MONDAY 17:45-19:15

FAPSD01 — *Chair : Georgio Gotti* — Room : **Amphi 6**

The Role of Ex-Ante Uncertainty in Explaining Why Firms Meet or Just Beat Analysts' Earnings Forecasts

Discussant : *Tuan Quoc Ho*

Author : *DAVID VEENMAN, ERASMUS UNIVERSITY ROTTERDAM / ERIM* — EA = Empirical Archival

Co-authors : *Sanjay Bissessur, University of Amsterdam - Amsterdam Business School*

Prior studies have attributed the discontinuity around zero in the earnings surprise (i.e., analyst forecast error) distribution around zero to earnings management. This study examines an alternative explanation for firms' tendency to meet or just beat analysts' earnings forecasts. We predict that ex-ante earnings forecast uncertainty is an important determinant of firms meeting or just beating analysts' forecasts, because it affects the sign and magnitude of ex-post forecast errors. Empirical results show that forecast dispersion and alternative uncertainty proxies explain an economically significant proportion of meet/just beat behavior across firms and over time. Additional tests highlight the importance of controlling for forecast uncertainty when analyzing variables based on whether or not firms meet or just beat the analyst earnings forecast benchmark. Overall, our study provides evidence on an important alternative explanation for patterns in the earnings surprise distribution.

MONDAY 17:45-19:15

FAPSD01 — *Chair : Georgio Gotti* — Room : **Amphi 6**

Analysts' Choice Of Peer Companies

Discussant : *Christof Beuselinck*

Author : *OLE-KRISTIAN HOPE, UNIVERSITY OF TORONTO* — EA = Empirical Archival

Co-authors : *Gus De Franco, University of Toronto - Rotman School of Management*
Stephannie Larocque, University of Notre Dame

This is the first large-scale study to examine the peer companies used by sell-side equity analysts in their research reports. Using a unique hand-collected data set, we investigate the manner in which analysts choose peer companies as well as the relation between peer valuation and peer choice by analysts. We first show that analysts are more likely to choose peer firms that are similar in size, leverage, asset turnover, industry classification, and trading volume, to the firm they are recommending. However, controlling for those firm characteristics, we find that analysts on average select peer companies with high valuations, consistent with analysts choosing peers strategically. We further find that this effect varies systematically with analysts' reputation, analysts' incentives, and expected firm growth. We also find partial support for the idea that the selection of peers with high valuations helps explain the widely documented optimistic bias in stock recommendations.

MONDAY 17:45-19:15

FAPSD02 — *Chair : Michela Cordazzo* — Room : **Amphi 5**

An Examination Of The Statistical Significance And Economic Implications Of

Discussant : *Georgios Papanastasopoulos*

Author : *KEVIN OW YONG, SINGAPORE MANAGEMENT UNIVERSITY* — EA = Empirical Archival

Co-authors : *Mark Evans, Indiana University*
Kenneth Njoroge, University of Oregon
Kevin Ow Yong, Singapore Management University

We address the demand for model-based earnings forecasts by proposing a cross-sectional model which incorporates three salient ideas. First, firm performance converges to expected levels over time; second, amounts from current financial statements are robust predictors of future performance; and third, ordinary least squares (OLS) estimation is unreliable in samples including extreme values. Accordingly, we estimate a cross-sectional earnings forecasting model based on least absolute deviations analysis (LAD), and include profitability drivers derived from financial statements as predictors. In terms of statistical significance, we find that these forecasts are more accurate than forecasts from three extant prediction models and consensus analysts' forecasts. In terms of economic implications, we find that forecasts from our model have greater predictive ability for future abnormal returns than consensus analysts' forecasts. Overall, our results are important because they document the usefulness of a crosssectional earnings forecasting model for a broad range of diverse firms, including those with little or no analyst coverage.

MONDAY **17:45-19:15**

FAPSD02 *Chair : Michela Cordazzo* Room : **Amphi 5**

Comparability And Cost Of Capital

Discussant : *Victoria Clout*

Author : *DAVID SMITH, UNIVERSITY OF NEBRASKA-LINCOLN* MB = Market Based

Co-authors : *Michael Imhof, Wichita State University*
Scott Seavey, University of Nebraska-Lincoln

ABSTRACT: This paper investigates the association between financial statement comparability and equity cost of capital. One implication of the modeling found in Lambert, Leuz and Verrecchia (2012) is that comparability has the greatest effect on the cost of capital when markets are imperfect and information risk is the highest. Consistent with this modeling, we investigate associations between comparability and cost of capital for the unrestricted case, the case where equity shares trade in imperfect markets, and the case where both information asymmetry is high and market competition is imperfect. As predicted by Lambert et al. (2012), our results suggest that comparability has the strongest association with cost of capital when equity shares trade in imperfect markets in an environment of high information asymmetry. Our findings contribute to research on the decision usefulness of financial information, and specifically to research on financial information comparability (e.g., Bradshaw et al., 2009; De Franco et al., 2011; Lang et al., 2010).We also contribute to recent research examining the circumstances under which information risk is likely to impact a firm's cost of capital (Lambert, Leuz and Verrecchia 2012 and Armstrong, Core, Taylor and Verrecchia 2011).

TUESDAY **11:00-12:30**

FAPSD04 *Chair : John M. Hassell* Room : **Amphi 6**

Internal Control Over Financial Reporting And The Value Of Corporate Liquidity

Discussant : *Jo Danbolt*

Author : *PINGHSUN HUANG, NATIONAL CHENG KUNG UNIVERSITY* EA = Empirical Archival

Co-authors : *Jun Guo, Binghamton University*
Tongshu Ma, Binghamton University
Yan Zhang, Binghamton University

We examine the trade-off between the precautionary benefits of liquidity management and its agency costs by exploring whether cash valuation is contingent upon the Sarbanes-Oxley (SOX) 404 disclosure of internal control weaknesses in financial reporting. We find that the value spread for firms with weak controls vs. strong controls is about $0.25 for a dollar of cash. Our inference is not driven by account-level weaknesses but by more severe, company-level weaknesses. Furthermore, cash valuation significantly decreases with the remediation of previously reported weaknesses. Collectively, the agency costs from financial flexibility appear to be more than offset by its precautionary benefits.

TUESDAY **11:00-12:30**

FAPSD04 *Chair : John M. Hassell* Room : **Amphi 6**

The Implied Risk Premium And Firm Risk Characteristics

Discussant : *Stuart J. McLeay*

Author : *PENGGUO WANG, UNIVERSITY OF EXETER* MB = Market Based

Co-authors : *,*

This paper proposes a new approach to infer a firm-specific measure of the implied cost of capital. It allows one to estimate simultaneously the implied equity risk premium and industry-year growth rate of future positive NPV investments. It requires only one-year-ahead forecasts of earnings, and dividend payout policy is irrelevant. The measure is intrinsically linked to commonly used accounting ratios including book-to-market, (forward) earnings yield, dividend-to-price as well as growth and past returns. It is significantly positively associated with future realized stock returns and also significantly correlates with commonly used risk characteristics in a theoretically predicted manner.

WEDNESDAY 9:00-10:30

FAPSD03 *Chair : Kalay Alon* Room : **Amphi 6**

Earnings News And Aggregate Stock Returns_

Discussant : *Christina Dargenidou*

Author : *ALON KALAY, COLUMBIA UNIVERSITY* EA = Empirical Archival

Co-authors : *Gil Sadka, Columbia University, Business School*
Jung Ho Choi, University of Chicago, Booth School of Business

In contrast to fi?rm-level relations, prior literature ?finds aggregate earnings changes and aggregate stock returns are negatively related. This paper constructs new measures of aggregate earnings news based on revisions in analyst forecasts. The fi?ndings suggest aggregate earnings news is positively related to contemporaneous stock returns. The results also show that aggregate stock returns are positively related to unexpected aggregate forecast errors, and negatively associated with expected aggregate earnings growth. Taken together, these findings suggest the negative relation between aggregate earnings changes and aggregate contemporaneous stock returns results from the expected component of aggregate earnings,rather than aggregate earnings surprises.

WEDNESDAY 9:00-10:30

FAPSD03 *Chair : Kalay Alon* Room : **Amphi 6**

Investors' Demand For Sell-Side Research: Sec Filings, Media Coverage, And Market Factors

Discussant : *Gary Entwistle*

Author : *JAMES RYANS, BERKELEY / HAAS SCHOOL OF BUSINESS* EA = Empirical Archival

Co-authors : *Alastair Lawrence, University of California at Berkeley*
Yuan Sun, University of California at Berkeley

Using a novel dataset of web traffic for a popular website of analyst report information, we perform a comprehensive analysis, along three dimensions, examining when investors demand firm-specific analyst information. First, we highlight that the majority of firm-specific requests for analyst information are concentrated within a few weeks of the year and in terms of all SEC mandated disclosures, demand is highest in weeks with earnings announcements, followed by Form 10-K and Form 8-K filings, respectively. Second, management guidance, absolute abnormal returns, trading volume, and media coverage, all positively relate to investors' demand, and negative abnormal returns appear to lead investors' demand. Third, regarding the type of analyst information provided, target price revisions are most related to investor demand, followed by recommendations, and then by earnings forecast revisions.

MONDAY 16:00-17-30

FAPS01 *Chair : Joerg R. Wener* Room : **A304**

Accounting Conservatism And The Information Content Of Financial Reporting

Author : *CARLO D'AUGUSTA, BOCCONI UNIVERSITY* EA = Empirical Archival

Co-authors : *Sasson Bar-Yosef, Bocconi University*
Annalisa Prencipe, Bocconi University

Accounting regulators and standard setters, in both the US and Europe, are increasingly opposing the accounting conservatism principle (also referred to as "principle of prudence"), which has characterized accounting practice for centuries. Their opposition is based on the view that conservatism has a negative economic effect on the stock markets, by reducing the informativeness of accounting reports. In this paper, we present empirical results supporting an alternative view. Analyzing stock market reaction to earnings announcements made by US listed companies between 1980 and 2009, we find that: i) announcements of unexpected gains made by conservative firms elicit a larger reaction in terms of absolute abnormal returns; ii) conservatism is associated with reductions in bid/ask spread during the announcement days; iii) earnings' increases announced by conservative firms are more predictive of future states, and earnings' decreases have higher tendency to revert; iv) investors perceive conservatism and audit quality as alternative mechanisms to ensure the relevance and credibility of accounting information. Our findings suggest that regulators' attempts to mitigate conservatism in the accounting practice may have an unintended negative impact on the economics of equity markets.

MONDAY **16:00-17-30**

FAPS01

Chair : Joerg R. Wener Room : **A304**

Conditional Persistence Of Earnings Components And Accounting Anomalies

Author : *ITAY KAMA, TEL AVIV UNIVERSITY* EA = Empirical Archival

Co-authors : *Eli Amir, Tel Aviv University and City University of London*

Investors' failure to assign different persistence measures to earnings components is a common driver behind the accrual anomaly, the post-earnings-announcement drift, and the post-revenue-announcement drift. We propose that investors overemphasize a component's autocorrelation coefficient (labeled here "unconditional persistence"), rather than focus on the power of the component's persistence to explain the persistence of a variable higher in the hierarchy, (labeled here "conditional persistence"). This overemphasis, on the wrong measure of persistence, provides a unifying explanation for the three anomalies. We find that when the conditional persistence of operating profit margin (OPM) is low relative to its unconditional persistence, the post-earnings-announcement drift decreases substantially, while the post-revenue-announcement drift vanishes. This is because investors' under-reaction to earnings and sales is negligible when the persistence of OPM is more weakly associated with that of return on assets. Furthermore, the accrual anomaly largely disappears when the conditional persistence of accruals is high relative to its unconditional persistence. Investors' over-reaction to accruals is negligible when the persistence of accruals is more strongly related to the persistence of earnings. Our findings suggest that investors' misperception of conditional persistence, rather than their misperception of unconditional persistence, is the driver behind the anomalies studied.

MONDAY **16:00-17-30**

FAPS01

Chair : Joerg R. Wener Room : **A304**

The Value Relevance Of Timely Earnings Information

Author : *LEON WONG, THE UNIVERSITY OF NEW SOUTH WALES* MB = Market Based

Co-authors : *Hwee Cheng Tan, University of New South Wales*

This study investigates whether the timely provision of earnings information enhances its relevance to investors for valuation purposes. Prior studies find that the annual earnings-return model has low explanatory power. We argue that the weak relationship between earnings and returns observed in prior studies is confounded by the timeliness of earnings information. Timeliness is the provision of information to users before it loses its ability to influence decisions, and can be achieved by accelerating the reporting of earnings after the financial period end (reporting timeliness), or by providing interim earnings information during the financial year (interim reporting timeliness). Our results demonstrate that timeliness in the provision of earnings information enhances the relevance of earnings to investors. Earnings that are reported early are more value relevant than earnings that are reported late. The improvement in value relevance is observed regardless of the type of earnings news. We also show that a value relevance model that decomposes annual earnings into quarterly earnings has higher explanatory power for stock returns than one with only annual earnings.

MONDAY **16:00-17:30**

FAPS06

Chair : Georgios Papanastasopoulos Room : **A303**

Funding Strategies And Earnings Quality In The Banking Sector

Author : *KAI DAENZER, UNIVERSITY OF MANNHEIM* EA = Empirical Archival

Co-authors : ,

In this paper, we examine whether private a bank's financial reporting quality is shaped by its debt capital structure. Taking advantage of the idiosyncratic diversity of debt funding modes in the banking industry, we compare the quality of accounting numbers produced by three different types of banks – those with private funding only, i.e. customer and interbank deposits, those with short-term debt funding at the money market, and those with long-term debt funding at the bond market. Relative to privately funded banks, we find that banks with exposure to the money market exhibit lower financial reporting quality proxied by conservatism, earnings persistence and earnings predictability. In contrast, we find that financial statements prepared by banks with exposure the bond market are of higher financial reporting quality. In particular, we show that incentives for high quality financial reporting accruing from funding at the public debt market differ significantly across instruments. In an additional analysis, we study the robustness of our results in a setting where the funding structure of a specific group of banks (German Landesbanken) undergoes a major change.

MONDAY 16:00-17:30

FAPS06 *Chair : Georgios Papanastasopoulos* Room : **A303**

Does Income Smoothing Affect The Cost Of Bank Loans?

Author : *YUSUKE TAKASU, HITOTSUBASHI UNIVERSITY* EA = Empirical Archival

Co-authors : ,

This study investigates the link between income smoothing behavior and the cost of bank loans. From the first analysis, this study finds that income smoothing behavior by management lowers the cost of bank loans. In addition to this first analysis, the current study also focuses on the relationship between the information conveyed through income smoothing and that generated by the bank. In particular, I analyze whether the effect of income smoothing behavior on the cost of bank loans is influenced by the information production function of the main bank. Through the second analysis, the current study provides new empirical evidence. First, when considering the information production role of banks, a statistically significant relation between income smoothing and the cost of bank loans in the firms whose information is less likely to be generated by banks (measured by the firm's borrowing concentration) can be found. Second, in the firms whose information is more likely to be generated by the banks, a statistically significant relation between income smoothing and the cost of bank loans cannot be observed. These results imply that the information production role of banks affects the link between income smoothing and the cost of bank loans.

MONDAY 16:00-17:30

FAPS06 *Chair : Georgios Papanastasopoulos* Room : **A303**

Analysts' Demand For Fair Value-Related Information: Evidence From Conference Calls Of International Banks

Author : *CHRISTOPH SEXTROH, UNIVERSITY OF MANNHEIM* EA = Empirical Archival

Co-authors : *Jannis Bischof, University of Mannheim*
Holger Daske, University of Mannheim

This study examines whether financial analysts use fair value information in their analysis of banks. The usefulness of fair value information is controversially discussed and prior findings from experiments and survey studies are mixed. This paper presents a content-based analysis of conference calls based on the idea that time is a limited resource during a conference call and the intentional allocation of time to request specific fair value information about a bank's assets or liabilities reveals the value of this information to a financial analyst. We find that fair value information is frequently demanded in conference calls of a comprehensive global sample of banks. Most of these questions are related to the effects of asset reclassifications out of fair value categories and of changes in own credit risk on the fair value of liabilities. The likelihood of questions is positively associated with the potential impact of the fair value information on a bank's net income and negatively associated with the quantity of accompanying explanatory footnote disclosures in the financial report.

MONDAY 17:45-19:15

FAPS07 *Chair : Takefumi Ueno* Room : **A303**

What Is Driving The Price-To-Earnings Ratio: The Effect Of Conservative Accounting And Growth

Author : *MARTIN STAEHLE, BERN UNIVERSITY* AM = Analytical / Modelling

Co-authors : *Niklas Lampenius, University Hohenheim*

We offer an accounting-based explanation for changes in the forward Price-to-Earnings ratio (PE ratio) that are often attributed to economic reasons, such as a PE ratio deviating from the normal ratio (1/r), changes related to additional investment, and the mean-reversion of the PE ratio. Using a model of a firm with overlapping capacity investments in combination with an abnormal earnings growth valuation model, we show that these effects can be attributed to unconditional conservative accounting in combination with past growth. Further, our findings illustrate a particular relevance of the practical life of investment, the balance sheet life determined for linear depreciation, and of direct expensing. We propose some empirically testable relations based on our findings that may help to distinguish the influences of accounting from abnormal earnings and risk.

MONDAY **17:45-19:15**

FAPS07 *Chair : Takefumi Ueno* Room : **A303**

Comparable Company Valuation: The Three Dimensions For Valuation Accuracy

Author : *FRIEDRICH SOMMER, MUENSTER UNIVERSITY* EA = Empirical Archival

Co-authors : *Arnt Wöhrmann, University of Muenster*

Comparable valuation is one of the most widespread valuation techniques in practice. In order to compute a representative comparable, three decisions need to be made. A value indicator, a time horizon for the value, and a compression method to aggregate all comparables of a peer group into a single industry comparable must be determined. The research on this topic has tried to identify the most accurate specification for each of these three dimensions separately to estimate the market value of equity. However, we find that interaction effects between these three dimensions are present. Therefore, combining the most accurate specification of each dimension leads to inferior results. As a basis of comparison, our study first replicates and thereby largely confirms the results of previous research with a single homogeneous sample. More interestingly, two-dimensional and multidimensional analyses show that quite influential interaction effects take place between the value indicator (e.g., sales or EBIT) and the compression method (e.g., arithmetic mean or median). In order to measure the effect of the three dimensions on valuation accuracy and to incorporate the interaction effects, repeated-measures ANOVAs are conducted. This analysis reveals the highest impact among the choices for the value indicator. The second-highest effect can be attributed to the interaction effect of the value indicator and compression methods. The time horizon does not contribute significantly.

MONDAY **17:45-19:15**

FAPS07 *Chair : Takefumi Ueno* Room : **A303**

The Forward E/p Ratio And Earnings Growth

Author : *WAN-TING WU, MASSACHUSETTS UNIVERSITY* EA = Empirical Archival

Co-authors : ,

Valuation theories predict a negative relation between the earnings-to-price ratio and future earnings growth, but prior studies have produced conflicting results. Using a growth measure that incorporates loss firms, this paper shows that the negative relation exists in the long term, but not in the short term. Firms with low forward E/P ratios exhibit a high incidence of loss, high growth volatility, and high firm-specific risk (e.g., beta, volatility of stock returns, and leverage) in subsequent years. This paper also finds that the forward E/P ratio is a stronger predictor of future growth than the trailing E/P ratio.

MONDAY **17:45-19:15**

FAPS16 *Chair : Christoph Sextroh* Room : **A304**

Analysts' Forecasts In The Extractive Industry

Author : *XIAOMENG CHEN, MACQUARIE UNIVERSITY* EA = Empirical Archival

Co-authors : *Xiaomeng Chen, Macquarie University*
Sue Wright, Macquarie University
Hai Wu, The Australian National University

This study examines the relations between the intensity of reported exploration activity by extractive companies and analysts' private information search activities and their forecast accuracy. Specifically, we examine whether greater intensity of exploration activity motivates analysts to acquire and process relatively more private information to meet investor demand and whether this affects the accuracy of analysts' consensus forecast. We find that the proportion of private information contained in analysts' forecasts and the accuracy of analysts' consensus forecast increases with the levels of exploration and evaluation (E&E) expenditures. Our finding is consistent with the notion that the overall information environment of firms with greater exploration intensity is enriched by analysts' private information acquisition. Furthermore, we investigate the effect of capitalization of E&E expenditures on analysts' information environment and find that the capitalization can convey information about the future economic outcomes of exploration investments, allow analysts develop more private information and improve the accuracy of their forecasts.

MONDAY 17:45-19:15

FAPS16 *Chair : Christoph Sextroh* Room : **A304**

Financial Reporting Quality In Reverse Mergers: The Cases By Chinese Firms

Author : *YENN-RU CHEN, NATIONAL CHENG KUNG UNIVERSITY* EA = Empirical Archival

Co-authors : *Kuang-Long William Liu, National Cheng Kung University*

This paper is to investigate the financial reporting quality of firms reversely merged by private firms in China. A reverse merger (RM) is a method allowing a private firm to become publicly traded one without going through the process of public offering. The private company becomes public by buying an inactive listed firm (the shell) without meeting the listing requirements and being reviewed by SEC. The increasing number of Chinese private companies going public in the U.S through reverse mergers raises concerns to investors in investing the Chinese reverse-merged firms. By examining Chinese reverse-merged firms and Chinese ADR firms listed in the US market from 2000 to 2011, we find that Chinese reverse-merged firms have poorer financial reporting quality than Chinese ADR firms, consistent with our expectation. Although prior studies show that information risk is a nondiversible factor for pricing (Easley and O'Hara, 2004; Francis et al. 2005), we do not find that the U.S capital market take into account the fact of the poorer financial reporting quality of Chinese reverse-merged firms in determining the prices of their stocks. This finding indicates that the US investors would face more information risk when they invest in Chinese reverse-merged firms but the information risk they faced does not offer them extra return.

MONDAY 17:45-19:15

FAPS16 *Chair : Christoph Sextroh* Room : **A304**

The Relevance Of Biases In Management Forecasts For Failure Prediction In Venture Capital Investments

Author : *SOENKE SIEVERS, UNIVERSITY OF COLOGNE* EA = Empirical Archival

Co-authors : *Christopher Mokwa, University of Cologne*

This study shows how venture capital investors can identify potential biases in multi-year management forecasts before an investment decision and derive significantly more accurate failure predictions. By advancing a cross-sectional projection method developed by prior research and using firm-specific information in financial statements and business plans, we derive benchmarks for management revenue forecasts. With these benchmarks, we estimate forecast errors as an a priori measure of biased expectations. Using this measure for our proprietary dataset on venture-backed start-ups in Germany, we find evidence of substantial upward forecast biases. We uncover that firms with large forecast errors fail significantly more often than do less biased entrepreneurs in years following the investment. Overall, our results highlight the implications of excessive optimism and overconfidence in entrepreneurial environments and emphasize the relevance of accounting information and business plans for venture capital investment decisions.

TUESDAY 16:00-17-30

FAPS02 *Chair : Benjamin Segal* Room : **A302**

Competing Rationalities: Uk Investors' And Analysts' Perspectives On Fair Value Accounting

Author : *OMIROS GEORGIOU, THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE* IC = Interdisciplinary / Critical

Co-authors : ,

In this paper we explore practitioners' perspectives on the usefulness of Fair Value Accounting (FVA) drawn mainly from interviewing 28 investors and analysts based in London. We attempt to make sense of intricacies of acceptance and resistance to FVA by analysing investors' and analysts' views through the concept of 'competing rationalities' and in particular the four Weberian rationalities - theoretical, practical, formal and substantive - that coalesce and compete with each other guiding individuals' perceptions and actions. It is contended here that economic rationales for the functionality (formally rational elements) of FVA only partially impinge on investors' and analysts' views and actions. Whether such elements of acceptance and resistance will continue to cause tensions and change is also explored. Findings show that financial statement users' perspectives are embedded in a social web of beliefs, interests and values that causes them to resist the use of fair values in financial reports.

TUESDAY 16:00-17-30

FAPS02 Chair : Benjamin Segal Room : **A302**

Does The Sec Break Bad Habits? Evidence Of Earnings Quality In Restating Firms

Author : *MARIE HERLY, AARHUS UNIVERSITY, BUSINESS AND SOCIAL SCIENCES*

EA = Empirical Archival

Co-authors : *Jan Bartholdy, Aarhus University/Department of Economics and Business*
Frank Thinggaard, Aarhus University/Department of Economics and Business

The objective of this paper is to examine if US firms required to restate financial statements improve their earnings quality following the Securities and Exchange Commission (SEC) enforcement. We compare the earnings quality of the restating firms with the quality of a matched control group. Using a wide portfolio of accounting quality metrics grouped by factor analysis, we predict and find that the earnings quality of restating firms seems to be poorer than that of the control group, already in the years before the restatement. Some of these differences remain even after the restatement. Using a difference-in-difference research design, we also find that the restating firms improve the quality of their financial statements, but surprisingly not significantly more than the control group. However, when partitioning the sample based on the stock market reaction to the restatement announcement, restating firms in fact improve significantly more than the control group. It thus appears that the restatement event itself does not prompt an improvement, but the punishment of the capital markets does. The findings shed light on the educational role of the SEC and capital markets, and hold when allowing restating firms a time-lag to improve, and they are not caused by a positive intra-industry contagion effect.

TUESDAY 16:00-17-30

FAPS02 Chair : Benjamin Segal Room : **A302**

Reexamining The Mispricing Of Intangible Information: Do Investors Understand The Diminishing Effect On Future Earnings?

Author : *YONG-CHUL SHIN, UNIVERSITY OF MASSACHUSETTS BOSTON*

MB = Market Based

Co-authors : *Sean Cao, University of Massachusetts Boston*
Xingyuan Fei, University of Massachusetts Boston

This paper reexamines investors' overreaction to intangible information documented in Daniel and Titman (2006) and finds an explanation of the negative relation between future abnormal returns and intangible information. We predict that investors' mispricing of intangible information can be attributable to the component of intangible information that is related to future earnings. Our results show that intangible information is positively associated with future earnings, but in a diminishing fashion over multiple periods. Accordingly, intangible information has negative implications for future profitability growth due to the diminishing effect. It is the misunderstanding of the diminishing effect of intangible information on future earnings that leads to investors' overpricing of intangible information.

TUESDAY 9:00-10:30

FAPS08 Chair : Jo Danbolt Room : **A303**

How Does Investors' Attention Affect The Information Content Of Earnings?

Author : *YUPING JIA, FRANKFURT SCHOOL OF FINANCE & MANAGEMENT*

EA = Empirical Archival

Co-authors : *Rong Ding, Middlesex University Business School*

In this study we follow Da et al. (2011) to measure investors' attention with Google search frequency on stock ticker and test the role of investors' attention in facilitating the incorporation of earnings related information into stock return. Specifically, we investigate 1) how investors' attention of a firm enables impounding earnings related information at firm and industry level into stock return and 2) how investors' attention of a firm enables the incorporation of information related to different components of earnings (cash flow and accruals) into stock return. We find that investors' attention facilitates the incorporation of earnings related information at firm level to a greater extent into stock return than that at industry level, and investors' attention helps to impound information related to accruals and cash flow to different extent. Information related to cash flow is found to be incorporated into stock return to a greater extent, which suggests that the average investor has an advantage in understanding and utilizing information that is easy to process and thus requires less information processing capacity.

TUESDAY **9:00-10:30**

FAPS08 *Chair : Jo Danbolt* Room : **A303**

Understanding Financial Analysts' Recommendations During Financial Crisis

Author : *SHAHED IMAM, WARWICK UNIVERSITY BUSINESS SCHOOL*

MB = Market Based

Co-authors : *Kheng Lee Tan, University of Warwick*

This study examines sell-side analysts' use of information and the factors that drive their stock recommendations during recent financial crisis. Prior studies suggest that analysts use more non-accounting information to support stock recommendations but there is little academic research on analysts' behaviour during difficult economic environment such as financial crisis. We conducted a comprehensive content analysis based on 90 equity reports for FTSE 100 firms from 2006 to 2010. We followed Breton and Taffler (2001) approach to understand what type of information drives analysts' recommendations during three sub-period, i.e. pre-crisis (2006-2007), during crisis (2007-2009) and post-crisis (2009-2010). The findings show that non-accounting information is used prevalently by analysts across three sub-periods. However, during crisis period, analysts focus more on specific set of information such as cost control and strength of management but in non-crisis periods they focus more on information related to earnings and market outlook. Even though analysts' optimism is slightly affected by the challenging market environment, their recommendations are found to be generally optimistic across all three sub-periods and there is positive news bias in their reports. We conclude that although non-accounting information may have been used more frequently in analysts' reports, it is accounting information which ultimately guides analysts' recommendations both in good and bad times.

TUESDAY **9:00-10:30**

FAPS08 *Chair : Jo Danbolt* Room : **A303**

Analyst Forecasting During High Uncertainty: Too Little Too Late?

Author : *STEPHEN STUBBEN, UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL*

EA = Empirical Archival

Co-authors : *Dan Amiram, Columbia University*
Wayne Landsman, University of North Carolina at Chapel Hill
Edward Owens, University of Rochester

This study tests whether analysts' forecasts are as frequent, as accurate, and as informative during times of high uncertainty as they are during more normal times. Findings reveal that when market uncertainty is high, although analysts forecast more frequently, they do not forecast frequently enough, as aggregate news between forecasts increases. Thus, analysts are less timely in revising their forecasts during periods of high uncertainty, i.e., they are "too late." We also find that analysts have a dampened response to information when uncertainty is high, leading to less accurate forecasts, i.e., their revisions are "too little." Additional tests reveal that consistent with the prediction that riskier firms are likely to be more affected by market uncertainty, smaller, less profitable, and higher leveraged firms are more sensitive to the lack of timeliness and underreaction we document for the full sample. However, despite the lateness and incompleteness of forecast revisions when uncertainty is high, we find evidence from bid-ask spread regressions that these forecasts nevertheless reduce information asymmetry, even to a greater extent than forecasts made during less uncertain times.

TUESDAY **11:00-12:30**

FAPS09 *Chair : Tuan Quoc Ho* Room : **A303**

Probabilities Of Loss Reversals And Returns In The Uk

Author : *WEI JIANG, WARWICK UNIVERSITY BUSINESS SCHOOL*

MB = Market Based

Co-authors : *Nuno Soares, Universidade do Porto*
Andrew Stark, University of Manchester

In this study, we attempt a number of contributions. Our initial contribution is to develop a loss reversal model which can be applied in the UK. According to the test criteria we establish, our results suggest that the loss reversal model is successful. The second contribution is to examine whether loss reversal probabilities are fully reflected in market prices. We find that, after controlling for other firm characteristics that are known to be, or could be, associated with stock returns in the UK, a hedge portfolio that takes a long position in firms with a high estimated likelihood of loss reversal and a short position in firms with a low estimated likelihood of loss reversal makes an average return of over 20% before trading costs are taken into account. This suggests that the UK stock market does not fully reflect the information in our model concerning loss reversal probabilities. Nonetheless, as a consequence of various trading frictions, it is unlikely that investors can exploit any mispricing opportunity.

TUESDAY 11:00-12:30

FAPS09 *Chair : Tuan Quoc Ho* Room : **A303**

Omitted Variables And Tests Of Dividend Displacement

Author : *THANAMAS KUNGWAL, DURHAM UNIVERSITY / BUSINESS SCHOOL*

MB = Market Based

Co-authors : *Assoc. Prof. Elisabeth Dedman, Warwick Business School*
Prof. Andrew Stark, Manchester Business School

Theory suggests that, under certain assumptions, corporate distributions should reduce market value on a one-to-one basis. This result is sometimes known as dividend displacement. Nonetheless, dividend displacement tends to be rejected by empirical tests for dividends in the UK. We study a conjecture in the literature that the omission of lagged accounting variables in accounting-based market value models is the cause of the rejection of dividend displacement for regular dividends. Our results suggest that when various controls for omitted variables in models used in prior literature are employed, it is in only one case that the results of prior studies are overturned. This is the case when lagged market value is added into the estimated equation. Nevertheless, we argue that including lagged market value as an independent variable in the estimated equation cannot control for the omission of lagged accounting variables, or other omitted variables, without producing additional model mis-specification problems. As a consequence, we conclude that the results in previous literature are robust to the inclusion of lagged accounting variables, and the evidence against these results when lagged market value is included in the model is unreliable.

TUESDAY 11:00-12:30

FAPS09 *Chair : Tuan Quoc Ho* Room : **A303**

Probability Of Loss Reversal In Australia

Author : *HAI WU, THE AUSTRALIAN NATIONAL UNIVERSITY*

MB = Market Based

Co-authors : *Hai Wu, Australian National University*

Investors of loss firms face abandonment decision based on their assessment of the likelihood of loss firms becoming profitable in future periods (i.e. loss reversal, Joos and Plesko, 2005). This research examines factors useful for predicting future loss reversal in the Australian market. Specifically, the research focused on loss firms' investment activities and the degree of accounting conservatism in addition to factors examined in the previous U.S. literature (Joos and Plesko, 2005; Dhaliwal et al., 2012). The result shows that variables measuring the activities of earlier investment stage are negatively associated with future loss reversal, while investment related to the close-to-production stage has positive impact. Accounting conservatism, as a persistent feature of financial reporting, is negatively associated with future loss reversal. These results have implications for loss firm valuation. This paper further documents a positive association between the ex-ante prediction of probability of loss reversal and future abnormal stock returns.

TUESDAY 16:00-17-30

FAPS10 *Chair : Joachim Tanski* Room : **A303**

Asymmetric Decrease In Liquidity Before Announcements, And The Earnings Announcement Premium

Author : *SHAI LEVI, TEL AVIV UNIVERSITY*

EA = Empirical Archival

Co-authors : *Xiao-Jun Zhang, University of California, Berkeley*

Trading volume is known to decrease before earnings announcements, as investors are reluctant to trade when information asymmetry is high and liquidity is low. Using data on buy and sell orders of institutional investors, we however find that investors are more reluctant to buy stocks than to sell them before announcement. This asymmetric decrease in liquidity is found also for data on the trades carried by all investors. Specifically, we classify the trades on TAQ data as buyer or seller initiated, and find that when more trades are seller initiated in the days before announcements, announcement returns are positive. According to inventory microstructure models, these findings suggest that liquidity traders are net sellers before announcements. Market makers provide liquidity by buying at a discount relative to future prices, and liquidity sellers accept this price concession in order to get immediacy before announcements. The subsequent positive announcement returns, suggested by inventory models, compensate market makers for the risk of holding the stocks, or inventory, over the announcement date. Prior literature documents average positive earnings announcement returns, or premium, and links it to information or idiosyncratic risk. Our evidence suggests that one group of undiversified inventors in particular, the market makers, bear this risk and impose this premium.

TUESDAY **16:00-17-30**

FAPS10

Chair : Joachim Tanski Room : **A303**

Do Option Prices Efficiently Anticipate Stock Price Volatility Around Earnings Announcements?

Author : *SUNG GON CHUNG, SINGAPORE MANAGEMENT UNIVERSITY* EA = Empirical Archival

Co-authors : *Henock Louis, Pensylvania State University*

Prior studies document a sharp increase in stock return volatility around the earnings announcement date. We examine whether the change in stock price volatility around earnings announcements is efficiently incorporated into option prices. Extant studies suggest that option traders tend to overweight current stock price volatility and, consequently, to misprice options. Given that earnings announcements create huge inter-temporal variations in stock price volatility, it is plausible that the inefficient option pricing is related, at least partly, to traders? failure to fully adjust option prices for earnings announcement related changes in stock price volatility. The empirical evidence is consistent with this conjecture. It indicates that option prices do not fully impound the implications of forthcoming earnings announcements for stock price volatility.

TUESDAY **16:00-17-30**

FAPS10

Chair : Joachim Tanski Room : **A303**

The Arithmetic Brownian Motion In Corporate Valuation

Author : *ALEXANDER LAHMANN, LEIPZIG GRADUATE SCHOOL OF MANAGEMENT* AM = Analytical / Modelling

Co-authors : ,

In this paper we expand the Discounted Cash Flow (DCF) framework for the valuation of an unlevered firm when the free cash flows are modeled by an arithmetic Brownian motion (ABM). We approximate the ABM by a binomial lattice in order to keep the typical time discrete framework of the DCF methodology. In contrast to the typical multiplicative process assumption for modeling earnings figures and free cash flows the ABM implied additive process admits for possible negative free cash flow values and grows by an absolute amount rather than a growth rate. But this process assumption has important implications on firm valuation. After the binomial lattice approximation we derive valuation formulas based upon an additive process assumption, touch the topic of the determination of CAPM consistent cost of capital and show a possible equivalence between the multiplicative and additive process assumption. We finish our analysis by calculating some numerical examples.

TUESDAY **14:00-15:30**

FAPS11

Chair : Michael Eames Room : **A303**

Examining sell-side analysts' use of intellectual capital in producing narratives about firm value

Author : *SUBHASH ABHAYAWANSA, SWINBURNE UNIVERSITY OF TECHNOLOGY* IC = Interdisciplinary / Critical

Co-authors : *Suresh Cuganesan, University of Sydney*

This paper examines how Intellectual Capital (IC) is mobilised and performed by sell-side analysts and implicated in the production of knowledge claims about firm value. IC narratives contained in analysts' initiating coverage reports are analysed to identify performances of relationships among IC elements and between IC and financial capital (FC). It was found that the boundaries of IC elements are ephemeral with their identities and properties changing based on their performance by analysts. Yet patterns of IC performance are identifiable, comprising mobilisation by analysts in: (1) narrating the value potential of IC; (2) mediating external forces and value through IC; (3) calculating value through IC; and (4) legitimising investment action through IC. The inimitability of IC elements as well as substitutability is also observed. Finally, FC is also performed by analysts not only as an effect of IC but as a cause of IC, a legitimiser of IC and sometimes a manifestation of IC itself. The findings suggest that IC is performed in a variety of ways, with non-linear inter-relationships between elements and with FC and with variable ontologies. This provides analysts with degrees of freedom to deviate from a formulaic approach and paint a picture in line with their personal opinion about the firm's value and interests as evidenced elsewhere in capital markets research. Research as well as practice/policy initiatives should consider such 'demand-side' performances of IC.

FAPS11 Chair : Michael Eames Room : **A303**

Is Cognitive Bias Really Present In Analysts' Forecasts? The Role Of Investor Sentiment

Author : *ELENA FERRER, PUBLIC UNIVERSITY OF NAVARRE*

Co-authors : *Pilar Corredor, Public University of Navarre*
Rafael Santamaría, Public University of Navarre

EA = Empirical Archival

We analyse four key European markets (France, Germany, Spain and the UK) to ascertain whether the optimism in analysts' forecasts is mainly strategic or whether cognitive bias is really present in these markets. Despite the fact that forecast errors lack the explanatory power to account for a significant percentage of the relationship between market sentiment and future stock returns, the results from the tests based on selection bias (SB1 and SB2), in conjunction with the analysis of abnormal trading volume, confirm the presence of both cognitive bias and strategic behaviour in analysts' forecasts. These results indicate that, although regulation can reduce analyst optimism, the benefits of regulation will be more limited because part of this optimism is associated with a cognitive bias.

TUESDAY 14:00-15:30

FAPS11 Chair : Michael Eames Room : **A303**

Task Complexity, Expertise And Accuracy Of Earnings Forecasts

Author : *DIPANKAR GHOSH, OKLAHOMA UNIVERSITY*

Co-authors : *Lori Olsen, Central Michigan University*

EA = Empirical Archival

Financial analysts' forecasts serve as a proxy for market earnings expectations. The judgment and decision-making (J/DM) literature suggests that those with more expertise will not perform better when tasks exhibit either extremely high or low complexity. It is for tasks between these two extremes where expertise is expected to contribute to superior performance. The current research partitions firms on forecasting complexity. Results indicate that expertise is not an explanatory factor for forecast accuracy when the forecasting task's complexity is extremely high or low. However, when task complexity falls between these two extremes, expertise is a significant explanatory variable of forecast accuracy.

TUESDAY 14:00-15:30

FAPS15 Chair : Christine Tan Room : **A302**

Information Quality And The Cost Of Debt Financing Of European Small And Medium-Sized Enterprises

Author : *MICHIEL DE MEYERE, GHENT UNIVERSITY*

Co-authors : *Heidi Vander Bauwhede, University of Ghent*
Philippe Van Cauwenberge, University of Ghent

EA = Empirical Archival

This study empirically examines whether the quality of SMEs' financial statements is priced by creditors. Using a large dataset of SME financial statements over the 1997-2010 period, we show that accruals quality (i.e., our proxy for information quality) is negatively related to SMEs' effective interest cost. This relationship is not only empirically, but also economically significant. This finding indicates that creditors price the quality of SMEs' financial statements, and suggests that the quality of these statements is economically relevant.

TUESDAY 14:00-15:30

FAPS15 *Chair : Christine Tan* Room : **A302**

Firm-Specific Implied Cost Of Capital Estimates And Their Evaluation

Author : *XIN MA, UNIVERSITY OF EXETER*

AM = Analytical / Modelling

Co-authors : *Pengguo Wang, Exeter University*

In this paper, we first present a simple variation of the approach developed by Ashton and Wang (2012) to estimate firm-specific implied cost of capital. Within a framework developed in Lee, et al. (2011), we then evaluate various existing different estimates of implied cost of capital in terms of closely tracking true expected returns. We find that our estimate is superior to other existing alternatives. Our findings are robust to both analysts' forecasts of earnings and mechanical model based forecasts of earnings. In addition, we find that only our estimate can generate significant risk adjusted hedge return.

TUESDAY 14:00-15:30

FAPS15 *Chair : Christine Tan* Room : **A302**

Goodwill Related Mandatory Disclosure And The Cost Of Equity Capital

Author : *FRANCESCO MAZZI, UNIVERSITY OF FLORENCE*

MB = Market Based

Co-authors : *Ioannis Tsalavoutas, University of Stirling*
Dionysia Dionysiou, University of Stirling
Paul André, ESSEC Business School & ESSEC KPMG Financial Reporting Center

The present study examines whether enhanced mandatory disclosure reduces implied cost of equity capital. Prior cross-sectional studies focusing exclusively on voluntary disclosure have produced mixed results. This is why it has been suggested to go beyond voluntary information in analysing the relationship between disclosure and cost of capital. Considering evidence suggesting that companies do not fully comply with disclosure requirements, even if they are supposed to, this paper deals with mandatory disclosure. More specifically we examine the relationship between goodwill related mandatory disclosure and the implied cost of capital for a sample of 225 European firms for the period from 2008 to 2011. The findings suggest that enhanced mandatory disclosure is correlated with the cost of capital, but that this correlation depends on the materiality of the information, measured as the percentage of goodwill to total assets.

TUESDAY 9:00-10:30

FAPS17 *Chair : David Windish* Room : **A304**

Voluntary Disclosures Ahead Of Ipos

Author : *NISAN LANGBERG, UNIVERSITY OF HOUSTON*

AM = Analytical / Modelling

Co-authors : *Praveen Kumar, University of Houston*
Shiva Sivaramakrishnan, University of Houston

We examine voluntary disclosure by firms ahead of an initial public offering (IPO) that seek to raise funds for a real capital investment. Market participants in the IPO face two sources of adverse selection: from informed issuers that wish to sell over-valued equity and from informed investors that selectively participate in undervalued IPOs. By disclosing information to markets ahead of the IPO the owner of the firm can mitigate information asymmetry and reduce under-pricing of the IPO. When the fraction of informed investors is low, firms going public disclose less information, there is underpricing, and the volume of firms going public is high. On the contrary, when the fraction of informed investors is sufficiently high, there is excessive disclosure of information by firms, less underpricing but also under-investment as the average failing IPO has a positive NPV project. The average quality of IPO firms is, however, higher in the low-volume equilibrium outcome. Due to the strategic disclosure of information, we find that more disclosure reduces underpricing but that the average level of underpricing is nonmonotonic in the fraction of informed investors.

TUESDAY 9:00-10:30

FAPS17

Chair : David Windish Room : **A304**

Does Disclosure Level The Playing Field?

Author : *PIETRO MAZZOLA, IULM UNIVERSITY*

EA = Empirical Archival

Co-authors : *Claudia Gabbioneta, University of Genoa*
Joachim Gassen, Humboldt-Universität zu Berlin

This paper investigates whether disclosure reduces the information asymmetry between heterogeneously informed investors. We use a unique sample of Italian market microstructure data that allows us to assess the trading sizes of completed transactions separately for the buy and sell side. Thus, our data allows us to use buy and sell trade sizes as a high-quality proxy for the wealth and sophistication level of investors. We use conference calls and strategic plan presentations of Italian firms as our disclosure events. Strategic plan presentations are used to provide complex forward-looking information to investors. We find that strategic plan presentations cause significantly more short-window abnormal turnover than earnings conference calls. In addition, we find that this abnormal turnover is caused by a disproportional share of large trades. Also, abnormal net buying activity caused by large (small) trades is consistently linked to positive (negative) returns. Finally, large trade induced net buying behavior is related to a short-window post information-announcement drift. Our findings are consistent with strategic plan presentations in Italy causing divergence in beliefs, increasing information asymmetry, thereby unleveling the playing field and resulting in a wealth distribution effect from unsophisticated to sophisticated investors.

WEDNESDAY 9:00-10:30

FAPS03

Chair : David Smith Room : **A302**

Is Insider Trading Informative About Changes In Accounting Performance?

Author : *JIRI NOVAK, CHARLES UNIVERSITY IN PRAGUE*

EA = Empirical Archival

Co-authors : *Jana Fidrmuc, Warwick Business School*

This paper shows that corporate insiders optimally time their trades around breaks in firm profitability trend. Consistent with prior research documenting that insiders tend to sell (buy) after periods of positive (negative) stock returns, we show that they sell (buy) after positive (negative) quarterly earnings-per-share (EPS) surprises. On average, the EPS growth (decline) starts to slow down in the quarter immediately following an insider sale (purchase). Financial analysts interpret fairly precisely the future earnings implications of insider sales, but they overestimate the speed of recovery following insider purchases. The market seems to process the information in insider trading more efficiently leading to small negative (no) stock price reaction on earnings announcements in the four quarters following insider purchases (sales). These results are consistent with insiders trading on contrarian views about the degree of persistence of accounting performance imputed in current prices. Our data cover around 300,000 insider trading days in the post-SOX period over 2003-2009 with prompter reporting of insider transactions.

WEDNESDAY 9:00-10:30

FAPS03

Chair : David Smith Room : **A302**

Do Analyst Regulations Work? Evidence From The Impact Of Nasd Rule 2711 On The Liquidity Changes Surrounding Coverage Initiations

Author : *THARINDRA RANASINGHE, SINGAPORE MANAGEMENT UNIVERSITY*

EA = Empirical Archival

Co-authors : *Arpita Shroff, University of Houston*
Shiva Sivaramakrishnan, Rice University

This paper investigates the impact of NASD Rule 2711 on the role of analysts as information intermediaries. The intent of this regulation was to eliminate conflict of interests faced by analysts with investment banking business. While NASD Rule 2711 is beneficial to the extent it eliminates this conflict of interests, it is also costly because it deters the flow of information between research and investment banking functions. Hence, in order to investigate whether the regulation had an overall positive or negative effect on the investors, we examine the pre- to post-regulation differences on liquidity changes surrounding coverage initiations. We document that, on average, coverage initiations in the post-regulation period evoke greater liquidity improvements when compared to pre-regulation period. This beneficial impact is stronger for firms with high pre-existing analyst coverage and for high growth firms. Supplemental tests on the market reaction to earnings news contained in coverage initiations further corroborate these findings.

FAPS03 *Chair : David Smith* Room : **A302**

Dark Trading Under Blue Skies: Regulatory Regimes In The Otc Markets

Author : *CHRISTIAN LEUZ, UNIVERSITY OF CHICAGO*

MB = Market Based

Co-authors : *Ulf Brueggemann, Humboldt University*
Aditya Kaul, University of Alberta
Christian Leuz, University of Chicago
Ingrid Werner, Ohio State University

In this paper, we analyze a comprehensive sample of more than 10,000 U.S. stocks in the OTC market. Many of the issuers provide hardly any information to investors and are often viewed as "dark." As little is known about this market, we characterize firms and venues as well as provide evidence on survival, the frequency of venue changes, and trading activity. We analyze how market liquidity and price efficiency relate to OTC venues and regulatory regimes. We show that OTC firms that are subject to stricter federal, state, and/or venue-specific regulation have higher market liquidity and price efficiency. In particular, we highlight that aspects of state securities laws, i.e., merit reviews and publications in recognized securities manuals, are associated with better market liquidity and price efficiency. In sum, our results suggest that OTC market investors recognize the information and regulatory environment when determining which stocks to trade.

FAPS04 *Chair : Gordon Richardson* Room : **A302**

The Role Of Financial Analysts In Stock Market Efficiency With Respect To Annual Earnings And Its Cash And Accrual Components

Author : *PHILIP SHANE, UNIVERSITY OF VIRGINIA*

EA = Empirical Archival

Co-authors : *Dana Hollie, Louisiana State University*
Qiuhong Zhao, University of Missouri

This paper examines biases in stock prices and financial analysts' earnings forecasts with respect to persistence characteristics of operating income and its free cash flow and accrual components. These biases take the form of systematic over-reaction or under-reaction. We find that stock prices tend to over-react to the persistence of net operating income and its components; whereas, financial analysts tend to under-react to the same information. Analysts' forecasting bias mitigates what would otherwise appear as more pronounced stock price over-reaction. On the other hand, we find little evidence that the bias in stock prices mitigates analyst under-reaction. Overall, we find that, left to their own devices, analysts' earnings forecasts under-react to the persistence characteristics of annual earnings, and stock prices would over-react, but biased analysts' forecasts largely mitigate this over-reaction tendency. This paper brings a new perspective to the literature regarding the disciplining role of financial analysts in capital markets.

WEDNESDAY **11:00-12:30**

FAPS04 *Chair : Gordon Richardson* Room : **A302**

News Sentiment, Accruals Quality, And Liquidity Volatility

Author : *STEVEN CAHAN, AUCKLAND UNIVERSITY*

EA = Empirical Archival

Co-authors : *Rochester Cahan, Deutsche Bank Securities*
Nhut Nguyen, Auckland University
Tan (charlene) Lee, Auckland University

Investors prefer predictable liquidity so they are not forced to transact at inopportune times. In this study, we examine how the sentiment conveyed in news items affects the variability of liquidity. We expect that news sentiment will affect liquidity volatility because it reduces information uncertainty. We also examine whether accruals quality affects the relation between news sentiment and liquidity volatility. We expect that accruals quality will moderate this relation since firms with high accruals quality have less information uncertainty to start with. Using a measure of news sentiment from Thomson Reuters News Analytics database, we find that both positive and negative news sentiment reduce liquidity volatility. Further, we find a positive and significant coefficient for the interaction between news sentiment and accruals quality, consistent with news sentiment having a smaller impact when information asymmetry is low. Our results suggest that investors' interpretations of the news are conditioned on a firm's accounting quality.

FAPS04

Chair : Gordon Richardson Room : **A302**

How Does The Market Read Information Conveyed By Accruals?

Author : *QINGHAO MAO, ERASMUS UNIVERSITY ROTTERDAM* EA = Empirical Archival

Co-authors : *K. C. John Wei, Hong Kong University of Science and Technology*

We use return decomposition to differentiate the earnings fixation explanation from the growth explanations for the accrual anomaly. We show that the underperformance of high-accrual stocks mainly comes from the underperformance in the cash flow news component of returns with the effect being stronger when information uncertainty is high. In addition, stocks with high discretionary accruals experience lower total returns and lower cash flow news returns both before and after portfolio formation. Such a pattern is not observed for stock portfolios sorted by nondiscretionary accruals. A comparison between accruals and other growth proxies suggest that the former has much stronger predictive power for subsequent total returns and cash flow news returns. Overall, the results favor the earnings fixation explanation more than the rational or behavioral growth explanation. The evidence is also consistent with the agency theory of earnings management.

FAPS05

Chair : Thorsten Sellhorn Room : **A302**

Beyond Accounting And Back: An Empirical Examination Of The Value-Relevance Of Accounting Data And "other" Information

Author : *PHILIPP SCHABERL, UNIVERSITY OF DENVER* MB = Market Based

Co-authors : ,

The Ohlson (1995) model provides a representation of firm value in terms of accounting fundamentals and "other" forward-looking information (?t) not yet reflected in accounting numbers. Based on this framework, this paper proposes a measure of proportional relevance (R2%) to examine the relative weight that investors assign to accounting data vs. "other" information (?t). Using this metric, this study seeks to address the following questions: i) has the mix of information used by investors changed over time, and ii) is there a relationship between the overall market conditions and the proportional relevance of accounting data and ?t. This study finds that the proportional relevance of "other" information increased substantially over the period 1984–2010. Moreover, the results suggest that investors rely more heavily on accounting data ("other" information) during bearish (bullish) years with high (low) levels of volatility in capital markets. Overall, the results reported in this study suggest that although "other" non-accounting information has gained in importance over time, investors still rely on accounting data as an anchor for valuation in difficult years.

WEDNESDAY 14:00-15:30

FAPS05

Chair : Thorsten Sellhorn Room : **A302**

Accounting Based Valuation And "other Information" – A Simultaneous Equations Approach

Author : *IRIS BERGMANN, AUGSBURG UNIVERSITY* EA = Empirical Archival

Co-authors : *Iris Bergmann, University of Augsburg*
Wolfgang Schultze, University of Augsburg

This paper develops and tests a simultaneous equations model for extending accounting based valuation models used in empirical studies. Empirical evidence shows that models using analysts' forecasts as 'other information' in the Ohlson (1995) model exhibit a higher explanatory power for market values than models using only historical accounting data. Instead of using analysts' forecasts we derive forecasts of operating income based on observable data contained in the firms' reporting, like order backlog, and other publicly available information qualifying as 'other information'. Due to the interdependencies between the different drivers of operating income, a simultaneous equations model (SEM) is required. When comparing out-of-sample forecasts derived from the SEM with simple benchmark models, we find evidence that in years around economic changes and instability, like the year 2009, the SEM produces more accurate forecasts of operating income. Further, we find that integrating the SEM forecast as 'other information' in the Ohlson (1995) model increases the explanatory power for current market values compared to simpler versions without 'other information' or with direct proxies for 'other information'.

WEDNESDAY **14:00-15:30**

FAPS05 *Chair : Thorsten Sellhorn* Room : **A302**

Analyst Forecasts, Errors-In-Expectations, And The Value Premium

Author : *YUAN HUANG, THE HONG KONG POLYTECHNIC UNIVERSITY* EA = Empirical Archival

Co-authors : *Chu Zhang, Hong Kong University of Science and Technology*

Investors' extrapolative errors-in-expectations about future corporate earnings have been hypothesized in the literature as an explanation for the value premium. The extant literature uses analysts' earnings forecasts as a proxy for investors' expectations and has found certain evidence consistent with the hypothesis. In this paper, we examine analysts' long-term earnings growth forecasts, compare them with the earnings growth predicted by an empirical model, and use the difference between the analyst forecast and the model forecast as a measure of the errors-in-expectations. We find evidence that analysts extrapolate in their earnings forecasts, but we find that the errors-in-expectations are not the cause of the value premium because the errors-in-expectations measure we construct does not have strong predictive power for future returns and does not subsume the market-to-book ratio in generating the value premium.

WEDNESDAY **11:00-12:30**

FAPS12 *Chair : Shai Levy* Room : **A303**

The Real Effects Of Disclosure Tone: Evidence From Restatements

Author : *CLAUDINE MANGEN, CONCORDIA UNIVERSITY* EA = Empirical Archival

Co-authors : *Art Durnev, University of Iowa*

This study analyzes whether the tone of financial disclosures affects corporate investments, using texts released by firms that publicly announce restatements of their financial reports. We argue that the tone of restatement texts provides news about restating firms' private information regarding unknown future investment payoffs. We find that restatement tone carries news, because it affects restating firms' and their competitors' abnormal returns at restatement announcements, and changes their information asymmetry. Moreover, we document that news in the restatement tone matters for corporate investments, since it is related to subsequent changes in restating firms' and their competitors' investments.

WEDNESDAY **11:00-12:30**

FAPS12 *Chair : Shai Levy* Room : **A303**

Evidence On The Impact Of Adopting English As An External Reporting Language On Foreign Investment, Analyst Following, And Liquidity

Author : *MICHAEL ERKENS, HEC PARIS* EA = Empirical Archival

Co-authors : *Thomas Jeanjean, ESSEC Paris*
Herve Stolowy, HEC Paris
Teri Lombardi Yohn, Indiana University

This study investigates whether adopting English as an external reporting language is associated with increased foreign investment, analyst following, and/or liquidity in non-English speaking company's stock. Specifically, we examine a sample of companies that initiate the issuance of an annual report in English in addition to the local language annual report. Using a difference-in-difference design with a propensity score matched control sample, we find that foreign ownership, analyst following, and liquidity increase significantly around the adoption of English as an external reporting language. We also find that the benefits in terms of increased foreign ownership, decreased zero return days, and increased analyst following are more pronounced for companies incorporated in countries whose language is more pervasive and that the benefit in terms of decreased bid-ask spreads is more pronounced for companies in countries whose local language has more limited use. Finally, we perform a time-series analysis and find that adopting English as a reporting language is associated with decreases in information asymmetry (bid-ask spreads and zero return days) in the year of adoption, increases in analyst following in the year after adoption, and increases in foreign ownership two years after adoption. These results suggest that the economic benefits of adopting English as an external reporting language first become evident through decreased information asymmetry.

WEDNESDAY 11:00-12:30

FAPS12 *Chair : Shai Levy* Room : **A303**

Material Corporate Events Disclosure: Trends, Strategies And Effects

Author : *BENJAMIN SEGAL, INSEAD* EA = Empirical Archival

Co-authors : *Dan Segal, IDC and SMU*

Using a comprehensive sample of 8-K filings from 1996 to 2011, we explore several dimensions of managerial disclosure and reporting strategies. We find strong evidence of opportunistic disclosure of negative news, especially among public firms. Public firms are more likely to delay disclosure of negative news, report negative news after trading hours, and report after trading hours on the last day of the week. Our findings support the notion that managers engage in strategic disclosure – by delaying or obfuscating negative news – to mitigate the potential market reaction. We further find that factors such as the risk of litigation, information asymmetry and corporate governance influence reporting behavior. Further analysis of the market reaction to opportunistic disclosure uncovers no evidence of investor inattention or under-reaction.

WEDNESDAY 9:00-10:30

FAPS13 *Chair : Philipp Schaberl* Room : **A303**

Assortative Matching On Accounting Ratios In The Merger Market And Implications For Post-Merger Success

Author : *MARYJANE RABIER, UNIVERSITY OF MARYLAND UNIVERSITY COLLEGE* EA = Empirical Archival

Co-authors : ,

Drawing on research that is rooted in economic theory about marriage markets, I investigate the matching patterns in the merger market and their implications for post-merger performance. I find that acquirers and targets positively assortatively match on: (1) return on assets, which captures profitability, (2) asset turnover, which captures revenue generation, and (3) gross profit margin, which captures cost efficiency. These matching patterns indicate that the primary motive for mergers is the exploitation of asset complementarities. I find that, when the acquirer has lower pre-merger asset turnover (gross profit margin) than its target, the acquirer's post-merger growth in asset turnover (gross profit margin) is increasing in the pre-merger difference between the acquirer's and target's asset turnover (gross profit margin). I also find that, when the acquirer has lower pre-merger asset turnover than its target, the acquirer's post-merger earnings growth is increasing in the pre-merger difference in the acquirer's and target's asset turnover. This finding suggests that, although mergers that exploit asset complementarities are more prevalent, mergers that place underperforming assets under better management actually generate superior post-merger performance on average. My research provides insights into the role of accounting information in the merger market.

WEDNESDAY 9:00-10:30

FAPS13 *Chair : Philipp Schaberl* Room : **A303**

Performance Justification And Financial Thresholds

Author : *ZHANG SHUYU, UNIVERSITY OF ANTWERP* EA = Empirical Archival

Co-authors : *Aerts Walter, University of Antwerp*

We investigate the association between behavioral earnings thresholds and causal reasoning on earnings-related financial outcomes in the MD&A section of the 10-K filing of US firms. Not meeting behavioral earnings thresholds, such as positive earnings, positive earnings change and analyst earnings expectations, is argued to be a significant accountability predicament to which firms tend to respond with more intense use of causal reasoning on performance in order to mitigate expected negative consequences of these events. Our results document a significant positive association between failure to meet earnings thresholds and causal reasoning on earnings-related outcomes. Moreover, we find the association between not meeting behavioral thresholds and causal reasoning to be stronger after a positive multi-year earnings trend when earnings expectations of market participants are likely to be more pronounced and in a weaker information environment with low or non-existent analyst following and low institutional holdings.

FAPS14 *Chair : Philio Shane* Room : **A303**

Product Market Power And Analyst Forecasting Activity: International Evidence

Author : *BINGBING HU, HONG KONG BAPTIST UNIVERSITY*

EA = Empirical Archival

Co-authors : *In-Mu Haw, Texas Christian University*
Jay Lee, Hong Kong Baptist University

This study investigates how a firm's product market power affects the extent of analyst following and analyst forecast properties. Using a broad sample of firms from 38 countries over the period of 1990 to 2008, we find that firms with strong product market power are associated with greater analyst following, higher forecast accuracy and lower forecast dispersion, after controlling for the conventional determinants of analyst forecasting activity. Moreover, the impact of product market power on analyst following and forecast properties is more pronounced in countries with less effective competition laws or higher entry costs. These findings suggest that product market power represents a prominent factor that affects analysts' expectation formation, and that country-level institutions promoting competition constrain the impact of product market power on analyst information production.

WEDNESDAY 14:00-15:30

FAPS14 *Chair : Philio Shane* Room : **A303**

What Drives Sell-Side Analyst Target Price Disagreement?

Author : *TUAN QUOC HO, UNIVERSITY OF BRISTOL*

MB = Market Based

Co-authors : *Martin Walker, MANCHESTER BUSINESS SCHOOL*
Norman Strong, MANCHESTER BUSINESS SCHOOL

We study the determinants of analyst target price disagreement for a sample of 2,016 US listed non-financial companies from 1999 to 2010. We find that while disagreement in short-term earnings and in long-term earnings growth forecasts are significant determinants of target price disagreement, recent 12-month idiosyncratic return volatility has the strongest explanatory power for target price disagreement. The findings suggest that differences in analyst opinions about the impact of recent firm-specific events on value drivers beyond short-term future earnings and long-term growth are the primary determinants of target price disagreement.

WEDNESDAY 14:00-15:30

FAPS14 *Chair : Philio Shane* Room : **A303**

Analysts' Forecast Accuracy And The Reporting Quality Of Earnings

Author : *JAN-FRANCIES VERHESTRAETEN, HU BRUSSELS*

EA = Empirical Archival

Co-authors : *Peter De Goeij, Tilburg University - The Netherlands*
Kristien Smedts, KU Leuven - Belgium
Geert Van Campenhout, HUBrussel - Belgium

This paper investigates whether the quality of earnings information, proxied by four accounting-based earnings properties, influences analysts' forecast accuracy. We find that earnings quality in terms of predictability and smoothness leads to reductions in analysts' forecast errors. However, this effect is conditional on the boldness of the forecast, confirming the superiority of private analyst information in bold forecasts. Further, when distinguishing between innate and discretionary components for each earnings attribute, we find that increases in predictability and smoothness, but also persistence, with respect to the fundamental performance of the company improve forecast accuracy. Management judgment can only increase accuracy when related to predictability. When analysts mainly produce bold forecasts, the effect of these properties on forecast accuracy is smaller, except for innate accruals quality and discretionary persistence, which increase forecast error.

FARF01 Chair : Evelyn Seligmann-Feitosa Room : **A403**

Consistent Estimation Of Earnings Persistence

Author : EHSAN KHANSALAR, KINGSTON UNIVERSITY / KINGSTON BUSINESS SCHOOL

AM = Analytical / Modelling

Co-authors : Eilnaz Kashefi Pour, University of Birmingham

Prior research by Sloan (1996) provides evidence that by using an equation-by-equation application of least squares, accruals are likely to have lower persistence than cash flows. We note that applied models in earnings persistence literature including the work of Sloan (1996) are all typically defined as single-equation least-square regression. Consistent with Christodoulou (2006), we construct a model that applies Seemingly Unrelated Regressions (SUR), using articulation of financial statements in constraining earnings, to compare earnings persistence of accrual components versus cash flow components, which is perceived to yield a consistent estimation of earnings persistence by way of a higher likelihood attached to our applied SUR model and greater precision attached to predictor variables (accruals and cash flow items). The results, which are robust across all industries, show that just two components of accruals – change in accounts receivables and depreciation – have less persistence than the cash flow components and that is not applicable to other components of accruals. This suggests that using SUR model there is no evidence of all accruals having less persistence on future earnings and proposes that the lower persistence of accruals versus cash flows may not be fully due to the notion of subjectivity of accruals mentioned in the work of Sloan (1996) but may rather be due to the specification of the model which is critical to the interpretation of the results.

MONDAY 17:45-19:15

FARF01 Chair : Evelyn Seligmann-Feitosa Room : **A403**

Determinants Of Corporate Cash Holdings: Evidence From The Emerging Market Of Turkey

Author : CEMIL KUZEY, FATIH UNIVERSITY

AM = Analytical / Modelling

Co-authors : Ali Uyar, Fatih University/Department of Management

This study analyzes the factors that might explain the level of corporate cash holdings in a broad sample of Turkish listed non-financial firms over the 1997-2011 period. The empirical results reveal that, on average, Turkish firms hold 8.9% of total assets as cash and cash equivalents. There is a steady increasing trend in cash level across years. Both system and difference GMM regression results are consistent; almost the same variables are significant with the same direction. The findings indicate that previous year cash holding is significant and positive at current year cash level, suggesting that firms have a target cash level. Furthermore, the results revealed that cash flow has positive and significant impact on cash level. However, the amount of capital expenditures, liquid assets used as cash substitute, the degree of tangibility of assets, financial debt ratio, firm size, leverage, and volatility have negative and significant impact on cash level. Most of these explanatory variables were in line with theoretical background and also with previous studies as well.

MONDAY 17:45-19:15

FARF01 Chair : Evelyn Seligmann-Feitosa Room : **A403**

Accounting Comparability: Testing The Performance Of The De Franco, Kothari And Verdi (2011) Measure

Author : FANI KALOGIROU, ESSEC BUSINESS SCHOOL PARIS

AM = Analytical / Modelling

Co-authors : Peter Pope, Cass Business School, City University
Paraskevi-Vicky Kiosse, University of Exeter Business School

In this paper we investigate the performance of the accounting comparability measure introduced in De Franco, Kothari and Verdi (2011). Using Monte Carlo simulations we show that the DKV measure's performance, in identifying comparable accounting systems, significantly deteriorates when accounting incorporates information in returns with a lag, particularly so when firms differ in terms of their cost of capital. Moreover, we find that comparability varies across periods and firms even when accounting systems are identical across both dimensions. We suggest the inclusion of lag returns as explanatory variables in the original earnings-return relation which, despite not improving accounting comparability measurement per se, seems to considerably increase the ability of the measure to rank firms based on accounting comparability.

MONDAY 17:45-19:15

FARF01 — *Chair : Evelyn Seligmann-Feitosa* — Room : **A403**

Implied Cost Of Capital Under Heterogeneous Expectations

Author : FABIAN ECHTERLING, UNIVERSITY OF BAMBERG

Co-authors : Brigitte Eierle, University of Bamberg

AM = Analytical / Modelling

Implied cost of capital has been a research method to measure ex-ante market risk premia using analysts' forecasts and observable share prices. Despite its theoretical appeal, commonly used firm level as well as portfolio level implied cost of capital methods reveal different empirical results. Criticism is provided by Hughes et al. (2009) who show in their theoretical model that implied cost of capital may be misspecified up to three percent (in both directions) from the true cost of capital when considering stochastic components in the underlying valuation formulas. In this paper we develop an econometrically motivated and implementable approach for calculating company values with common discounted cash flow and residual income techniques by considering more realistic heterogeneous expectations of market participants regarding the expected cost of capital and cash flows. Therefore, we use a theoretically consistent distribution for the discount factor and derive company values by integrating over their resulting skewed distributions. With this approach we are able to provide stylized facts which clearly show the one-directional impact of heterogeneous expectations explaining the inconsistent results from firm level as well as portfolio level implied cost of capital estimates reported by previous research. Our approach reveals new insights for company valuation highlighting new parameters that need to be considered in future implied cost of capital research.

MONDAY 16:00-17:30

FARF07 — *Chair : Victoria Clout* — Room : **A405**

Disagreement On Information Risk To The Sensitivity Of Stock Liquidity

Author : HAWFENG SHYU, SUN YAT-SEN UNIVERSITY

Co-authors : ,

EA = Empirical Archival

This paper use actual daily stock holding records of both retail investors and institutional investors in Shanghai Stock Exchange to investigate the effect of information risk on the sensitivity of stock liquidity and on the sensitivity of traders' investment demand. Information risk is defined as an information characteristic of a firm that affects the degree of uncertainty over the firm's fundamental or cash flow, exacerbated by media dissemination. I provide evidence that information risk driven by media coverage escalates aggregate disagreement on fundamentals of the stock among investors, which, in turn, induce stock illiquidity. Moreover, compared to institutional investors, individual investors are more susceptible to this media-driven information risk.

MONDAY 16:00-17:30

FARF07 — *Chair : Victoria Clout* — Room : **A405**

An Examination Of The Relationship Between Earnings Quality And Corporate Social Performance: Evidence From Japan

Author : HITOSHI TAKEHARA, WASEDA UNIVERSITY

Co-authors : Zhaoyang Gu, University of Minnesota
Keiichi Kubota, Chuo University

EA = Empirical Archival

This paper investigates the empirical relationship between quality of accounting earnings and scores in corporate social performance (CSP) of public firms in Japan. In order to investigate this, we adopt several conventional measures of earnings quality used in the empirical accounting field, in particular, the absolute value of accounting accruals as well as measures of real earnings management. For CSP we utilize indices constructed by Suto and Takehara (2012) based on survey data collected and published by Toyo Keizai Shinpousha. Overall, we find the composite CSP level and the five characteristics of CSP are significantly related with earnings quality. The real earnings management measures are related with composite CSP level, social contribution, security and product safety, and internal governance and risk management. Conventional earnings management measures are related with employee relations and environmental preservation. The results indicate that managers of firms which take high values in long-term perspectives tend to avoid short term earnings management, and that firms which employ aggressive earnings management are less likely to attain a higher level of corporate social responsibility. This is the first study in the field which explores the relationship between earnings quality and corporate social performance using Japanese firms.

FARF07

Chair : Victoria Clout Room : **A405**

Corporate Disclosure In Vietnam: A Tale Of Two Cities.

Author : *GLENNDA SCULLY, CURTIN UNIVERSITY OF TECHNOLOGY* EA = Empirical Archival

Co-authors : *Kelly Anh Vu, Mahidol University*
Glennda Scully, Curtin University
Greg Tower, Curtin University

Corporate disclosure in Vietnam: A tale of two cities. Abstract This study is one of the first examining the extent of information transparency amongst Vietnamese listed firms. An analysis of 427 listed firms in 2009 indicates that the Vietnamese capital market still has a low level of information transparency with a large minority (40 percent) of firms failing to provide comprehensive annual reports despite the fact that it is mandatory to do so. Consistent with agency theory tenets, the evidence in this study indicates that a firm's size and profit are positively associated with level of information transparency. Uniquely, this study also finds that a within country variable, stock exchange location, Hanoi or Ho Chi Minh City has an important impact on the level of information transparency with firms listed on Ho Chi Minh Stock Exchange exhibiting significantly higher levels of information transparency that those firms listed on the Hanoi Stock Exchange.

MONDAY 16:00-17:30

FARF07

Chair : Victoria Clout Room : **A405**

Financial Flexibility And Tax Incentives: Evidence From Japanese Defined Benefit Pension Plans

Author : *TAKEFUMI UENO, UNIVERSITY OF SHIZUOKA* EA = Empirical Archival

Co-authors : *Shingo Goto, University of South Carolina*
Noriyoshi Yanase, Tokyo Keizai University

After a major corporate pension reform in Japan in early 2000s, firms sponsoring unfunded book reserve plans have increased more rapidly than those sponsoring externally-funded defined benefit (DB) pension plans. This trend is clearly at odds with the government's aim to promote well-funded corporate pension system, indicating the difficulty of aligning firms' incentives with the policy objective. This research asks why an increasing number of Japanese firms forgo tax advantages of DB pension to sponsor only book reserve plans. We show that small growth firms with high financial leverage are more likely to choose only book reserve plans. Firms that sponsor only book reserve plans have lower expected profitability. These results suggest that firms with stronger demand for financial flexibility tend to choose book reserve plans over DB pension plans.

MONDAY 16:00-17:30

FARF07

Chair : Victoria Clout Room : **A405**

The Effect Of Accruals Quality On Bond Prices

Author : *RICHARD PRICE, UTAH STATE UNIVERSITY* EA = Empirical Archival

Co-authors : *Pietro Perotti, University of Graz*
Richard Price, Utah State University
Chris Skousen, Utah State University

We examine the effects of accruals quality on the returns of bonds. The findings suggest that future bond returns are predictably related to accruals quality, in a way similar to stock returns. Specifically, the future bond returns of firms with high accruals quality underperform those of firms with low accruals quality. These results are robust to various specifications, including pooled tests where abnormal bond returns are calculated by matching bonds to characteristic-based portfolios along dimensions of duration and rating.

MONDAY 17:45-19:15

FARF08

Chair : David Alexander Room : **A405**

Analysts' Consensus Forecasts: A Social Construct

Author : ISABELLE CHAMBOST, CNAM - NATIONAL SCHOOL OF THE ARTS AND PROFESSIONS

IC = Interdisciplinary / Critical

Co-authors : ,

While it is often asserted that "the financial markets think…", the markets, a chain or network with unclear boundaries, remain difficult to grasp as a reality. This fleeting view is nonetheless materialised in an eminently tangible way in stock market prices, and also through the "analyst consensus". Intended primarily for investors, the consensus provides an overview of the opinions issued by securities analysts in the form of figures. This objective of this paper is to analyse how this representation in figures fulfils a role as a "cognitive artefact" for the analysts themselves, and is part of an "economic agencement". The dialectic of this tool is underlined, as the creation of the consensus results from interactions between actors, who "model" it, each in their own way. But once rolled out, the consensus produces a representation in itself, presenting objectivised characteristics and disciplining behaviours. As an information instrument, a benchmark, a standard, these "management tools" lead the analyst to pay attention to 'what the market thinks", "why it thinks so", and also "what the analyst himself should think".

MONDAY 17:45-19:15

FARF08

Chair : David Alexander Room : **A405**

Linguistic Characteristics Of Analyst Reports

Author : KAROL KLIMCZAK, KOZMINSKI UNIVERSITY

IC = Interdisciplinary / Critical

Co-authors : Karol Klimczak, Kozminski University
Marta Dynel, University of Lodz

The literature on the linguistic characteristics of analyst reports and corporate disclosures shows that language used in narratives conveys information beyond that contained in quantitative financial information. Linguistic tone and certainty help predict future performance and affect stock market reactions to disclosures. This paper contributes an analysis of linguistic characteristics in a non-English language, Polish. The Polish language uses verb conjugation like German and French, so the results of the study offer insights into international differences in the linguistic characteristics of financial narratives. We follow the methodology of pragmatics and analyse the content of 73 analyst reports to determine what pragmatic strategies are employed by analysts in conveying their assessment of corporations. We find that analysts vary in the use of explicit as opposed to implicit evaluations, and in the use of hedging. Analysts use subjectivisation (e.g. "our assessment"), depersonalization and time deixis (specific assessments of past, present, future) to reduce their accountability for erroneous forecasts.

MONDAY 17:45-19:15

FARF08

Chair : David Alexander Room : **A405**

The Fair Value Of Executive Compensation: The Case Of Redeemable Equity Warrants

Author : FRANÇOIS LARMANDE, EM LYON

IC = Interdisciplinary / Critical

Co-authors : Loïc Belze, EMLYON
Lorenz Schneider, EMLYON

Accounting standards, IFRS2 and SFAF123R, recommend to use formal valuation models to measure the fair value of share based payments. This paper analyses the possible manipulation of these valuation models. A two-fold issue is addressed: first, the discretionary choice of the volatility input which has revealed mixed results in the earlier literature; second, the manipulation of the valuation model itself. As data on stock options are often scarce in Europe, we review the fair value measurement of redeemable warrants, a special case of listed employee stock options used in France. As public securities, a detailed disclosure of their fair value measurement is required by the market regulation which reveals an average 40% discount on a standard model valuation. We provide an in-depth analysis of this discount that is often justified by the existence of transaction costs. When factored in, these costs actually reveal a range of possible prices and accounting standards have never addressed this issue. The latter assume that a model properly calibrated would give only one price. However, when considering the range of possible prices in the case of redeemable warrants, the lower bound is systematically used. By contrast, we argue that no discount is justified for the measurement of a liability like share based payment: only a premium should be considered. Then, when analyzing the choice of the volatility input in the model, we show that discretion is at work to systematically lower the warrant value again. After reviewing other measurement issues, we show that these executive warrants are underpriced by an up to 66% discount. Our findings shed light on the necessary improvement of the process for fair valuing share-based payment instruments leading to a better specification of ex ante admissible valuation techniques and a better ex post control of their implementation.

MONDAY 17:45-19:15

FARF08 — *Chair : David Alexander* — Room : **A405**

Which use of accounting numbers by people with no accounting knowledge? The case of French professional football

Author : *FLORIANE JANIN, HEC PARIS*

IC = Interdisciplinary / Critical

Co-authors : *,*

This paper explores how people with no accounting knowledge behave towards accounting numbers. I investigate how such people can use accounting numbers politically, to defend their own opinion and interests. In the context of a general dispute about the "best" business model for the future of French professional football, this paper examines the use of accounting numbers in debates between sports journalists, former players and coaches, and listeners on a popular football radio program in France. The paper shows how the staging of a particular feature of accounting can be used as "ammunition" for these various actors to promote a specific business model in these debates. When staged as a "good representation" of reality, accounting numbers appear to serve as ammunition to promote an "industrial" business model for French professional football clubs. On the contrary, when staged as a "simulacrum", they instead appear to serve as ammunition to promote a "market-fame" business model. This paper contributes to the literature on accounting as simulacrum and "hyperreality". Firstly, it offers a number of empirical elements suggesting the existence of an "accounting hyperreality" in the media. Secondly, it shows that this accounting hyperreality co-exists with an "accounting reality" that is just as strong. Thirdly, it contributes to the conflicting theories of Macintosh et al. (2000) and Graham (2008) on the behavior of the masses towards accounting information.

MONDAY 17:45-19:15

FARF08 — *Chair : David Alexander* — Room : **A405**

Information In Aggregate Accounting Numbers: A Review

Author : *MARIA APOSTOLIDI, ATHENS UNIVERSITY OF ECONOMICS AND BUSINESS*

IC = Interdisciplinary / Critical

Co-authors : *Dimosthenis Hevas, Athens University of Economics and Business*

Research on the information content of accounting numbers has been crucial for understanding accounting's role, impact and power. Literature on the informational role of aggregate accounting numbers is narrow, but it has recently been expanding, unraveling some very interesting and important aspects of accounting numbers. This paper provides a review of the current research pertaining to the relation among aggregate accounting numbers, capital markets and macro-economy. This review concludes that research has generated, and still has a long road to generate, many valuable insights and implications that might be useful to publicly listed corporations' strategies, capital market investors' decisions, fiscal and monetary policy setters' measures, and finally accounting standard setters' policies.

TUESDAY 11:00-12:30

FARF02 — *Chair : Anastasia Kopita* — Room : **A403**

The Impact Of Intangibles On Value Creation: Comparative Analysis Of The Gu&lev Methodology For The United States Software And Hardware Sector.

Author : *LEONARDO FERNANDO CRUZ BASSO, MACKENZIE PRESBYTERIAN UNIVERSITY*

EA = Empirical Archival

Co-authors : *Leonardo F. C. Basso, Mackenzie Presbyterian University*
Herbert Kimura, Mackenzie Presbyterian University
Juliana A. Saliba, Mackenzie Presbyterian University
Erica S. Braune, Mackenzie Presbyterian University

This article compared the proposal for measuring intangibles of Gu&Lev for the sectors of software (classified in services) and equipment and technology for computing (classified in industry) in the United States. The idea of comparing the sectors arose from the discovery in two previous papers of a discrepancy in the results mainly for the indices proposed by Gu&Lev to measure intangibility and their impact on value creation. The database used was Thomson-Reuters collected in Datastream, with information covering the period from 2001 to 2010. Gu&Lev (2003, 2011) present a proposal that aims to calculate a variable, comprehensive value, which encompasses the tangible and intangible assets of the company and are therefore a proxy for their market value. If this variable explains the market value, it is a solution to a problem that afflicts accountants, which is how to account for intangibles in the balance sheet. They also propose two other variables, one that is a proxy for the flow of intangibles (Intangibles-Driven-Earnings- IDE), and another that is a proxy for the stock of intangibles (Intangible Capital -IC). They present a set of hypotheses that relate traditional variables linked to intangibility (research and development expenditures - RD, selling, general and administrative expenses - SGA, and investment in fixed capital - CAPEX) with the flow (IDE), stock of intangibles (IC) and intangibility indicators that explain the shareholder return.

FARF02 *Chair : Anastasia Kopita* Room : **A403**

A Non-Additive Accounting Valuation Model Based On The Aggregation Of Interacting Assets

Author : *JEAN-FRANÇOIS CASTA, PARIS DAUPHINE UNIVERSITY* EA = Empirical Archival

Co-authors : *Luc Paugam, ESSEC Business School*
Hervé Stolowy, HEC Paris

We introduce a non-additive accounting valuation model that explains the creation and measures the value of synergies between assets in place. Our model is based on the idea that firm value is affected by interactions between assets used in combination to conduct business. We use Choquet capacities, i.e. non-additive aggregation operators, to measure the interactions between assets, and apply our model on a sample of industrials firms, uncovering their underlying asset structure. In order to test the validity of our model, we examine the relations between synergies – captured by Choquet capacities – and market-to-book ratio. We find consistent results as synergies between assets vary with market-to-book ratio in a predictable manner. Our model has three possible applications: (1) valuation of private firms given that it only requires balance sheet data, (2) valuation of firms based on a learning sample of industrial peers, (3) partial explanation of the so-called market-to-book "black box".

TUESDAY 11:00-12:30

FARF02 *Chair : Anastasia Kopita* Room : **A403**

Use Of Probabilities In Measurement: Implications For Equity Values

Author : *MARC BADIA, IESE BUSINESS SCHOOL, UNIVERSITY OF NAVARRA* EA = Empirical Archival

Co-authors : *Miguel Duro, Columbia Business School*

The role of probability thresholds in accounting standards has shifted from recognition (e.g. SFAS No.5) to measurement (e.g. SFAS 143, 144). Probabilities are now embedded in expected present value calculations but are not typically disclosed. I identify a unique setting to test whether investors use and understand probability thresholds for equity valuation. This paper studies a recent regulatory change that requires Canadian oil and gas firms to disclose the breakdown of their oil and gas reserves estimates into two categories, proved and probable, dependent on the probability of eventual production. The findings support the hypothesis that investors attach different market values to each category of reserves consistently with the associated probabilities. The investors' market value weights vary with proxies for size, information risk, and, surprisingly, idiosyncratic risk. These findings are relevant for regulators in their current deliberations on the role of probability thresholds in general and oil and gas disclosure requirements in particular.

TUESDAY 11:00-12:30

FARF02 *Chair : Anastasia Kopita* Room : **A403**

All In The Family: Earnings Management Through Non-Listed Subsidiaries

Author : *MASSIMILIANO BONACCHI, PARTHENOPE UNIVERSITY OF NAPLES* EA = Empirical Archival

Co-authors : *Fabrizio Cipollini, University of Florence*
Paul Zarowin, Stern School of Business

We find evidence consistent with the hypothesis that non-listed subsidiaries engage in accrual and real earnings management when their listed parent is reporting small annual profit. Our evidence is important, because it shows that business groups manage earnings differently from single firms. In particular, to avoid reporting annual losses, the parent company drives earnings management of the subsidiary.

TUESDAY 11:00-12:30

FARF02

Chair : Anastasia Kopita Room : **A403**

Earnings Management To Avoid Delisting

Author : *ALES CORNANIC, CHARLES UNIVERSITY IN PRAGUE* EA = Empirical Archival

Co-authors : ,

Managers of firms which are facing the threat of being involuntary delisted have high incentive to manipulate accrual in order to boost their stock price and avoid the delisting. In this paper, we test this incentive on firms experiencing stock price per share below $1.00 for 30 consecutive trading days by which they do not comply the minimum bid price requirement over period 1998 – 2011 as another capital market motivation for earnings management. The discretionary accruals are estimated based on standard modified Jones model and also controlled for performance bias using performance matching procedure. We provide the significant evidence that performance-matched discretionary accruals of firms which are facing the danger of being delisted are more likely income–increasing compared to control group. In addition, we also find evidence that firms facing the threat of delisting and afterwards continued listing will more likely manipulate the discretionary accruals. Our results also support the importance of performance matching in case of earnings management study focused on firms in financial distress. The results based on performance-matched discretionary accruals tend to emphasize the income-increasing effect for threatened firms that continue listing and tend to weaken the income decreasing effect in case of delisting-threatened firms.

TUESDAY 16:00-17:30

FARF03

Chair : Yvonne Kreis Room : **A403**

Under Siege: The Current Paradigm In The Field Of Financial Statement Analysis

Author : *STEVEN DE KLERCK, UNIVERSITY OF ANTWERP* EA = Empirical Archival

Co-authors : *Jan Annaert, Antwerp University*
Marc De Ceuster, Antwerp University

Nissim and Penman (2001) refer to Security Analysis by Graham and Dodd (1962) as one of the historical cornerstones in the field of financial statement analysis. A careful reading of the original 1934 edition of this work results in the identification of fundamental differences with the current vision on the implementation of a financial statement analysis. We discuss the fundamental differences, we advance four investment techniques that embody these fundamental distinctions and assess the effectiveness of the four investment techniques. Based on our empirical findings we raise doubts about whether the new paradigm introduced in the field of financial statement analysis and equity valuation since the beginning of the 1960s can actually be qualified as a true advancement.

TUESDAY 16:00-17:30

FARF03

Chair : Yvonne Kreis Room : **A403**

Permanent Earnings Vs. Reported Earnings: Does The Average Difference Approximate Zero?

Author : *JUAN MANUEL GARCIA LARA, CARLOS III UNIVERSITY, MADRID* EA = Empirical Archival

Co-authors : *Christos Grambovas, Universidad Carlos III de Madrid*
James Ohlson, New York University
Martin Walker, Manchester Business School

This paper evaluates the hypothesis that the difference between reported earnings and permanent earnings approximates zero, on average. We measure a firm's permanent earnings using its stock price, and the short term interest rate determines the permanent earnings to price relation. The hypothesis corresponds to the idea that a firm's capitalized reported earnings minus the stock price equals some "noise" which on average approximates zero. In valuation terms, the hypothesis depends on growth and risk cancelling each other, on average; our modeling does not depend on, or imply, risk-neutrality. US data supports the hypothesis: reported earnings exceed permanent earnings in about half of all cases. However, the proportion of pluses vs. minuses can deviate materially from 50% in any year, and there is marked time-series correlation. The "zero average" holds only because we evaluate several decades of data. The permanent earnings hypothesis will not hold if the accounting approximates fair value accounting. Such accounting is in line with Hick's concept of economic earnings, and it differs from traditional GAAP accounting. Per theory, economic earnings should exceed permanent earnings, on average. We consider this angle to the 50-50 proposition by examining financial firms. Earnings for such firms should to some extent tilt towards Hick's earnings concept. The data supports the hypothesis: reported earnings exceed now permanent earnings significantly more than 50% of the time.

TUESDAY **16:00-17:30**

FARF03

Chair : Yvonne Kreis Room : **A403**

The Impact Of Crisis On Determinants Of Leverage: European Evidence

Author : *ANDREI FILIP, ESSEC BUSINESS SCHOOL PARIS*

EA = Empirical Archival

Co-authors : *Victoria Krivogorsky, San Diego State University*
Gun Joh, San Diego State University

This paper investigates the role of institutions and macroeconomic indicators of economic health in determining firms' leverage before and after the financial shocks in Europe in 2008. The importance of this investigation stems from the current state of the global economy, where market confidence has been severely impacted in virtually every area. In light of this, estimation of the risk associated with a firm is more challenging now than at any time in recent history. We go about our examination using cluster analysis and find a significant reduction in the use of debt from the pre- to post 2008 period. Among country specific variables, direct foreign investment into firms, maturity of credit laws, availability of bank funds and GDP growth ratio gain significance in their bearing on using both bank loans and bonds after 2008. The public deficit ratio and national variations in use of debt vs. equity significantly impact only the use of bonds after 2008. We also document evidence that country risk and inflation impact companies' financing decisions.

TUESDAY **16:00-17:30**

FARF03

Chair : Yvonne Kreis Room : **A403**

Friends In Need Are Friends Indeed: The Effects Of Social Ties Between Financial Analysts And Mutual Fund Managers

Author : *ZHAOYANG GU, THE CHINESE UNIVERSITY OF HONG KONG*

EA = Empirical Archival

Co-authors : *Guangqing Li, Shanghai Univerisyt of Finance and Economics*
Zengquan Li, Shanghai University of Finance and Economics
George Yang, Chinese University of Hong Kong

We investigate how social ties developed at workplace between financial analysts and mutual fund managers lead to their biased behavior. We show that, for stocks held by mutual funds, analysts socially connected with the fund managers issue more optimistic recommendations than unconnected analysts. This effect holds after controlling for other ties between analysts and fund managers such as ownership of analysts' brokerages in the funds or allocation of trading commission fees by the funds to the analysts' brokerages. In return, analysts are more likely to be voted as star analysts when a larger proportion of voters are connected fund managers. Analysts' brokerages are also likely to obtain larger trading commission fees from funds with connected managers. Collectively, these results suggest that social ties play an important role in the business decisions of financial analysts and mutual fund managers.

TUESDAY **16:00-17:30**

FARF03

Chair : Yvonne Kreis Room : **A403**

When are directors' purchases a credible signal in corporate acquisitions?

Author : *CHRISTINA DARGENIDOU, UNIVERSITY OF EXETER*

EA = Empirical Archival

Co-authors : *Christina Dargenidou, UNIVERSITY OF EXETER*
Fanis Tsoligkas, UNIVERSITY OF BATH
Ian Tonks, UNIVERSITY OF BATH

Directors' purchases of their firms' shares have been considered as a credible signal of their commitment to shareholders' value maximisation as well as a signal of overconfidence. Using the context of the announcement of a major investment decision, i.e. corporate acquisitions, we find that directors' purchases accompanied by income increasing discretionary accruals are penalised by market participants as a sign of overconfidence. On the other hand, when the underlying acquisition involves a significant diversion of resources, directors' purchases accompanied by income decreasing and typically, reserves' building discretionary accruals are rewarded as a credible signal of insiders' commitment.

TUESDAY 9:00-10:30

FARF09 *Chair : Pengguo Wang* Room : **A405**

The Accrual Anomaly: Insights From European Equity Markets

Author : *GEORGIOS PAPANASTASOPOULOS, UNIVERSITY OF PIRAEUS* MB = Market Based

Co-authors : *,*

In this paper, I show a generalization of the negative relation of traditional accruals and percent accruals with future returns in eleven of sixteen European countries. Positive abnormal returns from hedge portfolios on both accrual measures summarize the economic significance of this generalization, while the magnitude of returns is higher for traditional accruals (in contrary with existing evidence from the U.S. capital market). The magnitude of the accrual effect on stock returns based on both accrual measures is stronger in countries with higher individualism, higher equity-market development and lower concentration ownership. Equity-market liquidity has a positive impact only on the accrual effect based on traditional accruals, while shareholder protection and permission to use accrual accounting have a positive impact only on the accrual effect based on percent accruals. Legal origin and earnings opacity appear to not exhibit a significant influence. Overall, the paper suggests inability to adjust for potential managerial empire building tendencies and/or overconfidence & self attribution bias about a firm's investment opportunities, as underlying driving forces of the accrual anomaly.

TUESDAY 9:00-10:30

FARF09 *Chair : Pengguo Wang* Room : **A405**

Scores Based On Fundamental Signals, Persistence Of Market Anomalies, And Limits To Arbitrage

Author : *MARIA T. TASCON, UNIVERSITY OF LEÓN* MB = Market Based

Co-authors : *Borja Amor Tapia, University of Leon*

Our work tests the usefulness of score measures based on fundamental signals (FSCORE1, FSCORE2, GSCORE and PEIS) in an out-of-sample study during the last three decades. While previous research, mainly focused in US, shows that fundamental signals derived from financial statements allow for future abnormal stock returns, our European sample documents that some of them (FSCORE2 and PEIS) do not work as a source of market anomalies. By contrast, two other fundamental signals (FSCORE1, GSCORE) still allow for abnormal returns in our sample and period. We also contribute to the market efficiency debate by documenting the role of idiosyncratic volatility, transaction costs and noise trader risk, in the persistence of market anomalies, supporting the existence of limits to arbitrage for these investment strategies.

TUESDAY 9:00-10:30

FARF09 *Chair : Pengguo Wang* Room : **A405**

Fair Value Effects On The Information Content Of Accounting Data

Author : *CHRISTOS NEGAKIS, MACEDONIA UNIVERSITY* MB = Market Based

Co-authors : *Dimitrios Kousenidis, ARISTOTLE UNIVERSITY OF THESSALONIKI*
Anestis Ladas, UNIVERSITY OF MACEDONIA

We investigate the effects of the IFRS implementation on the value relevance of the book values of equity and earnings and particularly whether any of these effects can be attributed to the use of fair value accounting. The use of valuation models that control for various methodological issues, i.e., scale effects, outliers and heteroscedasticity reveals a decrease in the combined value relevance of the book values of equity and earnings in the post-IFRS period. However, under an incremental information content framework, we show that only the book values of equity have lost some of their information content as a consequence of the introduction of the IFRS. Further research indicates that the observed reduction in the value relevance of the book values of equity is partially attributed to the application of fair value accounting. However, we report that in the post-IFRS period the use of fair value has led to an increase in the information content of earnings. These results do not conform with the concept of fair value accounting, which focuses on book values being closer to market values. Therefore, our results suggest that the practical implementation of fair value accounting in Greece has led to the weakening of its conceptual merits.

TUESDAY **9:00-10:30**

FARF09

Chair : Pengguo Wang Room : **A405**

Do Firm-Specific Characteristics Of Accruals And Operating Cash Flows Predict Earnings Persistence And Stock Prices?

Author : *MAX HEWITT, INDIANA UNIVERSITY / KELLEY SCHOOL OF BUSINESS*

EA = Empirical Archival

Co-authors : *Andrew Call, University of Georgia*
Terry Shevlin, University of California-Irvine
Teri Yohn, Indiana University

Research on the differential persistence of accruals and operating cash flows generally employs cross-sectional analyses. However, financial analysis is generally performed at the firm level, and prior research suggests time-series estimates of firm-level differential persistence of accruals and operating cash flows cannot be exploited for forecasting or trading purposes. We mathematically decompose earnings persistence into three firm-specific characteristics of accruals and operating cash flows: differential persistence, the relative size, and the relative sign of these components. Using a large sub-sample of observations where the persistence of operating cash flows is greater than the persistence of accruals, we find that a model that combines these three firm-specific characteristics improves forecasts of earnings persistence relative to forecasts of earnings persistence based on historical aggregate earnings. We also find that trading strategies based on our model's firm-specific forecasts earn abnormal returns, and that these returns do not diminish over time, unlike the returns from the cross-sectional accrual anomaly. Our study demonstrates that historical firm-specific estimates of differential persistence can be used to improve forecasts of year-ahead earnings persistence and identify equity mispricing.

TUESDAY **9:00-10:30**

FARF09

Chair : Pengguo Wang Room : **A405**

Minimum Trade Unit Regulation And Market Quality

Author : *PIETRO PEROTTI, GRAZ KARL-FRANZENS UNIVERSITY*

MB = Market Based

Co-authors : *Arie Gozluklu, University of Warwick*
Barbara Rindi, Bocconi University
Roberta Fredella, Bocconi University

Financial market regulators often impose a minimum trade unit (MTU) to facilitate order execution. This paper examines the effects of the unique natural experiment of Borsa Italiana, where in 2002 the MTU was exogenously reduced by the exchange to one unit. After the reduction, we observe an improvement in liquidity, measured by a decrease in the bid-ask spread and in the price impact of orders as well as by an increase in market depth; we also document a decrease in adverse selection costs whereas informational efficiency is not affected by the microstructure change. The results are consistent with a model in which asymmetrically informed traders can choose their order size.

TUESDAY **11:00-12:30**

FARF10

Chair : Yuyan Guan Room : **A405**

Accelerated Share Repurchases, Supplemental Executive Retirement Plans And Ceo Turnover

Author : *SUSAN YOUNG, FORDHAM UNIVERSITY*

EA = Empirical Archival

Co-authors : *Christine Tan, Fordham University*

We investigate whether managers use accelerated share repurchases (ASR) to increase their long-term compensation. We focus on an area of compensation which often falls under the radar of investors and the financial media – supplemental executive retirement plans (SERPs). We examine companies that repurchase stock during 2004 to 2010 and find that the decision to undertake an ASR (versus an OMR) is significantly associated with the presence of SERPs as well as the presence of SERPs together with a voluntary change in CEO. Our results are robust to controls for capital market incentives, signaling effects, managerial power, and other factors commonly associated with repurchase decisions. In additional testing, we explore the variance in SERP disclosure and examine performance-contingent SERPs. We find that ASR firms are more likely than OMR firms to have SERPs that are explicitly tied to bonus compensation and have bonus compensation tied to EPS.

TUESDAY 11:00-12:30

FARF10 *Chair : Yuyan Guan* Room : **A405**

Value Relevance Of Smoothed And Fair Value Pension Accounting According To Ias 19 In German Listed Firms.

Author : *JERRY WOUTERSON, NYENRODE UNIVERSITY* MB = Market Based

Co-authors : *Henk Langendijk, Nyenrode Business University and University of Amsterdam*

This paper examines the difference in value relevance of the pension accounting components and options in IAS 19 for German listed firms. Prior research is inconclusive with respect to which components of pension accounting and which method of pension accounting is more value relevant. We demonstrate that pension balance sheet components are value relevant while pension income statement components are not. Moreover, our research shows that unrecognized actuarial gains and losses are not value relevant in case smoothed pension accounting has been applied by the firm. Finally, we show that there is no difference in value relevance of the net pension liability measured under fair value pension accounting and measured under smoothed pension accounting. The results of our research indicate that the present change in IAS 19R to come to full fair value pension accounting, abandoning smoothed pension accounting, and changing the calculation method for the expected return on plan assets, does not increase accounting standard quality.

TUESDAY 11:00-12:30

FARF10 *Chair : Yuyan Guan* Room : **A405**

Are Related-Party Sales Value-Adding Or Value-Destroying? Evidence From China

Author : *RAYMOND M. K. WONG, CITY UNIVERSITY OF HONG KONG* MB = Market Based

Co-authors : *Jeong-Bon Kim, City University of Hong Kong*
Agnes W. Y. Lo, Lingnan University, Hong Kong

This study examines a hitherto underexplored issue of whether and how related-party transactions among firms within the same business group increase or reduce firm value. Using a sample of Chinese listed firms during the period of 2002-2009, we find that abnormally high related-party sales increase firm value. This supports the view that related-party transactions are used as a tool for improving intragroup resource allocation efficiency. However, this value enhancement by related-party sales disappears (i) for firms with a large percentage of parent directors, (ii) for firms with high government ownership, or (iii) for firms with tax avoidance incentives that are often coupled with management's rent extraction activities. Although we find that intragroup sales improve firm value in general, we also find that controlling shareholders and management use the intragroup sales to deprive value from minority shareholders. Overall, our findings highlight the interplay between the influence of controlling shareholders, corporate tax avoidance, and the value of related-party transactions.

TUESDAY 11:00-12:30

FARF10 *Chair : Yuyan Guan* Room : **A405**

The Existence And Disclosure Of Intangibles Versus Corporate Financial Performance In French Mergers & Acquisitions

Author : *EVELYN SELIGMANN-FEITOSA, FEDERAL UNIVERSITY OF PIAUI* AM = Analytical / Modelling

Co-authors : *Evelyn Seligmann-Feitosa, Universidade Federal do Piaui - UFPI*
Leonardo Basso, Universidade Presbiteriana Mackenzie
Diógenes Bido, Universidade Presbiteriana Mackenzie
Herbert Kimura, Universidade Presbiteriana Mackenzie
Iratan Feitosa, Universidade Federal do Piaui - UFPI

Aiming for superior performance, companies need to have and skillfully use rare, valuable, irreplaceable and inimitable resources, with special emphasis on intangibles. These include brand names, customer bases, knowledge, skills and competence of work teams, corporate culture, partnerships and established operating processes, among others, usually arising from a long and risky development processes. Mergers and acquisitions (M&A) arise as an important strategic alternative mean for obtaining and accelerating acquisition of these resources by companies. This paper discusses the importance of existing intangible assets disclosed prior to M&A transactions, their rating into various types, measurement and their impact on the resulting entity's financial performance in the long run. To analyze how the financial performance, after 36 months of M&A, is related to the previous existence/disclosure of intangibles, we built textual-based indicators of disclosure and use and use financial measures of intangibles to compare their explanatory power for growth and corporate profitability. Using Structural Equations, via Partial Least Squares (SEM-PLS), we find positive relations among these indicators, validating the strategic option for the M&A.

FARF10 *Chair : Yuyan Guan* Room : **A405**

Linguistic Content Of The Letter To Shareholders: Comparing Us, Uk And Hong Kong Firms

Author : *BEIBEI YAN, UNIVERSITY OF ANTWERP* EA = Empirical Archival

Co-authors : *Walter Aerts, University of Antwerp*

In this paper, we study linguistic properties of the letter to shareholders in US, UK and Hong Kong (HK) firms. We investigate firm-level determinants and the influence of institutional and cultural differences on the verbal stance of the firm. The effect of the institutional environment is examined by comparing linguistic content of US and UK firms in a longitudinal setting. By adding HK firms to our sample, we add a cultural dimension to our investigation. We test 1447 firm-year observations and use automated text analysis procedures to measure linguistic characteristics of affective tone, of the use of cognitive mechanisms and of personalization. We discern three dominant linguistic profiles with rhetorical effect (labeled as 'emphatic assertiveness', 'cautious sensegiving' and 'rational appeal'). We find that all three composite rhetorical profiles are significantly more common in US firms than in UK and HK firms. When comparing US and UK firms, we find a significant interaction effect of performance volatility and country, suggesting that institutional scrutiny does not directly constrain the rhetorical stance of a firm, but that it has a significant indirect effect through strengthening the impact of credibility concerns on linguistic behavior. We also find a significant cultural (East/West) effect with especially much less presentational assertiveness in HK firms relative to US and UK firms.

TUESDAY **14:00-15:30**

FARF11 *Chair : Elisabetta Barone* Room : **A405**

Analysts' Perceptions Of Goodwill Accounting Under Ifrs

Author : *KATI PAJUNEN, UNIVERSITY OF EASTERN FINLAND* SU = Survey

Co-authors : *Jani Saastamoinen, University of Eastern Finland*

Research literature suggests that the goodwill accounting rules of IFRS and US GAAP can be used to earnings management. This study explores financial analysts' perceptions about goodwill accounting based on IFRS. The data is a survey to Finnish financial analysts. Both quantitative and qualitative data was collected, and we adopt the mixed-method approach in the analysis. We find that there are two lines of thought concerning goodwill accounting under IFRS among financial analysts. The first line of thought approves the new valuation rules and does not perceive problems in managerial discretion. The second line exhibits a more critical stance seeing earnings management and opportunistic behavior stemming from goodwill impairment loss decisions. We find also that criticizing goodwill accounting is the general discourse among financial analysts.

TUESDAY **14:00-15:30**

FARF11 *Chair : Elisabetta Barone* Room : **A405**

Managers' Cost Of Equity Capital Estimates: Empirical Evidence

Author : *KEVIN VEENSTRA, MCMASTER UNIVERSITY* SU = Survey

Co-authors : *Stephannie Larocque, University of Notre Dame*
Alastair Lawrence, University of California at Berkeley

Using actual practice data from U.S. corporate treasury executives, we document managers' internal estimates of their firms' cost of equity capital (COEC) and extrapolate managers' estimation practices to the broader population of public firms. We find that managers' COEC estimates are fairly similar across public and private firms and we show that, in terms of common practice assumptions, those for the risk premium have the greatest impact on managers' average COEC estimates followed by the risk-free rate and then by Beta measurement assumptions. We find that managers' estimates are most correlated with estimates reverse-engineered following Easton (2004) and Gode and Mohanram (2003). Moreover, manager COEC estimates generally perform well in predicting future returns, particularly for larger firms and for firms with fewer growth options.

TUESDAY **14:00-15:30**

FARF11

Chair : Elisabetta Barone Room : **A405**

The Ifrs Adoption Index: A Measure Of Accounting Harmonisation

Author : *DAVID PROCHAZKA, UNIVERSITY OF ECONOMICS IN PRAGUE*

IC = Interdisciplinary / Critical

Co-authors : ,

The worldwide harmonisation of accounting represented by implementation of the International Financial Reporting Standards responds to capital markets demand for high-quality, comparable and useful accounting information. The research evidence an increased usefulness of financial statements prepared in accordance with IFRS in adopting countries. However, the successful adoption of IFRS brings a huge challenge to all sorts of empirical research focusing on the role of IFRS adoption on certain economic variables. When analysing effect of the IFRS on "country-by-country level", the researchers have to control somehow for the fact that IFRS are spread almost over all around the world. Except for some cases, all important world economies have already adopted the IFRS, which are required or allowed for the use by listed companies and even also by non-listed companies in certain jurisdictions. To make valid comparison among countries, a sophisticated model evaluating different level of the IFRS adoption has to be developed. The aim of paper is to show some theoretical approaches to solving this newly arising important research issue.

TUESDAY **14:00-15:30**

FARF11

Chair : Elisabetta Barone Room : **A405**

Profitability Measurement Activities And Attitudes In Estonian Companies

Author : *JAAN ALVER, TALLINN UNIVERSITY OF TECHNOLOGY*

SU = Survey

Co-authors : *Ruth Alas, Estonian Business School*
Maret Branten, Estonian Business School

The paper scrutinises whether and how the Estonian companies use and analyse the profitability measures. On the one hand, the profitability measures should be a central component of the management control systems, but on the other hand, they should be linked to the wealth measurement objective. Therefore the importance of a quality analysis in companies in the aforementioned field cannot be overestimated. The activities of Estonian companies and their attitudes to profitability analysis have been considered by using the results of a survey carried out in companies with an aim of drawing attention to the areas which need improvement. It has been identified how the companies make use of the traditional income statement in the analysis process, and whether any adjustment are needed; whether profits as a manifestation of the value of a company merit attention; whether attention is accorded to the capital maintenance problem and the price of capital – hence the real growth of the wealth; whether the cash-based profit and contribution margin etc. are analysed. An accountant's role in the analysis process is also under consideration. KEY WORDS: income statement, profitability analysis, profitability measures.

TUESDAY **14:00-15:30**

FARF11

Chair : Elisabetta Barone Room : **A405**

Are Credit Rating Agencies, "thermometers That Create Climate"?

Author : *AHMED NACIRI, UNIVERSITY OF QUÉBEC IN MONTRÉAL*

HI = History

Co-authors : ,

Credit Rating Agencies were openly and strongly decried for their lack of governance rules and their sins were suddenly unraveled: Lack of appropriate regulation, lack of sufficient competition, conflicts of interest, excessive remuneration, etc., they seem to emerge unscathed. Agencies seem, however, to be here to stay and the question is not as much how to get rid of their oligopoly but rather how to create the appropriate environment for their good governance, although the path of redemption appears to be full of pitfalls. This paper has several objectives: First, it shows how three rating agencies (Big3) had spun their web of control over 90% of the world rating market; Second, it explains why coexisting with the Big3 oligopoly would seem inevitable, at least in the short run; Third, it explains why, in the long run and for the sake of better governance, the market dependence to the Big3 must be reduced. Finally, it explores ways that could be followed to improve Big3 governance and warns for the pitfalls to be expected. It concludes that only when rating agencies are obliged to operate in a market where nobody is forced to use their services, the problem will be solved.

FARF12

Chair : Parmod Chand Room : **A403**

Challenging The Effectiveness Of Government Grants In Supporting The Business Sector: Some Evidence From Italian Smes

Author : *ALESSANDRO MURA, UNIVERSITY OF CAGLIARI* AM = Analytical / Modelling

Co-authors : *Milena Serra, Cagliari University*
Laura Mulas, Cagliari University

This paper aims at demonstrating that government grants related to assets do not increase the financial performance of established recipient firms as these subsidies are unable to trigger investment projects that are more efficient than those financed via either equity or debt. Using a sample of small and medium-sized Italian manufacturing enterprises for the years 2002 until 2009, we analyse the differences in the creation of value added (VA) between a group of recipient firms and a matched group of non-recipient firms. The results of a set of univariate and multivariate tests reinforce each other in showing that VA is significantly negatively related to the size of government grants. These findings present severe policy implications and question the overall effectiveness of government grants in supporting firms.

TUESDAY 14:00-15:30

FARF12

Chair : Parmod Chand Room : **A403**

Can Excellence In Corporate Social Performance Improve Investors' Financial Assessments And Credibility Of Managers' Forecasts?

Author : *ANDRES GUIRAL, YONSEI UNIVERSITY* EX = Experimental

Co-authors : *Andres Guiral, Yonsei University*
Doocheol Moon, Yonsei University
Hyunjung Choi, Yonsei University

In contrast to the extensive archival research on the relation between corporate social performance (CSP) and financial performance, behavioral studies are very scarce. We respond to a recent call for further experimental research on this issue by exploring to what extent excellence in CSP affects investors' judgments of financial assessments (i.e., future profitability, liquidity and financial risk) and credibility of management's forecasts. Following recent research suggesting that the CSP-financial performance link is U-shaped, we define excellence in CSP as the case of a firm simultaneously showing high and permanent social performance and being provided with professional assurance on social reporting. We design a 2x2x2 experiment by manipulating CSP (high vs. low), assurance (present vs. absent) and order of evidence, in which investors are asked to provide their judgments on the financial status of the firm. Our results indicate that CSP excellence has an impact on both investors' financial assessments and their reliance on management forecasted information. Therefore, we find support for the argument that only the combination of superior and permanent CSP and reliable CSR disclosure pays off.

TUESDAY 14:00-15:30

FARF12

Chair : Parmod Chand Room : **A403**

Materiality For Whom? Responsible Investment And The Societal Function Of Listed Equities

Author : *JOHN ROBERTS, THE UNIVERSITY OF SYDNEY* CF = Case / Field Study

Co-authors : *Ann Young, University of Sydney*

Abstract Purpose – This paper seeks to understand the implications of responsible investment and specifically, environmental, social and governance integration ('ESG integration') in relation to the societal function of public equity investment. The demand for listed equity investment managers to undertake 'responsible investment' practices increased during the last decade and eventually found expression in the UNPRI. ESG integration, as one facet of the Principles, is the claim that incorporating 'material' ESG issues into investment processes will lead to better long term decisions, and thus, better fund performance. The paper draws on primary data from a three year longitudinal case study that examines how a global equity investment manager integrated ESG information into its investment processes and practices. The paper follows two distinctive listed equity investment teams as they attempt to integrate material ESG issues into their company analysis, valuations and investment decisions. The paper explores empirically what differences, if any, demands for responsible investment and ESG integration practices have made to investor practices. Keywords – Listed equity investment; Societal function; Responsible investment; Environmental, Social, and Corporate Governance (ESG) accounting; ESG integration; Enlightened shareholders; Externalities; Materiality.

TUESDAY **14:00-15:30**

FARF12 *Chair : Parmod Chand* Room : **A403**

Assessment Of Financial Crisis Sparked By Use Of Derivatives In Brazil – The Case Of Aracruz And Sadia

Author : *JOSHUA ONOME IMONIANA, INSTITUTO PRESBITERIANO MACKENZIE* CF = Case / Field Study

Co-authors : *Carlos Reis Neto, Mackenzie Presbyterian University*
Ricardo Cavalcanti Alves, Mackenzie Presbyterian University
Luiz Carlos Jacob Perera, Mackenzie Presbyterian University

This study investigated speculation cost incurred by Aracruz and Sadia due to their high degree of leverage with derivative instruments with the aim of pinpointing the materiality of risk exposure. To assist in the aims of the study, we question: How did the financial costs arising from the speculation with derivatives affect the company's value? The methodology adopted for the research was descriptive. Therefore, considering envisaged results and that as it seeks to dive into problem solving for the use of derivative instruments and knowledge building from occurred events, the studied process is considered functionalist. Based on results, the entities evidenced agency problems, with disproportionate investments in hedged transactions. Thus, faced with a sudden appreciation of the US dollar resulting from the exacerbation of the global financial crisis, the firms obtained heavy financial losses worth of R$ 4.7 billion for Aracruz and R$ 2.6 billion for Sadia. And against the Investment index of about 70% for the market Sadia and Aracruz witnessed 28% for the year ended 2008. Overall, as a result of the events, we conclude for the indiscriminate penalization of the shareholders, controllers or minority interests, and that the latter will always be the most adversely affected, as they can only hope that managers and controllers will abide by the tag-along principles in order to mitigate the large losses that struck the organizations.

TUESDAY **14:00-15:30**

FARF12 *Chair : Parmod Chand* Room : **A403**

Framing Financial Disclosures: Influences On Consumer Purchase Intentions

Author : *HUI ZHOU, MELBOURNE UNIVERSITY / MELBOURNE BUSINESS SCHOOL* EX = Experimental

Co-authors : *Yan Tian, University of Missouri-St. Louis*

We design an experiment to investigate how financial disclosures and the frame of disclosures jointly impact consumer choices between brand name and generic drugs. Using a sample representative of the US adult population, we document that financial disclosures and the frame of the disclosures have interactive effects on consumer perceptions and purchase intentions. Specifically, when information about the relative profit levels is presented, the positive frame is associated with a more favorable image of generic drug manufacturers than the negative frame. In contrast, the negative frame is associated with a more favorable image of generic drug manufacturers than the positive frame when information about the relative cost levels is presented. Our findings provide new evidence that financial disclosures and message framing jointly impact consumer behavior and highlight the importance of understanding the underlying cognitive model used by different financial reporting user groups when evaluating the effects of accounting information.

WEDNESDAY **9:00-10:30**

FARF04 *Chair : Reuven Lehavy* Room : **A403**

Quality Of Intellectual Capital Information In Analyst Reports: Australian Evidence

Author : *JAMES GUTHRIE, MACQUARIE UNIVERSITY* EA = Empirical Archival

Co-authors : *Subhash Abhayawansa, Swinburne University of Technology*

This paper explores qualitative characteristics of intellectual capital (IC) information disclosed by sell-side financial analysts in initiating coverage reports written on Australian companies. Through the use of a multi-dimensional coding framework, it examines the format, news-tenor and time-orientation of disclosure relating to IC (i.e., relational, human, structural capital and subcategories within them). We find that the proportions of IC information disclosed differ by format, news-tenor and time orientation not only in relation to the main IC categories but also subcategories. Although IC disclosures in the main were found to be more discursive than numerical, positive than negative and forward-looking than past-oriented, differences in this pattern are observed for IC categories and subcategories highlighting the importance of understanding not only types of IC disclosed but also their quality. Analysts provide comparatively more numerical IC disclosures than has been found to be provided by companies in prior studies. In the context of analyst optimism bias our findings suggest that analysts' disclosure of IC information may not be any less positive than what can be expected of companies. The findings of this study have broader implications for improving corporate reporting to the investment community and for preparation of guidelines for reporting of IC.

FARF04

Chair : Reuven Lehavy Room : **A403**

Discount Based Valuation Model: Contrast Between Theoretical Value And Empirical Results

Author : *JA RYONG KIM, THE UNIVERSITY OF EDINBURGH*

Co-authors : *William Rees, University of Edinburgh*

EA = Empirical Archival

One common belief in equity valuation is all valuation models measure the same intrinsic value. This paper explains why this is not the case theoretically, and addresses an unresolved question in Liu, Nissim and Thomas (2002): how simple earnings multiples outperform complex discount based valuation models (DBVM). Our theoretical reasoning suggests the DBVMs are designed to measure the intrinsic value of stock, while the multiples are to measure the current stock price. The paper extends the pricing error result and examines the performance of models when their estimates are compared to the intrinsic value directly. Three alternative measures of the intrinsic value are chosen: i) linear fitted value, ii) moving average of prices for the next five years, and iii) return generation ability. A surprising result is, contrary to the theory and our expectation that the DBVMs would outperform the multiples in intrinsic value measurement, the multiples still outperform the DBVMs in all three measures. We suspect this is because the DBVMs have lower correlation with price but higher dispersion of their estimates than the multiples'.

WEDNESDAY 9:00-10:30

FARF04

Chair : Reuven Lehavy Room : **A403**

The Role Of Life Cycle On Capital Structure

Author : *PAULA CASTRO, UNIVERSITY OF LEÓN*

Co-authors : *Borja Amor-Tapia, University of Leon (Spain)*
Maria T. Tascon, University of Leon (Spain)

MB = Market Based

In this paper we adopt a dynamic standpoint to contribute to the debate on how and why firms choose their capital structure. Using the Dickinson's (2011) life cycle stages of firms, based on the distinction between operating, investing and financing cash flow types, we examine the different behavior of the traditionally found explanatory variables across the stages. Taking a wide sample of public companies form UK, Germany, France and Spain, we find that the capital structure explanatory factors evolve across the life cycle stages, changing or rebalancing the prevalence of the static models in play/place, ie. trade?off, pecking order, or market timing.

WEDNESDAY 9:00-10:30

FARF04

Chair : Reuven Lehavy Room : **A403**

Private Information, Subjective Valuation And Target Price Accuracy

Author : *ALEXANDER KERL, UNIVERSITY OF GIESSEN*

Co-authors : *Stefano Bonini, Bocconi University*

EA = Empirical Archival

How do analysts set their forecasts? In this paper we analyze how sell-side analysts estimate target prices and show that analysts consistently apply subjective adjustments to baseline models. We argue that the amount of deviation from the basic valuation model serves as a proxy for the analysts' (private) information or experience. For a panel of analyst reports, we show that target price forecasts that highly deviate from simple multiple-based pseudo-target prices are (ex-post) more accurate. Controlling for various stock and broker characteristics we also show that our results are not driven by the degree of sophistication of the valuation models. Surprisingly, market participants seem to be unaware of this ex-ante identifiable difference in accuracy as the short-run price reaction to the target prices issuance is uncorrelated with the degree of private information incorporated in the forecast. Consistently with our results on superior accuracy, we find evidence though for these forecasts to outperform in the long-run.

WEDNESDAY 9:00-10:30

FARF04 — *Chair : Reuven Lehavy* — Room : **A403**

Does Financial Statement Audit Reduce The Cost Of Debt For Private Firms?

Author : *JERNEJ KOREN, UNIVERSITY OF LJUBLJANA*

EA = Empirical Archival

Co-authors : *Ur?ka Kosi, Humboldt University Berlin*
Aljo?a Valentin?i?, University of Ljubljana

This study examines the effect of audit on small private firms' cost of debt. We use a large sample of 2,450 small private firms operating in the period 2006-2010 with optional financial statement audit. High-quality data allows us to construct a more precise interest rate measure than existing studies. Contrary to several existing studies we find the robust central result that voluntary audit increases rather than decreases the cost of debt financing. Only if the voluntary audit is performed by a Big-4 auditor the cost of debt decreases. The origin of debt financing, term structure of loans and firm financial complexity measured via the number of bank accounts a firm operates also systematically affect the cost of debt. The results are not sensitive to the estimation method (OLS, tobit) and (sub-)sample selection. Additional analyses show that mandatory audits of private firms generally do not affect the cost of debt financing. Our results also indicate that results are sensitive to cost of debt definition and this might have affected the results reported in existing literature.

WEDNESDAY 11:00-12:30

FARF05 — *Chair : Jiri Novak* — Room : **A403**

Customer Value Disclosure And Analyst Forecasts: The Influence Of Environmental Dynamism

Author : *MARIE-JOSEE LEDOUX, UNIVERSITY OF QUÉBEC IN MONTRÉAL*

EA = Empirical Archival

Co-authors : *Denis Cormier, UQAM*
Sylvain Houle, UQAM

In this paper, we study the economic benefits of a pro-active disclosure strategy in a dynamic environment. More specifically, we explore the relationships between customer value disclosure, analyst following, and earnings forecasts, taking into account environmental dynamism as captured by R&D intensity, sales variability and competition. Results show that customer value disclosure is positively associated with analyst following and consensus in analyst earning forecasts. Results also show that environmental dynamism enhances the association between customer value disclosure and analyst following as weel as consensus among analysts. Those results suggest that customer metrics attract analysts and improve their ability to forecast earnings. They also suggest such disclosure to be especially relevant for forecasting earnings of firms involved in dynamic environments.

WEDNESDAY 11:00-12:30

FARF05 — *Chair : Jiri Novak* — Room : **A403**

Exploring The Risk Tolerance In The Gold Industry: An Empirical Study

Author : *KAOUTHAR LAJILI, UNIVERSITY OF OTTAWA*

EA = Empirical Archival

Co-authors : *Sarah Ben Amor, University of Ottawa*

The purpose of this paper is to develop a corporate risk tolerance level based on annual reports' risk and risk management disclosures and using the Canadian gold mining industry as an example. A content analysis approach is followed to hand-collect and analyze corporate risk disclosures including risk sources, exposure, and risk management strategies reported by Canadian listed gold mining firms between 2006 and 2008. Risk information coding and scoring techniques are then used to assign risk tolerance levels to each sample company. The analyses indicate that Canadian gold companies have moderate levels of risk tolerance and about a third of them (including some industry leaders) could be classified as risk neutral. The approach and findings are potentially useful to various firm stakeholders including shareholders, potential outside investors and employees among others. The approach could be used to check whether outside investors (or stakeholders in general), corporate management, and boards are in alignment with respect to the risk acceptance/tolerance levels as well as risk management strategies adopted. This would further reduce the agency costs between management and outside investors. The proposed risk tolerance measure with possible further refinements could be used as an additional relative performance metric by potential investors and analysts in building their investment portfolios in the future.

WEDNESDAY **11:00-12:30**

FARF05

Chair : Jiri Novak Room : **A403**

The Influence Of Market Making On Analyst Forecast Quality

Author : *YVONNE KREIS, MAINZ UNIVERSITY* EA = Empirical Archival

Co-authors : *,*

We analyze the influence of market making on analyst forecast quality in the German market and test whether financial analysts employed by market makers significantly differ in their earnings forecast quality for affiliated stocks. There are two hypotheses: On the one hand, affiliated analysts might make use of the detailed information and better access to company management from the market maker affiliation and on average provide more accurate forecasts. On the other hand, financial analysts might be inclined to support market making activities and stock price liquidity by issuing more optimistic earnings forecasts. For earnings forecasts of German companies in 2004 - 2006, we find strong evidence for the later.

WEDNESDAY **11:00-12:30**

FARF05

Chair : Jiri Novak Room : **A403**

Cost Stickiness In Australia

Author : *MEITING LU, MACQUARIE UNIVERSITY* EA = Empirical Archival

Co-authors : *Martin Bugeja, University of Technology Sydney*
Yaowen Shan, University of Technology Sydney

This study presents empirical evidence on cost stickiness using a large sample of Australian listed firms during 1990-2010. We find cost behaviour in Australian firms is sticky on average. Costs increase by 0.885% with a 1% increase in sales revenues, but decrease by only 0.797% for a 1% decrease in sales. The degree of cost stickiness has demonstrated a "U" shape over the period, and has increased after the adoption of IFRS. Sticky cost behaviour however is not evidence in the resources, construction and retail industries. We document evidence consistent with the argument of adjustment costs of employed resources, managerial incentives and agency costs. The degree of cost stickiness in Australia increases with a firm's asset and employee intensity, and when managers face strong incentives to avoid losses or earnings decreases, but is less pronounced when revenues decline in the preceding period and in firms with strong governance mechanisms. Finally, we find that sticky cost behaviour provides useful and incremental information for predicting future accounting earnings. Given the significant costs incurred in Australia ($609 billion in 2010), our results provide important implications for managers making decisions on cost control and external stakeholders understanding firm performance.

WEDNESDAY **11:00-12:30**

FARF05

Chair : Jiri Novak Room : **A403**

Regulation Of Financial Analysts In The Eu - An Empirical Evaluation Of The Impacts Of Recent Regulatory Measures -

Author : *PHILIPP LOEW, GOETTINGEN UNIVERSITY* EA = Empirical Archival

Co-authors : *,*

This paper investigates whether recent EU-regulatory measures successfully miti-gated the adverse effects of conflicts of interest in financial analysts' investment research. For a sample of firms listed in 28 states within the European Economic Area we investigate the impact of two recent EU-directives, the MAD (Market Abuse Directive, introduced in 2003) and the MiFID (Markets in Financial Instruments Directive, introduced in 2004). Using regression analysis, we find mixed results. We cannot find a direct impact of the directives in the expected direction. However, a high prior level of regulation and high sanction severity seem to have an influence on the forecast bias of analysts' earnings forecasts. Our results are important as they shed light on the potential benefits of the mentioned EU-directives and should be of interest to researches, investors and regulators.

FARF06

Chair : Reggy Hooghiemstra Room : **A403**

The Double Entry Constraint, Structural Modeling and Econometric Estimation

Author : STUART J. MCLEAY, THE UNIVERSITY OF SYDNEY

Co-authors : Demetris Christodoulou, The University of Sydney

EA = Empirical Archival

The key proposition of the paper lies in the treatment of financial statements as a matrix of endogenous information codetermined by double entry. To account for the highly structured information set in econometric estimation, we develop a generalised structural system for use with accounting variables, within which the deterministic relationships governing financial statement articulation are clearly defined. The framework is used to formulate fully identified models that are consistent with the underlying duality that characterises the generating process of accounting data. To demonstrate the efficacy of the approach, we consider the model of equity pricing in Penman and Yehuda (2009), and the model of investment sensitivity to operating cash flow in Fazzari, Hubbart and Petersen (1988) and Kaplan and Zingales (1997). By comparison with the more traditional estimation methods, the structural system is shown to yield estimates with increased precision that adhere to double entry rules.

WEDNESDAY 14:00-15:30

FARF06

Chair : Reggy Hooghiemstra Room : **A403**

Volatility, Persistence, And Predictability Of Time-Specific Vs. Non-Time-Specific Accruals

Author : WONSUN PAEK, SUNGKYUNKWAN UNIVERSITY

Co-authors : ,

EA = Empirical Archival

This study examines statistical properties of Francis and Smith's (2005) time-specific and non-time-specific accruals. Francis and Smith (2005) show the statistically indistinguishable persistence between cash flows and accruals when they remove from conventional accruals non-time-specific accrual components that do not affect current-period earnings. Although their result provides important implication for the literature in earnings persistence and accrual anomaly, their result is based on various simplifying assumptions. In this study, I evaluate empirically their assumptions and expectations based on those assumptions with respect to such properties as volatility, persistence, and predictability. Francis and Smith's (2005) assumption and expectation on time-specific earnings components are empirically supported only for the persistence, not for the volatility and predictability. The volatility and predictability of time-specific earnings components are differential among them and compared to non-time-specific earnings components.

WEDNESDAY 14:00-15:30

FARF06

Chair : Reggy Hooghiemstra Room : **A403**

How Japanese Firms Respond to Mark-to-Market Accounting? An Earnings Management Perspective

Author : CHIEN-MIN KEVIN PAN, NATIONAL CHUNG CHENG UNIVERSITY

Co-authors : ,

EA = Empirical Archival

This paper investigates how firms respond to mark-to-market accounting from an earnings management perspective. I hypothesize and find evidences showing that Japanese firms offset expenses occurring from income-decreasing extraordinary items through both accruals management and real earnings management. This paper also presents evidence that the firms have growth options tend to engage in real earnings management. In the same time, the evidences also indicate that non-manufacturing firms tend to manage earnings upward using over-production, but not firms in manufacturing industry. The implication drawn from the evidences presented in this paper suggests that Japanese firms consider the anticipated external shock as a risk to avoid rather than an opportunity to disgorge hidden unrealized losses.

FARF06

Chair : Reggy Hooghiemstra Room : **A403**

Sme Earnings And Future Economic Performance

Author : *STEFAAN MEERSSCHAERT, GHENT UNIVERSITY* EA = Empirical Archival

Co-authors : *Heidi Vander Bauwhede, Ghent University*
Philippe Van Cauwenberge, Ghent University

This paper tests whether earnings mandatorily reported by privately held SMEs in a high book-tax conformity setting convey more information about those companies' future economic performance than the information inherent in current period operating cash flows. Moreover, to investigate whether this information value of earnings is associated with the need for information asymmetry reduction, it also examines the impact of external credit market dependence on the informativeness of earnings. Using financial statements of a large panel of privately held Belgian SMEs over the 2001-2010 period, we find that current period earnings numbers are more informative about future economic performance than current period operating cash flows. Consistent with economic theory, the analyses further indicate that external credit market dependence has a positive impact on the information value of earnings numbers, thereby suggesting that earnings informativeness is also an information asymmetry reduction mechanism for privately held SMEs.

FARF06

Chair : Reggy Hooghiemstra Room : **A403**

Empirical Evidence On The Value Relevance Of Brokers' Income Actual Numbers And Gaap Earnings To The International Equity Markets

Author : *FRANCK MISSONIER-PIERA, GENEVA UNIVERSITY / HEC GENEVA* EA = Empirical Archival

Co-authors : *François Aubert, Ecole Universitaire de Management, Université d'Auvergne*

This paper aims at investigating the relative information content of the broker's earnings actual. The empirical analysis provides, for the first time at the international level, evidence that broker's earnings actuals are more value relevant and useful in equity valuation than GAAP earnings. However, our results indicate that, consistent with prior literature, non-GAAP earnings metrics are more informative and useful for assessing securities. Following Baik et al. (2008) and Albring et al. (2010), our paper contributes to enhancing the body of literature on value relevance of earnings literature, as it shows that reducing managerial discretion on earning numbers has a positive impact on the relevance of earnings performance to security markets in increasing transparency and investors' confidence in accounting data.