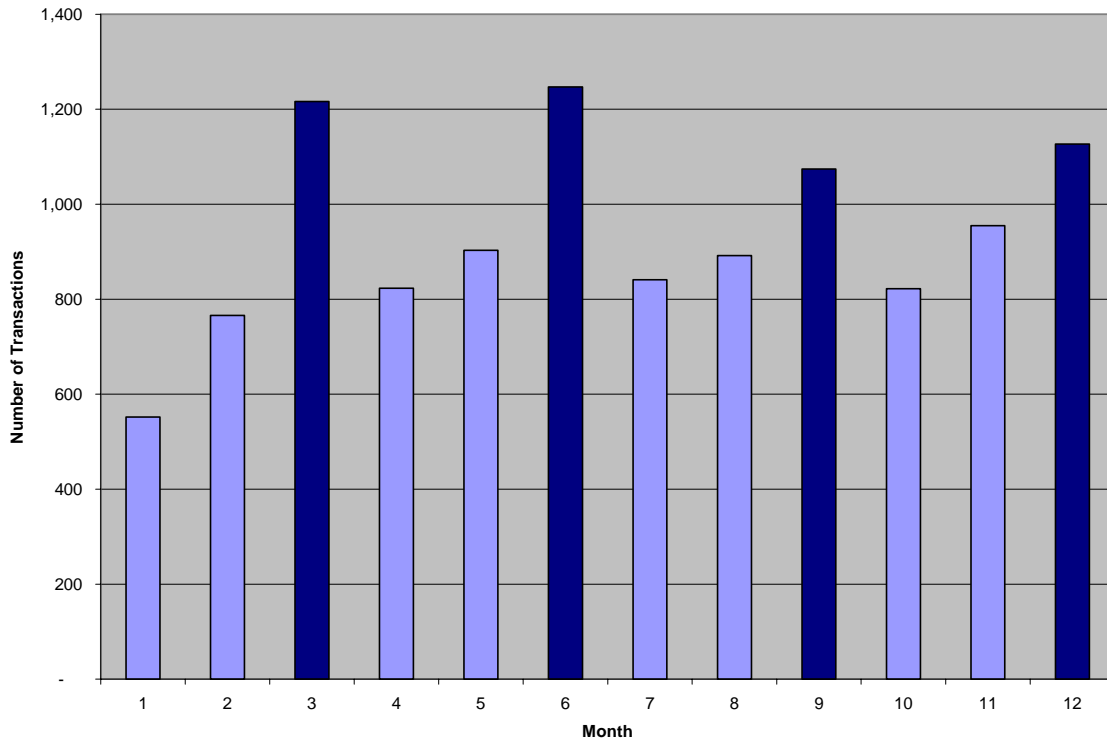
	\$
Cash from Operations	900
Cash from Investing	0
Cash from Financing	0
	<hr/>
<i>Change in Cash</i>	<u>900</u>

Ratio Analysis

	Collateralized Borrowing	Gain on Sale	Improvement in Ratio from Gain on Sale
<i>Efficiency</i>			
Days Receivable Outstanding	365 days	0 days	√
<i>Profitability</i>			
Return on Assets	20%	37%	√
Profit Margin	40%	41%	√
<i>Liquidity</i>			
Free Cash Flows (CFO+CFI) to Assets	0%	81%	√
<i>Leverage</i>			
Debt to Assets	45%	0%	√

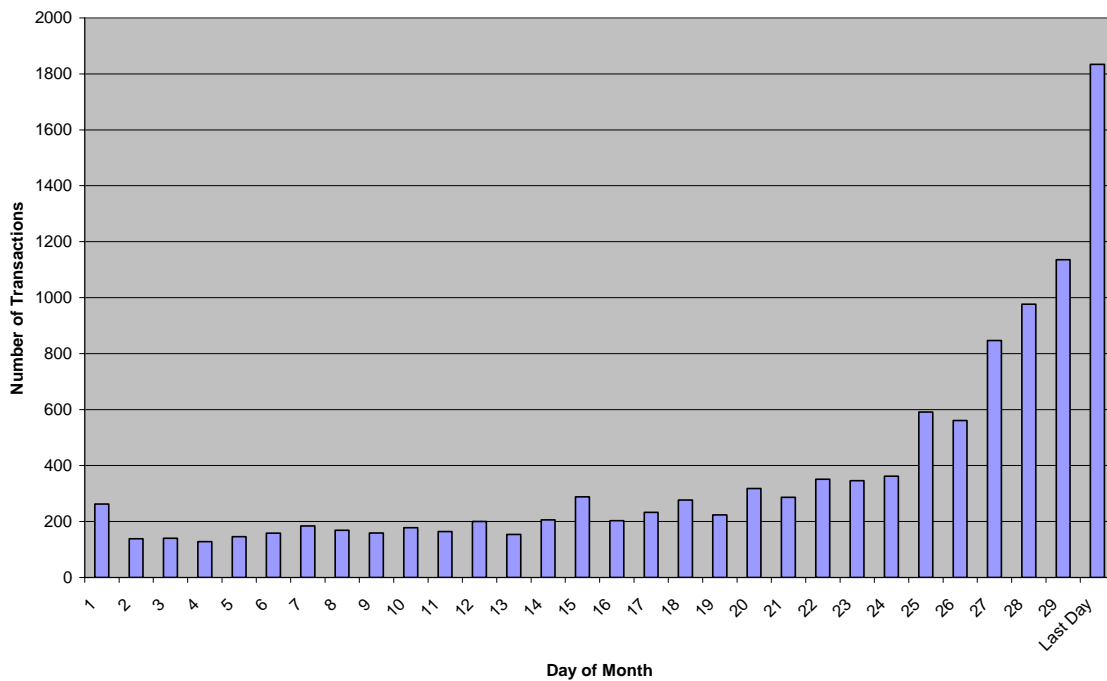
Figure 1 Transactions by Calendar Time for ABSNET Sample

Panel A Securitization Transactions by Month

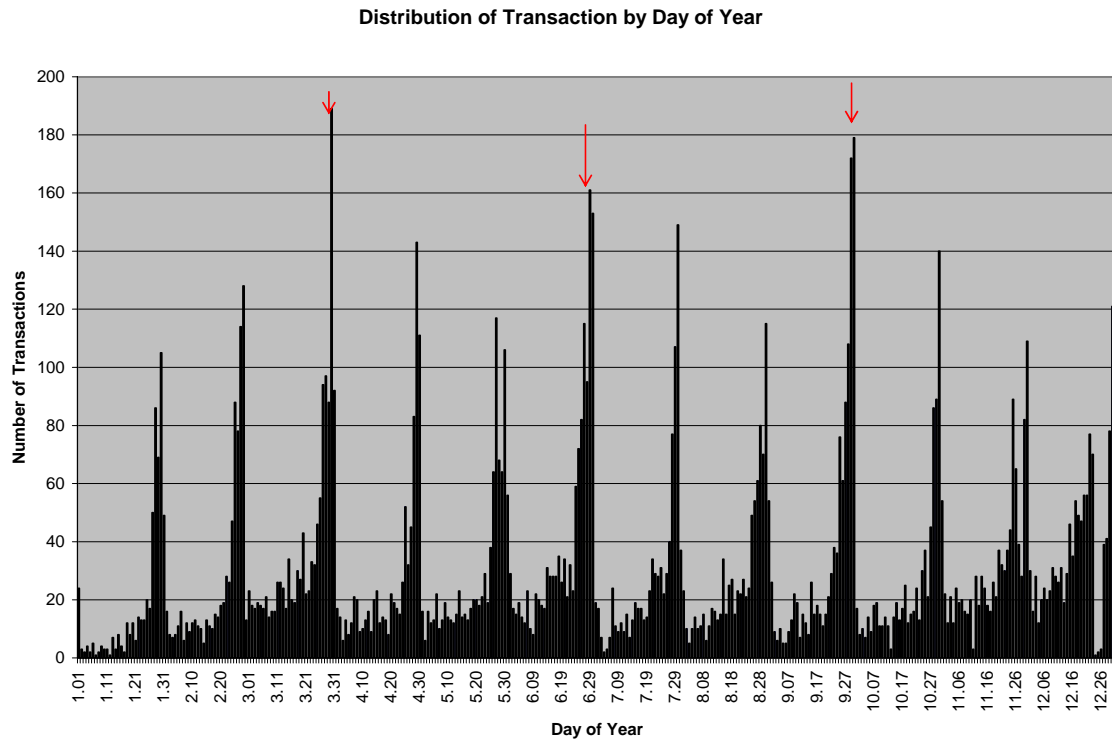


Panel B Securitization Transactions by Day

Total Transactions by Day of Month - Full Sample



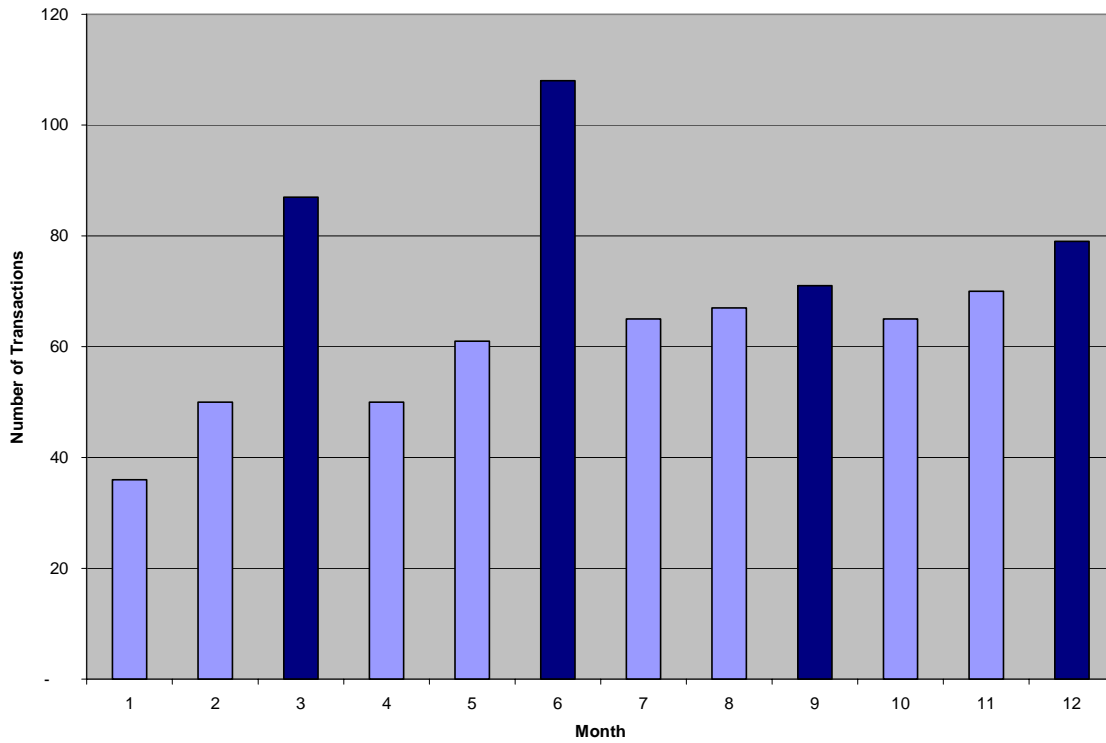
Panel C Securitization Transactions by Day of Calendar Year



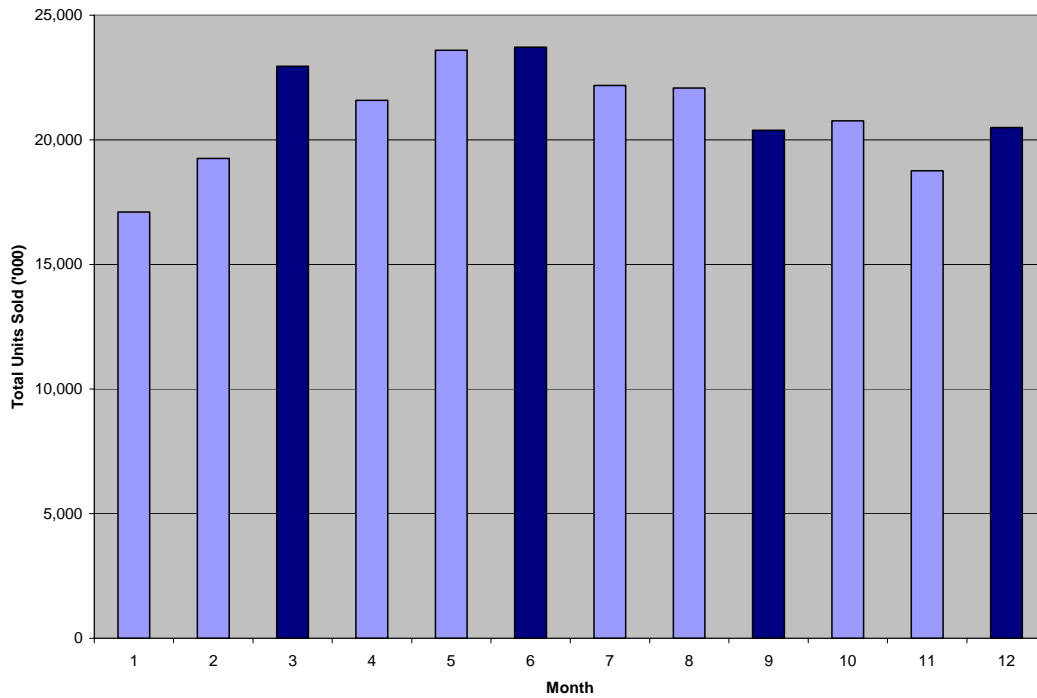
Notes:

The figures are based on 11,218 individual securitization transactions collected from the ABSNET.net for the period 1987 through 2005. In Panel B last day of the month equals day 30 plus day 31 of the month.

Figure 2 Automobiles – ABSNET Sample
 Panel A Automobile Securitization Transactions by Month

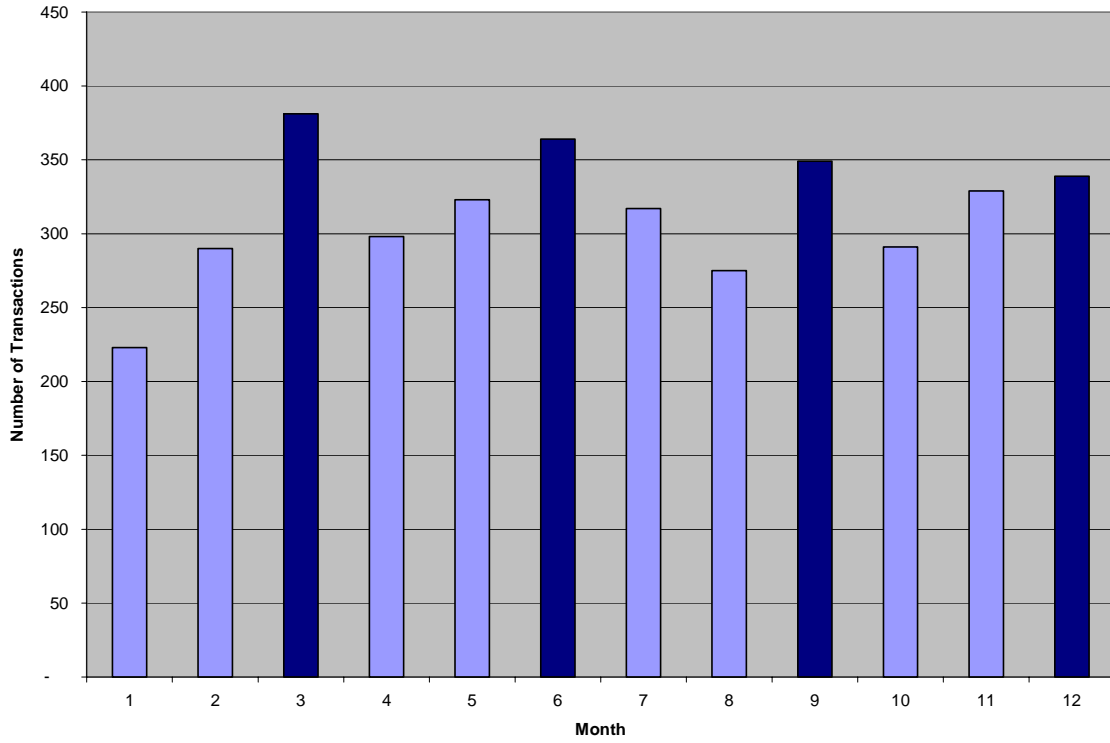


Panel B Automobile Unit Sales by Month

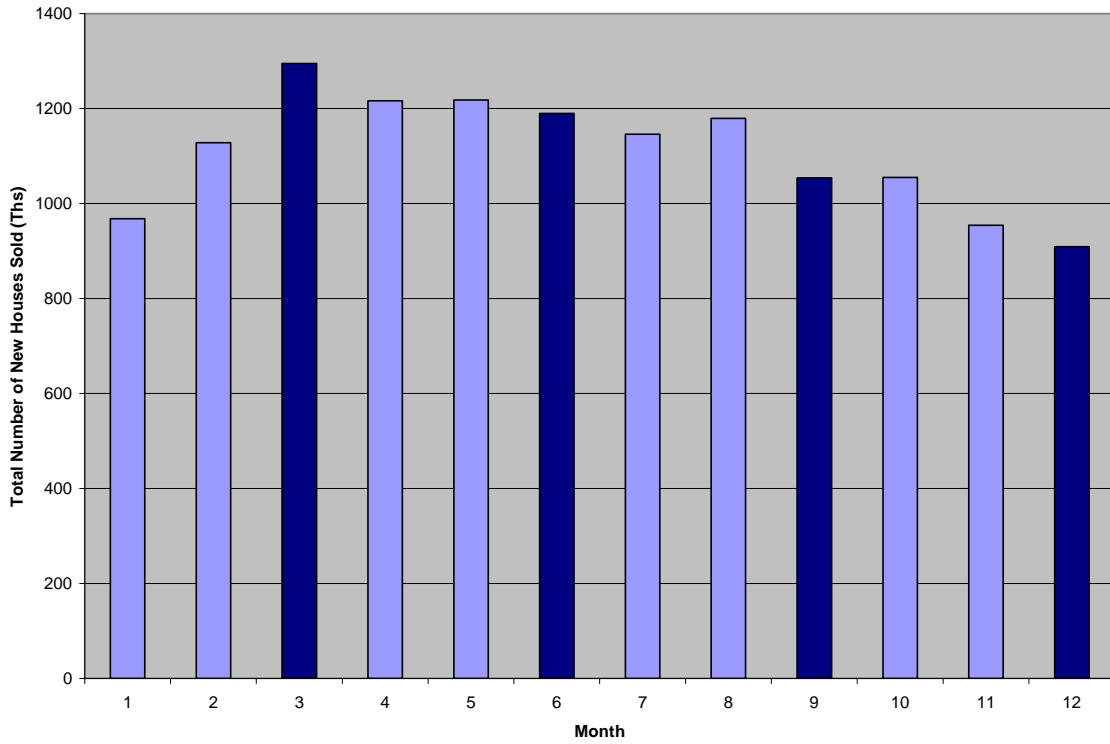


Source: Bureau of Economic Analysis

Figure 3 Mortgages – ABSNET Sample
 Panel A Residential MBS Transactions by Month



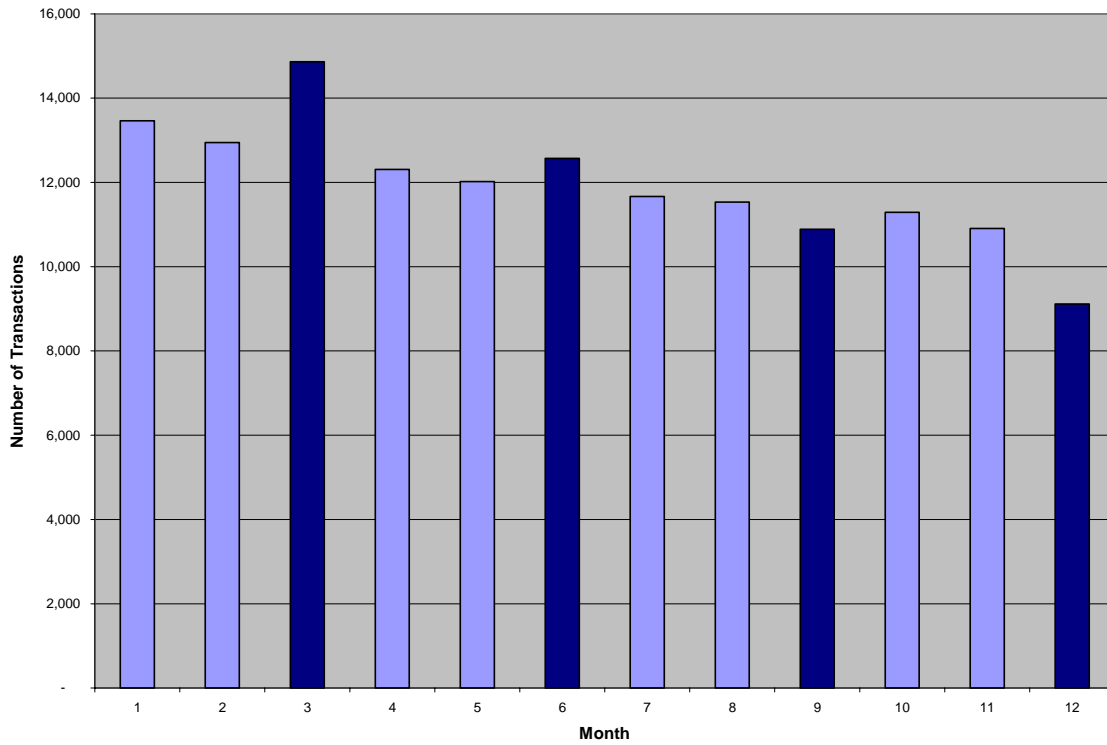
Panel B New House Sales by Month



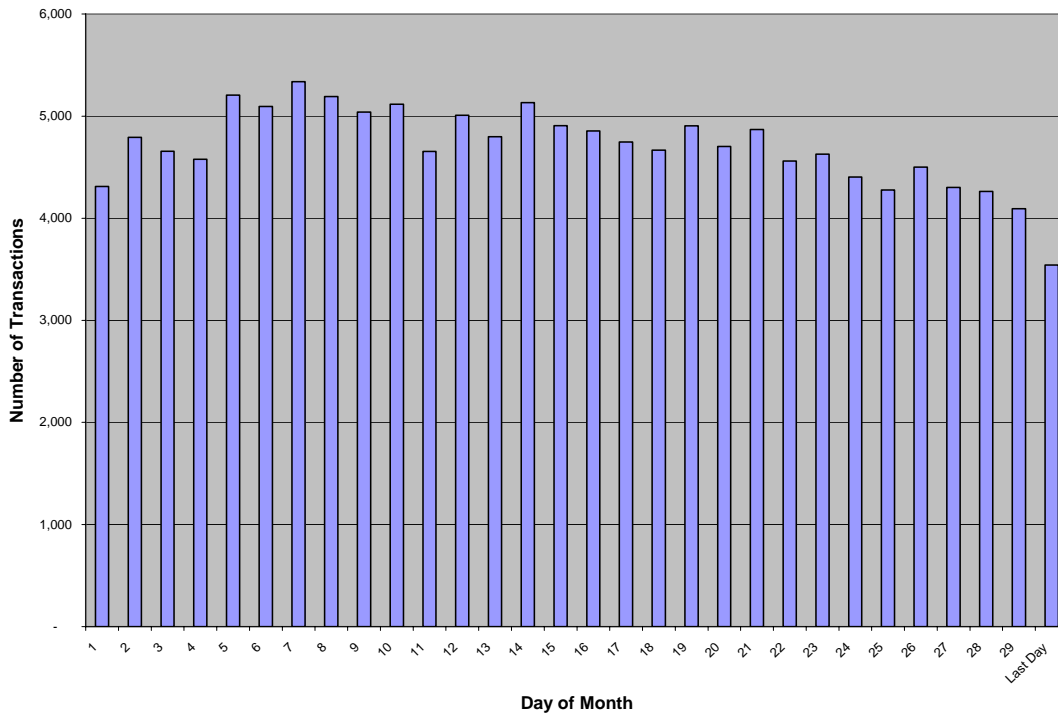
Source U.S. Census Bureau

Figure 4: Distribution of Public Debt Issues

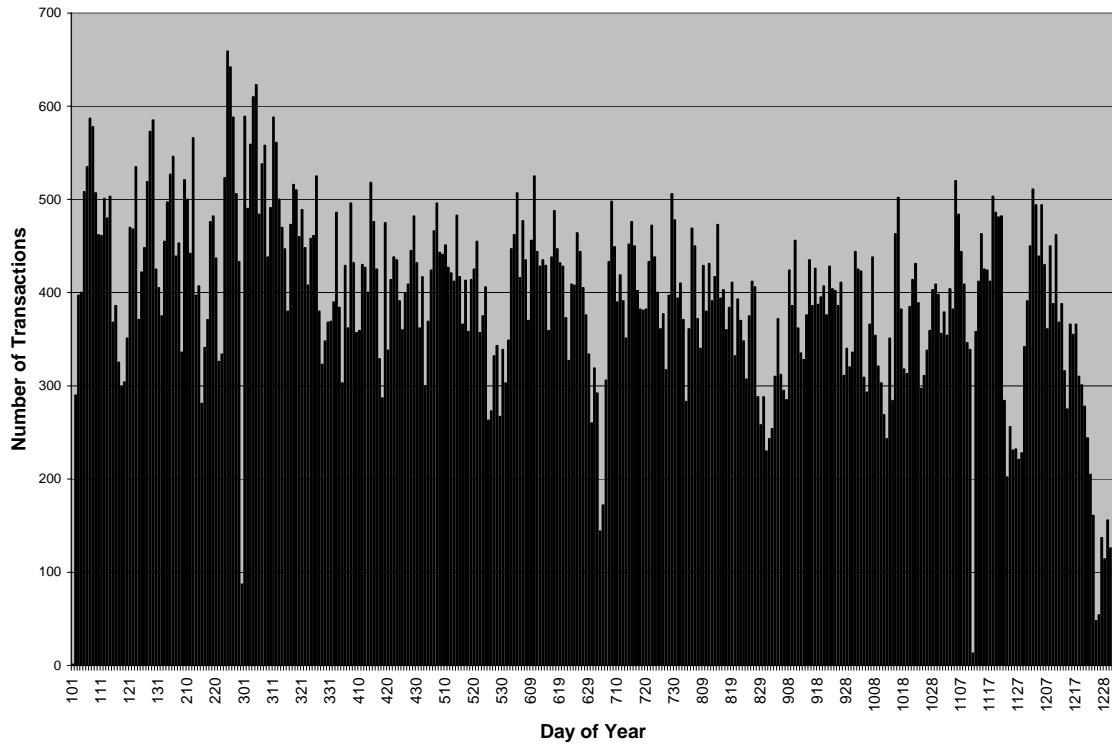
Panel A: Public Debt Issues by Month



Panel B Public Debt Issues by Day of Month



Panel C Public Debt Issues by Day of Year

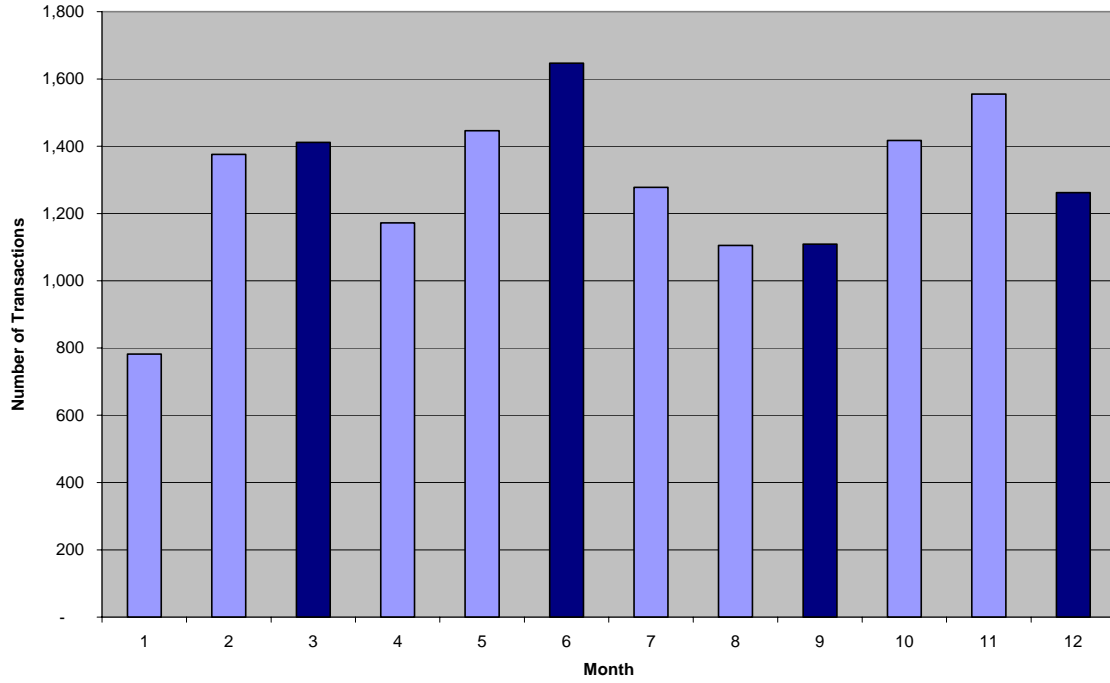


Notes:

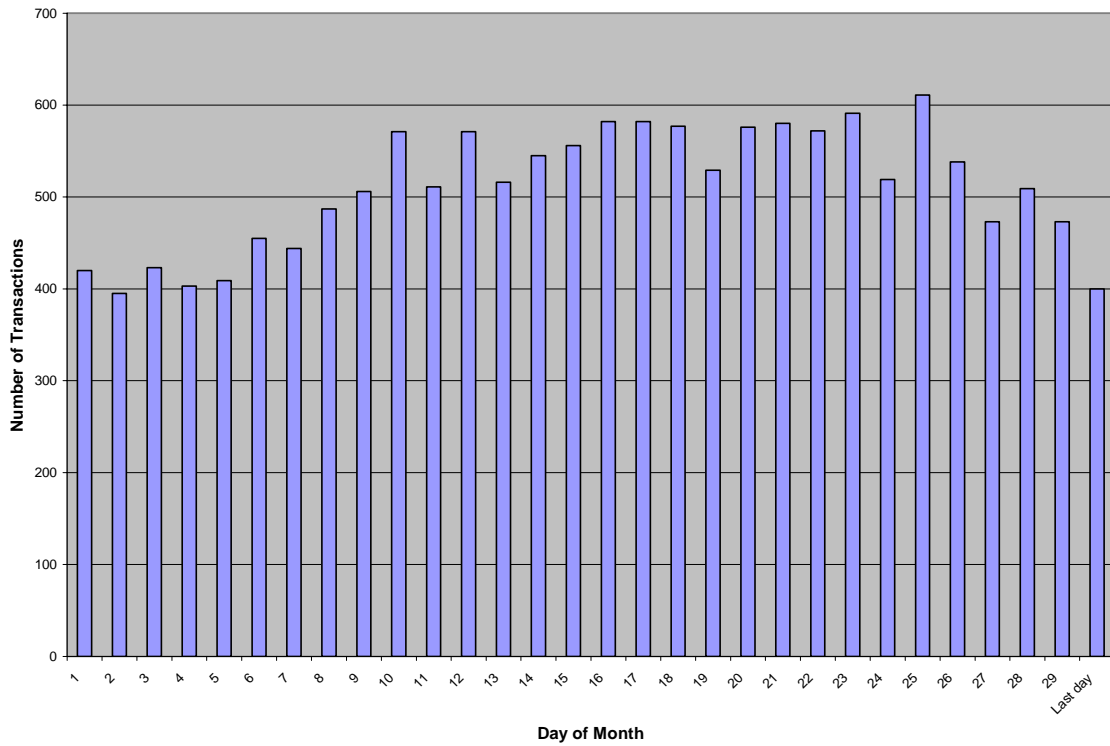
The figures are based on 143,568 individual public debt issues collected from the Securities Database Corporation (SDC) Platinum for the period 1990 through 2005. In Panel B last day of the month equals day 30 plus day 31 of the month.

Figure 5: Distribution of Equity Issues

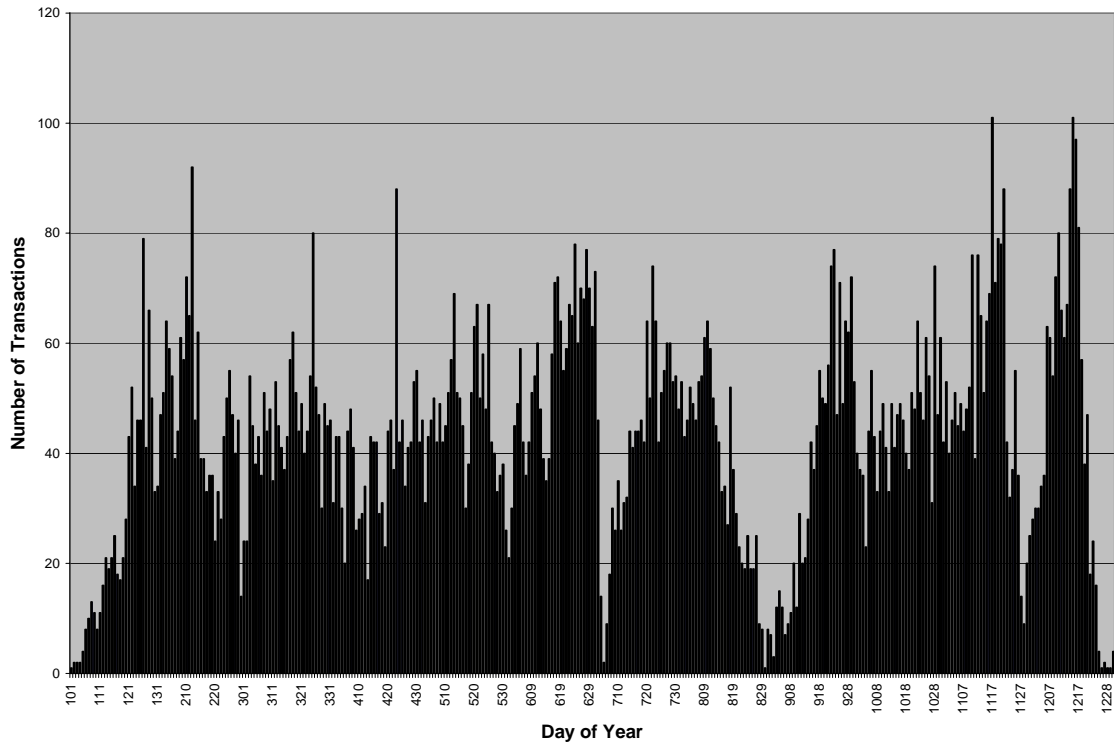
Panel A Equity Issues by Month



Panel B Equity Issues by Day of Month



Panel C Equity Issues by Day of Year

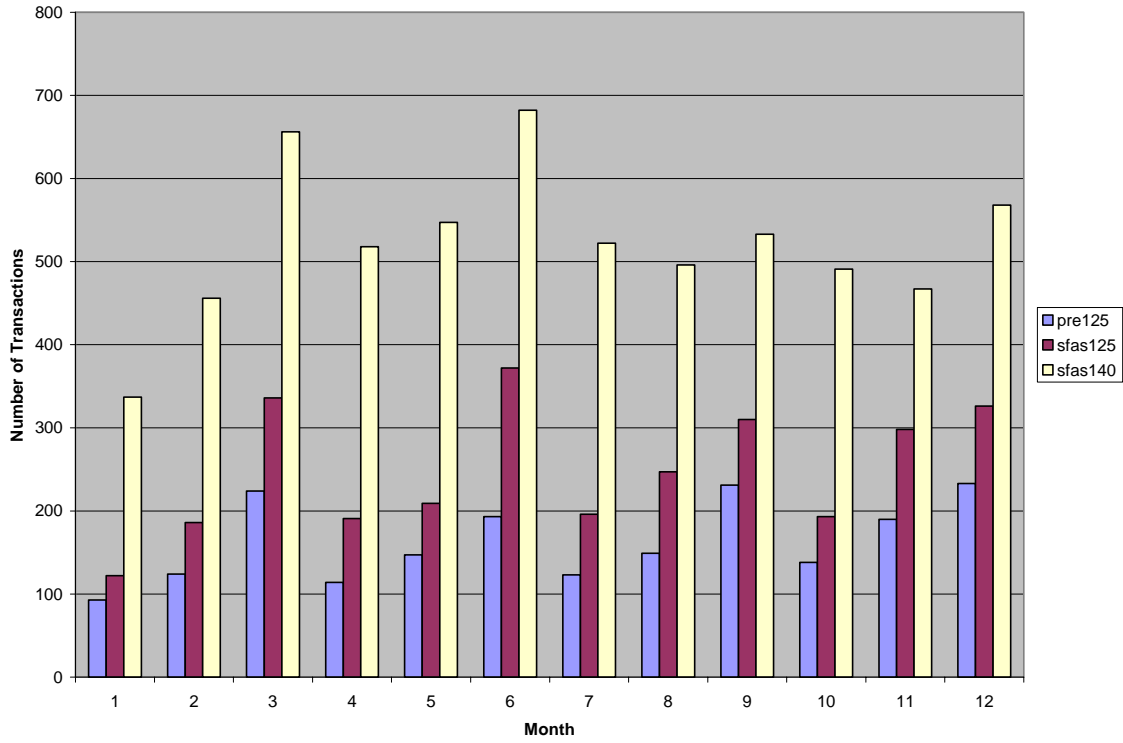


Notes:

The figures are based on 15,560 individual equity issues collected from the Securities Database Corporation (SDC) Platinum for the period 1990 through 2005. In Panel B last day of the month equals day 30 plus day 31 of the month.

Figure 6 Transactions across different accounting regimes for the ABSNET sample.

Panel A By Month



Panel B By Day

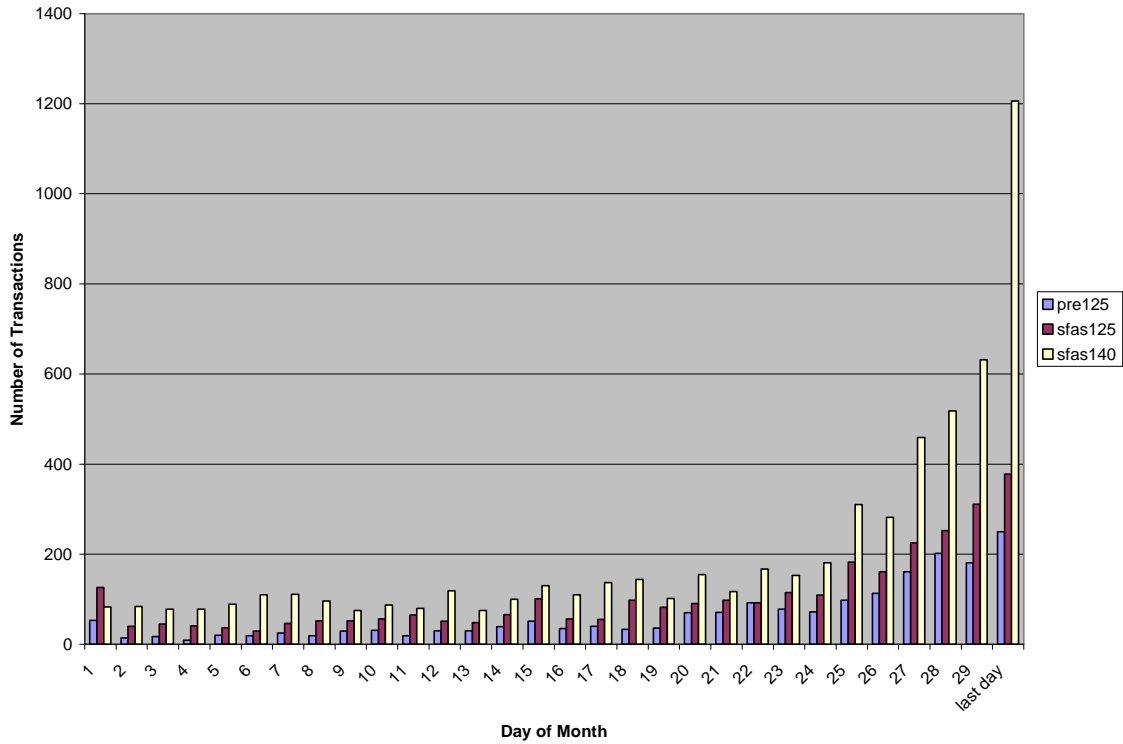


Table 1

Number of transaction by calendar month and in the last five days of the month for 11,218 securitization transactions from 1987 to 2005 obtained from ABSNET.

(1) Month of Quarter	(2) Transactions	(3) % of Quarter	(4) Last 5 Days of Month	(5) % of Quarter
Quarter 1				
1	552	21.78%	359	14.17%
2	766	30.23%	455	17.96%
3	1216	47.99%	560	22.10%
Total	2,534			
Quarter 2				
1	823	27.68%	414	13.93%
2	903	30.37%	411	13.82%
3	1247	41.94%	606	20.38%
Total	2,973			
Quarter 3				
1	841	29.96%	410	14.61%
2	892	31.78%	380	13.54%
3	1074	38.26%	547	19.49%
Total	2,807			
Quarter 4				
1	822	28.31%	414	14.26%
2	955	32.89%	323	11.12%
3	1127	38.81%	294	10.12%
Total	2,904			
Total obs.	11,218		5173	
Chi-Square Test		476.19 ^a		234.14 ^b
(p-value)		<0.0001		<0.0001

Notes

^a Chi-Square tests of the null hypothesis that the underlying distribution of transactions across the 12 months follow a uniform distribution.

^b Chi-Square test of the null hypothesis that the sum of the transactions occurring in the last 5 days of the month are uniformly distributed across the 12 months.

Table 2

Number of transaction by calendar month for each major asset class for ABSNET sample for 11,218 securitization transactions from 1987 to 2005.

Asset Class	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	Chi Square
Manufactured Housing	19	18	33	12	20	32	13	18	33	12	21	25	256	31.53
Equipment Leases	4	6	31	12	30	35	16	16	39	19	28	35	271	69.30
CDO	27	24	67	56	56	70	59	57	44	56	67	117	700	104.79
Commercial Mortgaged Backed Securities	20	78	98	74	71	90	93	72	52	68	82	129	927	98.64
Automobile Loans	36	50	87	50	61	108	65	67	71	65	70	79	809	56.82
Credit Card	49	51	95	67	73	116	67	97	76	77	105	68	941	60.74
Home Equity Mortgaged Backed Securities	223	290	381	298	323	364	317	275	349	291	329	339	3,535	56.82
	174	249	424	254	269	432	211	290	410	234	253	335	3,779	278.06
Total	552	766	1,216	823	903	1,247	841	892	1,074	822	955	1,127	11,218	476.19

Note:

Major Asset class is defined as an asset class with more than 250 transactions during the period. The chi-Square tests test the null hypothesis that the underlying distribution of the transactions follows a uniform distribution. Chi Square test is significant at 0.01 level when it exceeds 24.725.

Table 3

The distribution of fiscal year-ends for all firm-years with assets on Compustat between 1990 and 2005.

	ALL N=150,013	FINANCIAL N=27,097	NON-FINANCIAL N=122,916
Financial Year-end	PERCENT	PERCENT	PERCENT
1	3.20	0.70	3.76
2	1.39	0.38	1.62
3	5.78	2.88	6.42
4	1.66	0.72	1.87
5	1.64	0.66	1.86
6	8.09	5.99	8.55
7	1.64	0.66	1.86
8	1.49	0.24	1.77
9	6.59	5.10	6.92
10	2.10	0.81	2.38
11	1.16	0.69	1.26
12	65.26	81.18	61.75
Total	100.00	100.00	100.00
Financial Year-end: 3, 6, 9, or 12	85.72	95.15	83.64

Note: FINANCIAL are firms with SIC codes between 6000 and 6999.

Table 4

Frequency distribution by industry of firms that disclose securitization transactions in their 10Ks between 1987 and 2005 that were linked to ABSNET.

SIC Code	SIC Name	N	10K Sample
6021	National Commercial Banks	34	25.19%
6141	Personal Credit Institutions	14	10.37%
6798	Real Estate Investment Trusts	13	9.63%
6162	Mortgage Bankers and Loan Correspondents	11	8.15%
6035	Savings Institutions, Federally Chartered Security Brokers, Dealers, and Flotation Companies	9	6.67%
6211	Companies	6	4.44%
6172	Finance Lessors	5	3.70%
5311	Department Stores	3	2.22%
6036	Savings Institutions, Not Federally Chartered	3	2.22%
6199	Finance – Services	3	2.22%
3711	Motor Vehicles and Passenger Car Bodies	2	1.48%
4512	Air Transportation Schedule	2	1.48%
5500	Auto Dealers, Gas Stations	2	1.48%
6022	State Commercial Banks	2	1.48%
6153	Short-Term Business Credit Institutions, Except Agricultural	2	1.48%
6159	Misc. Business Credit Institutions	2	1.48%
6311	Life Insurance	2	1.48%
7374	Computer Processing and Data Preparation and Processing Services	2	1.48%
1531	Operative Builders	1	0.74%
3523	Farm Machinery and Equipment	1	0.74%
3531	Construction Machinery and Equipment Computer Peripheral Equipment Not	1	0.74%
3577	Classified Elsewhere	1	0.74%
3721	Aircraft	1	0.74%
4813	Telephone Communications Except Radiotelephone	1	0.74%
4911	Electric Services	1	0.74%
5040	Professional and Commercial Equipment	1	0.74%
5331	Variety Stores	1	0.74%
5621	Women’s Clothing Stores Radio, Television, and Consumer Electronic Stores	1	0.74%
5731	Stores	1	0.74%
5961	Catalog and Mail-Order Houses	1	0.74%
6321	Accident and Health Insurance	1	0.74%
6500	Real Estate Agents and Managers	1	0.74%
7200	Personal Services	1	0.74%
7370	Computer Programming, Data Processing	1	0.74%
7372	Prepackaged Software	1	0.74%
9997	Conglomerates	1	0.74%
		135	100.00%

Table 5

Number of transactions by fiscal month for 135 firms that were linked to ABSNET by major asset class. There are 24 firms with non-December year-ends.

Panel A: All firms

Asset Class	1	2	3	4	5	6	7	8	9	10	11	12	Total	Chi Square
Manufactured Housing	7	4	14	6	10	16	7	5	12	5	5	12	103	21.08
Equipment Leases	0	0	8	6	10	7	8	10	8	10	15	11	93	26.10
Commercial MBS	2	4	3	3	2	3	1	0	3	3	3	4	31	5.77
Automobile Loans	21	21	34	12	26	33	23	43	25	26	38	21	323	30.35
Credit Card	23	32	59	32	49	57	36	52	57	33	57	28	515	46.06
MBS	152	148	183	155	168	190	155	176	182	146	162	167	1,984	14.51
Home Equity	97	112	211	132	111	207	95	111	232	104	119	165	1,696	189.19
Total	302	321	512	346	376	513	325	397	519	327	399	408	4,745	175.98

Panel B: Non-December Year-end Firms

Asset Class	1	2	3	4	5	6	7	8	9	10	11	12	Total	Chi Square
Total	63	48	75	72	57	75	65	80	93	59	76	61	824	23.69

Note:

Major Asset class is defined as an asset class with more than 250 transactions in the ABSNET sample. The chi-Square tests test the null hypothesis that the underlying distribution of the transactions follows a uniform distribution. Ultimate seller was not available for any CDO transactions. Chi Square test is significant at 0.01 level when it exceeds 24.725.

Table 6

Frequency of securitization transactions for 135 firms that disclosed securitization transaction in their 10Ks that were linked to ABSNET for the period 1987 to 2005.

	Number of Firms	Number of Transactions
Small	85	1-10
	9	11-20
	12	21-30
	1	31-40
	4	41-49
<i>Total for Small</i>	111	935
Conditional average pre SFAS 125		1.7
Conditional average post SFAS 125		2.4
Frequent	10	50-100
	6	101-150
	2	151-199
<i>Total for Frequent</i>	18	1,700
Conditional average pre SFAS 125		4.6
Conditional average post SFAS 125		9.7
Super	3	200-250
	1	251-300
	2	>300
<i>Total for Super</i>	6	2,110
Conditional average pre SFAS 125		11.5
Conditional average post SFAS 125		31.5
Overall Total	135	

Notes

The sample period is 1987 to 2005. Pre SFAS 125 represents transactions occurring before 1997. Reported averages are conditional on the firm engaging in at least one securitization in a give year. *Super* refers to firms that had 200 or more securitization transactions in the period. *Frequent* refers to firms that had fewer than 200 transactions but 50 or more transactions in the period. *Small* refers to firms that had fewer than 50 transactions in the period.

Table 7

Distribution of 4,745 securitization transactions that occurred between 1987 to 2005 for 135 firms linked to ABSNET.

	Super				Frequent				Small			
Month of Quarter	N	% of Quarter	Last 5 Days	% of Quarter	N	% of Quarter	Last 5 Days	% of Quarter	N	% of Quarter	Last 5 Days	% of Quarter
Quarter 1												
1	150	28.30%	108	20.38%	113	28.32%	73	18.30%	39	18.93%	19	9.22%
2	145	27.36%	106	20.00%	114	28.57%	61	15.29%	62	30.10%	31	15.05%
3	235	44.34%	173	32.64%	172	43.11%	83	20.80%	105	50.97%	43	20.87%
Total	530				399				206			
Quarter 2												
1	166	30.24%	110	20.04%	124	26.11%	49	10.32%	56	26.54%	28	13.27%
2	160	29.14%	118	21.49%	153	32.21%	65	13.68%	63	29.86%	27	12.80%
3	223	40.62%	161	29.33%	198	41.68%	93	19.58%	92	43.60%	38	18.01%
Total	549				475				211			
Quarter 3												
1	139	25.93%	114	21.27%	130	28.63%	58	12.78%	56	22.31%	22	8.76%
2	171	31.90%	113	21.08%	146	32.16%	73	16.08%	80	31.87%	28	11.16%
3	226	42.16%	158	29.48%	178	39.21%	78	17.18%	115	45.82%	52	20.72%
Total	536				454				251			
Quarter 4												
1	149	30.10%	109	22.02%	112	30.11%	61	16.40%	66	24.72%	29	10.86%
2	172	34.75%	95	19.19%	126	33.87%	42	11.29%	101	37.83%	21	7.87%
3	174	35.15%	85	17.17%	134	36.02%	43	11.56%	100	37.45%	26	9.74%
Total	495				372				267			
Chi-Square (p-value)	2,110	70.10 ^a <0.001		69.73 ^b <0.001	1,700	61.98 ^a <0.001		42.44 ^b <0.001	935	82.46 ^a <0.001		33.52 ^b 0.001

Notes:

Super refers to firms that had 200 or more securitization transactions in the period. *Frequent* refers to firms that had fewer than 200 transactions but 50 or more transactions in the period. *Small* refers to firms that had fewer than 50 transactions in the period. Last 5 days represents the sum of the transactions occurring in the last five days of the month.

^a Chi-Square tests of the null hypothesis that the underlying distribution of transactions across the 12 months follow a uniform distribution.

^b Chi-Square test of the null hypothesis that the sum of the transactions occurring in the last five days of the month are uniformly distributed across the 12 months.

Table 8

An examination of the clustering of transactions in the third month of the quarter effect under different FASB rulings. Sample consists of 218 month observations for the years 1987 to 2005 for 11,218 securitization transactions.

$$\text{Num_Trans} = \alpha_1 + \alpha_2 \text{Third_Mth} + \alpha_3 \text{SFAS125} + \alpha_4 \text{SFAS140} + \alpha_5 \text{Third_Mth} * \text{SFAS125} + \alpha_6 \text{Third_Mth} * \text{SFAS140} + \varepsilon$$

	(1)	(2)	(3)
<i>Intercept</i>	14.57 (5.91)	14.57 (5.92)	12.21 (5.12)
<i>Third_Mth</i>	9.24 (2.16)	9.24 (2.17)	16.32 (4.49)
<i>SFAS125</i>	36.74 (8.18)	36.76 (8.79)	44.56 (11.93)
<i>SFAS140</i>	44.54 (8.85)	44.48 (10.81)	38.08 (8.17)
<i>Third_Mth* SFAS125</i>	23.44 (3.01)	23.35 (3.83)	
<i>Third_Mth* SFAS140</i>	-0.17 (-0.02)		16.20 (2.30)
Adjusted R ²	0.7741	0.7752	0.7655
Number of months	218	218	218

Note:

Num_Trans is the number of Transaction in a month; *Third_Mth* is an indicator variable set equal to one if month is the third month of the quarter and zero otherwise; *SFAS125* is an indicator variable set equal to one if the transaction occurred on or after 1/1/1997; *SFAS140* is an indicator variable set equal to one if the transaction occurred on or after 1/1/2001.