FRPSD05

Chair : Peter Wells Room : **Amphi 5**

Causes And Consequences Of Linguistic Complexity In Non-U.S. Firm Conference Calls

Discussant : *Teri Yohn*

Author : *FRANCOIS BROCHET, HARVARD UNIVERSITY / HARVARD BUSINESS SCHOOL* EA = Empirical Archival

Co-authors : *Patricia Naranjo, MIT*
Gwen Yu, Harvard Business School

We examine the determinants and capital market consequences of linguistic complexity in conference calls held in English by non-U.S. firms. We find that linguistic complexity is positively associated with the language barrier in the firms' home country. Also, linguistic complexity in firms' conference calls affects the extent to which the capital market reacts to the information releases. Firms with more linguistic complexity in their conference calls show less trading volume and price movement following the information releases, after controlling for the actual earnings news. Further, the capital market's response to linguistic complexity is more pronounced when there is greater implicit (as captured by the presence of foreign investors) or explicit (as captured by how actively analysts ask questions) demand for the English conference calls. This suggests that the form in which financial information is presented can impose additional processing costs by limiting investors' ability to interpret the reported financials.

MONDAY 16:00-17:30

FRPSD05

Chair : Peter Wells Room : **Amphi 5**

Trust The Text. Extending Methodologies For The Analysis Of Accounting Narratives With A Corpus Linguistics/corpus-Driven Approach

Discussant : *Lindahl Frederick*

Author : *CHRISTINA SAMSON, UNIVERSITY OF FLORENCE* IC = Interdisciplinary / Critical

Co-authors : *Christina Samson, University of Florence/Faculty of Economics*
Francesco Giunta, University of Florence/Faculty of Economics

This paper, drawing on Sydserff and Weetman's (2002) seminal work on the syntactic dimension of accounting narratives, addresses the call for more objective computerised methods, applications, and interdisciplinary approaches in investigating corporate narrative documents from a systematic, detailed linguistic perspective. Previous research appears to be one-dimensional in applying only a quantitative or qualitative analysis and ignoring the relationship between type of disclosure, topic and context. This paper, by contrast, extends the range of methodologies by introducing/illustrating the application of a Corpus Linguistics/corpus-driven approach integrated with discourse analysis. The automated nature of Corpus linguistics, its theoretical basis in contextual and functional theory of meaning, its balanced quantitative and qualitative analysis point to its strength in validity. Thus, in attempting to develop more objective, manageable and replicable computerised methods, this paper contributes to move beyond readability formulas, keyword dictionaries, indexicals through the study of recurring phraseology based on keyword frequency, concordances, extended units of meaning, semantic prosody and the bi-modal influence between context and accounting narratives. This innovative methodology is useful at both a managerial operational level and a tertiary educational level, while representing a step ahead called for by several researchers.

MONDAY 17H45:19:15

FRPSD06

Chair : Sidney Gray Room : **Amphi2**

Dividend Payouts And Information Shocks

Discussant : *Yun Lou*

Author : *LUZI HAIL, PENNSYLVANIA UNIVERSITY / THE WHARTON SCHOOL* EA = Empirical Archival

Co-authors : *Ahmed Tahoun, London Business School*
Clare Wang, Northwestern University

This paper examines changes in firms' dividend payouts following an exogenous shock to the information environment. Economic theory predicts that the more is commonly known about a firm and its competitors in the marketplace, the less private information managers will have to reveal themselves via costly dividend signals or cash disbursements. To test this prediction, we analyze the dividend payment behavior for a global sample of firms around the mandatory adoption of IFRS and around the initial enforcement of new insider trading laws. Both events serve as proxies for a general improvement of the information environment in the economy. We find that following the two events firms are less likely to pay (or increase) cash dividends, but more likely to cut (or stop) such payments. The changes in dividend policy occur around the time of the informational shock and only in countries and for firms subject to the regulatory change. In further analyses we find that the information content of dividends, measured as three-day absolute announcement returns, is lower after the informational events. The findings underscore that firms' payout policies, among other things, depend on the extent of information about all firms in the economy.

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

FRPSD06

Chair : Sidney Gray Room : **Amphi2**

Securities Underwriting And Discretionary Financial Reporting Behavior

Discussant : *Joerg-Markus Hitz*

Author : *EMRE KILIC, UNIVERSITY OF HOUSTON*

EA = Empirical Archival

Co-authors : *Arthur Francia, University of Houston*
Christian Kuiate, University of Houston
Gerald Lobo, University of Houston

We investigate the discretionary financial reporting behavior of banks with Section 20 subsidiaries after the Federal Reserve removed the firewalls restricting information flows between the security subsidiary and the affiliated bank. The combination of lending and underwriting activities within one bank is a source of concern for depositors of the bank, investors in the underwritten securities, and regulators. We hypothesize that these banks will engage in more signaling through loan loss provisions to alleviate concerns about the quality of the issues they underwrite. We also hypothesize that these banks will engage in less income smoothing through loan loss provisions to alleviate concerns about the riskiness of the Section 20 activities compared to traditional banking. We find evidence consistent with these hypotheses. We also find that on a net basis, these changes in discretionary financial reporting reduce the reliability of loan loss provisions as a predictor of future loan defaults.

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

FRPSD02

Chair : Sylvie Berthelot Room : **Amphi 2**

Accounting Standards, Earnings Management, And Earnings Quality

Discussant : *Marco Trombetta*

Author : *ALFRED WAGENHOFER, GRAZ KARL-FRANZENS UNIVERSITY*

AM = Analytical / Modelling

Co-authors : *Ralf Ewert, University of Graz*

This paper provides insights into how different characteristics of accounting systems and institutional factors that influence financial reports affect earnings quality. We develop a rational expectations equilibrium model that features a steady-state firm with investment in every period, an accounting system, non-financial information, and earnings management. In equilibrium the accounting standards and earnings management jointly determine the information content of earnings. We confirm intuitive results, such as that earnings quality increases in accounting precision; and we find counter-intuitive results, such as that an accounting standard that recognizes a greater portion of future cash flows does not always increase earnings quality. We also study how the operating risk affects earnings quality. Finally, we show that value relevance measures trace the changes in earnings quality accurately for the variation of some, but not all characteristics of the accounting system.

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

FRPSD02

Chair : Sylvie Berthelot Room : **Amphi 2**

Disclosure Regulation And Enforcement

Discussant : *Robert Magee*

Author : *BENEDIKT FRANKE, UNIVERSITY OF MANNHEIM*

AM = Analytical / Modelling

Co-authors : *Li Zhang, University of Mannheim*

In this paper, the level of mandatory disclosure regulation is modeled as an endogenous parameter which is determined by a democratic deliberation process within an economy. By adding imperfect enforcement to settings, we are able to analyze theoretically how an enforcement parameter affects the level of disclosure regulation through the process of democratic participation. We thereby identify two mechanisms which leads to an increase of disclosure regulation in the presence of increasing enforcement: First, imperfect enforcement results in price protection by investors against firms' potential non-disclosure. Second, imperfect enforcement aligns voting preferences among high and low quality firms which would otherwise be totally separated groups of firms within the deliberation process. This alignment mechanism provides a new theoretical explanation of empirical findings suggesting that disclosure regulation appears to be more prevalent in economies with strong enforcement parameters.

TUESDAY 9:00-10:30

FRPSD03 *Chair : CHRISTOPHER HOSSFELD* Room : **Amphi 2**

The Rhetoric Of Justification: The Process Of Constructing What'S "just" In Accounting Standard-Setting

Discussant : *Yves Gendron*

Author : *LISA KARASIEWICZ BAUDOT, ESSEC BUSINESS SCHOOL PARIS*

IC = Interdisciplinary / Critical

Co-authors : ,

This paper focuses on political grammars used by standard-setters to persuade the public interest (and themselves) of the merits of their decisions. One way to study this is as a process of justification, in which standard-setters convince readers that their decisions are "just". However, the imperative to justify implies a choice and, often, underlying choices lay competing systems of meaning. We analyze the standard-setters' choice between two conventions for the measurement of revenue - fair value and original transaction price- as competing meaning systems. We use transcripts of standard-setting meetings to show how the boards justified their choice of the original transaction price convention which runs counter to measurement trends in standard-setting over the past decades. We show a process of legitimacy at play in which standard-setters address controversial standard-setting decisions through justifications to their public audience that engage with meaning systems. These justifications involve the construction of concepts which reinforce established meaning systems in a way that ensures the legitimacy of the standard-setters decisions and the perception of those decisions as "just".

TUESDAY 9:00-10:30

FRPSD03 *Chair : CHRISTOPHER HOSSFELD* Room : **Amphi 2**

Fair Value Accounting Reforms In China: Towards An Accounting Movement Theory

Discussant : *Markus Grottke*

Author : *CAMERON GRAHAM, YORK UNIVERSITY*

IC = Interdisciplinary / Critical

Co-authors : *Songlan Peng, York University*
Kathryn Bewley, Ryerson University

How do accounting principles become generally accepted? This study develops an analytical framework for the process of general acceptance based on research into social movements. Social movement theory (SMT) has its roots in management and sociology research. We draw on SMT to develop a framework adapted to the highly institutionalized field of accounting. Looking at the stop-start process that began in 1997 and eventually led to the acceptance of fair value accounting (FVA) in China, we show that SMT-based factors can explain the success and speed with which a new accounting principle like FVA is introduced into practice. The initial failure of Chinese FVA proponents to introduce it in 2000, followed by the success of their efforts a few years later, offers us a unique opportunity to come to grips with the factors that lead to general acceptance. This study provides a theory-based analysis of processes that in some respects are unique to the Chinese setting, offering us a glimpse of accounting in an emerging economy. However, because the field of Chinese financial accounting shares many institutional features with the rest of the world, the theoretical model we develop can also provide insights into accounting standards setting in other jurisdictions.

TUESDAY 14:00-15:30

FRPSD04 *Chair : Sven-Arne Nielson* Room : **Amphi 5**

Qualitative Constructs In Financial Reporting Standard-Setting – A Case Study Of The Rise And Fall Of Reliability

Discussant : *Ronita Ram*

Author : *CARSTEN ERB, DUESSELDORF UNIVERSITY*

HI = History

Co-authors : *Christoph Pelger, University of Cologne*

Qualitative characteristics of financial reporting, written down in conceptual frameworks, are supposed to guide accounting standard-setters in their endeavour to create or revise standards. However, in the literature doubts have been raised regarding a uniform understanding of specific characteristics and the consistency of their application in standard-setting processes. The present paper carries out a case study which scrutinises the rise and fall of one of the most important properties of accounting: reliability. While reliability was introduced in the accounting discourse prior to the publication of SFAC 2, in the revised conceptual framework for financial reporting, which was published by IASB and FASB in September 2010, it has been replaced by representational faithfulness. The aim of the present paper is to shed light on the boards' decision to drop reliability by an historical analysis of how the construct appeared and a detailed process-tracing of its abandonment. Our study reveals that reliability was introduced in the accounting discourse due to its ability to combine traditional objectivity notions with the more recent concept of faithful representation. Its abandonment seems to be mainly due to its role as a hindrance of a further move towards fair value accounting.

TUESDAY 14:00-15:30

FRPSD04 *Chair : Sven-Arne Nielson* Room : **Amphi 5**

Adoption Of Ifrs In Japan: Challenges And Consequences

Discussant : *Anne-Marie Garvey*

Author : *NORIYUKI TSUNOGAYA, NAGOYA UNIVERSITY* HI = History

Co-authors : *Andreas Hellmann, Macquarie University*
Simone Scagnellin, University of Torino

Japan allows the optional application of International Financial Reporting Standards (IFRS) since March 2010 for consolidated financial statements of listed companies. Using the accounting ecology framework and reviewing the opinions of key stakeholders included in the minutes of the Business Accounting Council of Japan, the objective of this paper is to provide a rigorous and holistic analysis of the unique features of the Japanese accounting environment. It also raises issues related to a mandatory adoption of IFRS in Japan. The findings of this study provide evidence that it would be problematic to require the adoption of IFRS, mainly because Japanese policymaker and standard-setting body should follow two objectives, namely enhancing the international comparability of financial reporting and maintaining institutional complementarity between the financial reporting and other infrastructures such as accounting-related laws.

WEDNESDAY 9:00-10:30

FRPSD01 *Chair : Ari Yezegzl* Room : **Amphi 2**

Mandatory Ifrs Reporting And Changes In Enforcement

Discussant : *Thorsten Sellhorn*

Author : *HANS BONDE CHRISTENSEN, UNIVERSITY OF CHICAGO* EA = Empirical Archival

Co-authors : *Luzi Hail, The Wharton School, University of Pennsylvania*
Christian Leuz, Booth School of Business, University of Chicago

In recent years, a number of countries have made reporting under International Financial Reporting Standards (IFRS) mandatory. The capital-market effects around this change have been extensively studied, but their sources are not yet well understood. This study presents new evidence that aims to distinguish between several potential explanations for the observed capital-market effects. We find that, across all countries, mandatory IFRS reporting had little impact on liquidity. The liquidity effects are not only concentrated in the European Union (EU), but limited to five EU countries that also made substantive changes in enforcement concurrent with the introduction of IFRS. There is little evidence of liquidity benefits around IFRS adoption in countries without substantive enforcement changes even when they have strong legal and regulatory systems. Moreover, we find similar liquidity effects for firms that experience enforcement changes but do not concurrently switch to IFRS. Our analyses indicate that changes in reporting enforcement play a critical role for the liquidity benefits around the introduction of IFRS, and that we have to be careful about attributing the effects to the change in accounting standards alone.

WEDNESDAY 9:00-10:30

FRPSD01 *Chair : Ari Yezegzl* Room : **Amphi 2**

Mandatory Ifrs Adoption And Management Forecasts

Discussant : *Anne D'Arcy*

Author : *ALBERT TSANG, THE CHINESE UNIVERSITY OF HONG KONG* EA = Empirical Archival

Co-authors : *Jeff Ng, The Chinese University of Hong Kong*
Albert Tsang, The Chinese University of Hong Kong
Yong George Yang, The Chinese University of Hong Kong

Using a difference-in-difference research design, we find that firms in countries that mandated IFRS are significantly more likely to provide management earnings forecasts following IFRS adoption than firms in countries that do not mandatorily adopt IFRS. This increase is greater for firms in countries with larger difference between domestic GAAP and IFRS and in countries with greater IFRS implementation credibility. In addition, we find that the increase in the likelihood for firms to provide management forecasts is positively related to the development level of domestic equity markets and negatively related to the number of firms' cross-listings. Also, firms' higher tendency to issue management forecasts upon IFRS adoption appears permanent. Finally, controlling for the time effect as proxied by the contemporaneous change in informativeness of management forecasts by firms in non-IFRS adoption countries, we find that management forecasts have a significantly higher increase in price informativeness upon IFRS adoption in countries with stronger legal enforcement. Our study suggests that the mandatory IFRS adoption changes firms' voluntary disclosure behavior through the change it brings on firms' capital market environments.

FRPS08 *Chair : Robert K. Larson* Room : **A305**

Goodwill Impairment In The Aftermath Of The Crisis: Do Managers Behave Differently From The Previous Years?

Author : *FRANCISCA PARDO, UNIVERSITY OF VALENCIA* EA = Empirical Archival

Co-authors : *Begoña Giner Inchausti, University of Valencia*

This paper analyses managerial discretion in goodwill impairment decisions following the adoption of IFRS 3. The replacement of the systematic amortization of goodwill for the impairment-only approach has been very controversial. Although IFRS 3 was issued to provide users with more value-relevant information regarding the underlying economics of the business, it has been criticized on the grounds of the managerial discretion inherent in impairment testing. The study is based on a sample of Spanish listed companies along the period 2005-2011 that embraces the economic crisis, and we consider its impact on managers´ behaviour. The results are consistent with the IASB's proposals to the extent that the impairment partially captures the underlying economic attributes of the firms, although size is also highly significant, which suggest the complexity and cost of the impairment estimation process influence the decisions. Moreover firms´ attitudes vary with the macroeconomic conditions suggesting that along the crisis opportunistic behaviours are driving the impairment decisions.

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

FRPS08 *Chair : Robert K. Larson* Room : **A305**

Tax Incentives As Determinants Of Accounting For And Spending On R&d: An International Analysis

Author : *APOSTOLOS BALLAS, ATHENS UNIVERSITY OF ECONOMICS AND BUSINESS* MB = Market Based

Co-authors : *Seraina Anagnostopoulou, Athens University of Economics and Business*

This article explores the influence of tax incentives for R&D on the capitalization versus expensing methods of accounting for R&D expenditure and the level of spending on R&D. We are motivated by the fact that tax-minimizing incentives will result in a lower reported income, whereas financial reporting incentives are satisfied with a higher book income, when capitalization per se increases current-period profits. We use all listed firms from the United Kingdom, France, Germany, Italy, Spain, and the Netherlands, which prepare their financial statement using IFRS and that engaged in R&D activities for the period 2001–2008. On the issue of accounting choice, our findings indicate that R&D-related tax benefits at the country level induce firms to either capitalize or, alternatively, use a mix of expensing and capitalizing, rather than expense R&D. Our results also indicate that country-specific R&D tax benefits provide statistically significant incentives for increasing R&D expenditures, and observe this influence to be stronger among high R&D spenders. This result is robust to controlling for a number of possible determinants of corporate R&D spending, including accounting and financial constraints. Our findings are interpreted as being indicative of the influence of R&D tax incentives on accounting policies, well and above the amount of investments they are meant to induce.

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

FRPS08 *Chair : Robert K. Larson* Room : **A305**

Risk Shifting In Pension Asset Allocations

Author : *DAPHNE LUI, ESSEC BUSINESS SCHOOL PARIS* EA = Empirical Archival

Co-authors : *Yanling Guan, University of Hong Kong*

We provide empirical evidence of risk-shifting behavior in the investment of defined benefit (DB) plan assets. The creation of the Pension Benefit Guaranty Corporation (PBGC) that acts as the trustee of a DB plan in the event of a distress termination represents an insurance scheme where the sponsor holds a put option of its pension liability. The existence of such a put option incentivizes financially distressed sponsors with severely underfunded DB plans to engage in risky asset allocation strategies that shift pension underfunding risk to PBGC. We find evidence consistent with this view. Our results suggest that a risk-adjusted insurance program is necessary for PBGC to mitigate cross-subsidization between low-risk and high-risk sponsors.

MONDAY 16:00-17:30

FRPS13 *Chair : CHRISTOPHER HOSSFELD* Room : **A306**

Real And Accrual Earnings Management And Ipo Failure Risk

Author : *MOHAMMAD ALHADAB, LEEDS UNIVERSITY BUSINESS SCHOOL* EA = Empirical Archival

Co-authors : *Iain Clacher, University of Leeds*
Kevin Keasey, University of Leeds

This paper analyzes the relationship between real and accrual earnings management activities and IPO failure risk. Recent research shows that IPO firms manage earnings upward around the offer year utilizing real and accrual earnings management activities (e.g., Wongsunwai, 2012) and that these activities have severe negative consequences for future stock returns and operating performance (e.g., Cohen and Zarowin, 2010; Kothari et al., 2012). Thus, we predict IPO firms that engaged in higher levels of real and accrual earnings management will exhibit a higher probability of failure and lower survival rates. We test this hypothesis based on a sample of 570 IPO firms that went public over the period 1998-2008. We find evidence that IPO firms manipulate earnings upward utilizing real and accrual earnings management around the IPO. We also find that IPO firms with higher levels of real and accrual earnings management during the IPO year have a higher probability of IPO failure and lower survival rates in subsequent periods.

MONDAY 16:00-17:30

FRPS13 *Chair : CHRISTOPHER HOSSFELD* Room : **A306**

Real Activities Manipulation Vs. Accrual-Based Earnings Management: The Effect Of Financial Leverage

Author : *SERAINA ANAGNOSTOPOULOU, ATHENS UNIVERSITY OF ECONOMICS AND BUSINESS* EA = Empirical Archival

Co-authors : *Andrianos Tsekrekos, Athens University of Economics and Business*

This study examines whether the level of financial leverage has an impact on accrual-based and real earnings management. We hypothesize that leverage may induce firms to manage earnings for several reasons, well and above avoiding the violation of debt covenants, and we testify that leverage positively and significantly affects upwards real earnings management, and negatively and significantly affects income-increasing discretionary accrual manipulation. We interpret our findings as indicative of the fact that when outside monitoring and scrutiny is stronger, for firms holding higher levels of debt, a preference for real rather than accrual based earnings management is induced, as the former can be less easily tracked or even hidden in the form of business practices. Furthermore, we find that for a given level of leverage, engaging in upwards real (as opposed to accrual-based) earnings manipulation is significantly more harmful for future operating performance. This finding is indicative of the adverse impact that departures from optimal business practices have on performance, when an effort to improve the financial picture of a firm is made through real earnings manipulation. However, the market is found to under-react to real earnings management, when compared to its reaction to. accrual earnings manipulation.

MONDAY 16:00-17:30

FRPS13 *Chair : CHRISTOPHER HOSSFELD* Room : **A306**

Earnings Management In Multinational Corporations

Author : *CHRISTOF BEUSELINCK, IÉSEG SCHOOL OF MANAGEMENT* EA = Empirical Archival

Co-authors : *Stefano Cascino, London School of Economics*
Marc Deloof, University of Antwerp
Ann Vanstraelen, Maastricht University

In this study, we examine whether corporate governance characteristics of multinational corporations (MNCs) and the institutional structure in their home-country influence earnings management by their domestic and foreign-owned subsidiaries. We perform our analyses on a large sample of both publicly traded and privately held majority-owned subsidiaries of listed MNCs across Europe. Our results are consistent with the conjecture that subsidiary-level earnings management is higher when the subsidiary-country institutional quality is weak. Further, we document that the institutional quality of the subsidiary country dominates that of the MNC home-country in explaining the extent of subsidiary-level earnings management. However, we also find that MNC corporate governance characteristics (ownership structure and analyst coverage) do affect the magnitude of subsidiary earnings management, over and above subsidiary-specific characteristics. Overall, our findings are important in that they show that incentives and opportunities of internationally diversified MNCs have contagious effects for their subsidiary-level financial reporting quality.

MONDAY 16:00-17:30

FRPS19 *Chair : Ehsan Khansalar* Room : **A305**

The Changing Relevance Of Accounting Numbers To Debt Holders Over Time

Author : *SHARON KATZ, COLUMBIA UNIVERSITY*

EA = Empirical Archival

Co-authors : *Dan Givoly, Pennsylvania State University*
Carla Hayn, University of California, Los Angeles

We examine the change over time in the information content of accounting numbers from the perspective of bond holders and the causes for that change. Using proprietary longitudinal data, we find that, in contrast to the stagnant information content of accounting numbers to equity holders, that content to bond holders has been steadily rising over time. The increase is attributable to economic factors such as an increase in risk and in the frequency of unfavorable news to which the valuation of debt is more sensitive than that of equity, as well as to the increase in conservatism over the last four decades. The findings contribute to the scant literature on the use of financial information by bond holders and the extent to which financial reporting meets their unique information needs. Given debt holders are an important constituent of financial statements, the findings have implications for accounting standard setting.

MONDAY 16:00-17:30

FRPS19 *Chair : Ehsan Khansalar* Room : **A305**

Information Asymmetry And Financing Decisions Around The World

Author : *PATRICIA NARANJO, MASSACHUSETTS INSTITUTE OF TECHNOLOGY*

EA = Empirical Archival

Co-authors : *Daniel Saavedra, MIT*
Rodrigo Verdi, MIT

We study changes in financing decisions around changes in information asymmetry. Our hypotheses come from a key assumption of the pecking order theory ? that information asymmetry affects a firm's financing choices. Using IFRS as a setting with exogenous variation in information asymmetry, we hypothesize that post-IFRS firms: (i) will be more likely to seek external (as opposed to internal) financing and (ii) conditional on raising external capital, will be relatively more likely to issue equity than debt. Further, we also study predictions of the modified pecking order theory by studying changes in financing choices conditional on financial distress. Overall, our findings suggest that information asymmetry plays an important role in explaining financing policies around the world.

MONDAY 16:00-17:30

FRPS19 *Chair : Ehsan Khansalar* Room : **A305**

The Informativeness Of Pro Forma Financial Statements As Required By Sec Regulation S-X Article 11: Evidence From The Ipo Prospectus

Author : *JERRY CHEN, HONG KONG BAPTIST UNIVERSITY*

EA = Empirical Archival

Co-authors : ,

Are pro forma financial statements as required by SEC Regulation S-X Article 11 informative? Do investors incorporate this information into stock prices? To test these questions, I perform valuation-relevance analysis on an IPO sample from 1997 to 2007. I focus on the IPO prospectus because it provides pro forma financial statements that are not available from other sources; other SEC filings (e.g., 8-Ks, 10-Ks) provide pro forma financial statements that might be accessed by investors from other sources (e.g., company websites, press releases), making interpretation of valuation-relevance analysis results difficult. I find that while future long-term earnings are correlated with pro forma earnings adjustments, IPO stock prices are not. I also find that pro forma earnings adjustments are able to predict post-IPO stock returns. Collectively, my findings suggest that investors fail to fully extract future earnings information captured by pro forma earnings adjustments in the IPO prospectus.

FRPS25

Chair : Jimmy Lee Room : **A307**

Non-Executive Employee Ownership And Corporate Risk Taking

Author : *FRANCESCO BOVA, UNIVERSITY OF TORONTO*

EA = Empirical Archival

Co-authors : *Jacob Thomas, Yale University*
Frank Zhang, Yale University
Kalin Kolev, Yale University

Prior empirical evidence suggests that corporate risk is negatively related to stock held by senior executives. Here we investigate the relation between risk and non-executive stock-holding and find a robust negative relation. This result is consistent with the view that non-executives, being risk averse and having their human capital also tied closely to their employer's fortunes, seek to reduce corporate risk as their stockholding increases. Not only do non-executives hold substantial amounts of stock, they are also able to influence decisions relating to firm risk. A second robust result is that this relation becomes more negative with increases in option-based executive compensation. Our findings suggest that corporate risk is affected by the incentives created by both executive and non-executive compensation, as well as interactions between those effects.

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

FRPS25

Chair : Jimmy Lee Room : **A307**

Determinants Of Holding Retained Interest In Mortgage Securitizations

Author : *MICHAEL SCHOLZ, FRANKFURT UNIVERSITY*

EA = Empirical Archival

Co-authors : ,

This paper analyzes bank- and loan-specific characteristics that determine the amount of retained interest held by US banks in mortgage securitizations. Economic theory suggests that retaining an interest in securitization transactions should help to mitigate information asymmetry problems between the parties involved. Consistent with investor demand for a signal of (credit) quality of the securitized assets, credit risk of the transferred mortgages has a significant positive impact on the amount of retained interest held. The demand for such a signal seems to be lower for banks with an established reputation for securitization transactions. Consistent with the view of securitization as a tool to manage risk from loan origination, banks with a more sophisticated risk management seem to hold more retained interest. Credit risk exposure from other assets appears to have a negative impact. These findings suggest that retained interest in securitization transactions serves as a mechanism to mitigate information asymmetry problems as well as a means to manage a bank's risk profile. The results are relevant for researchers who are studying the capital market consequences of securitization transactions and for policy makers when making decisions about regulation of risk retention in securitization transactions.

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

FRPS25

Chair : Jimmy Lee Room : **A307**

The Influence of Informal Institutions on Impaired Asset Write-offs: Securing Future and Current Pies for Payout in Japan

Author : *KEISHI FUJIYAMA, HITOTSUBASHI UNIVERSITY*

EA = Empirical Archival

Co-authors : ,

The international comparison research on earnings attributes suggests that financial reporting outcomes are determined partly by reporting incentives. Moreover, studies have argued that current-period accounting income tends to be viewed as the pie for stakeholder payouts in countries with stakeholder governance and that, because of the payout preferences of stakeholders, managers reduce income volatility either by using their discretion or through real activities. This paper focuses on accounting for fixed asset impairment to (indirectly) investigate the influence of reporting incentives created by an economy's institutional structure on financial reporting outcomes. This study uses data from Japanese firms to examine the association between impaired asset write-offs and increases in earnings. It also examines whether this association is different for stable and increased dividend firms (SI firms) and no and decreased dividend firms (ND firms). Unlike a study using data from US firms, it finds that, on average, impaired asset write-offs are positively associated with unexpectedly high increases in earnings, suggesting that reporting incentives in the US and Japan affect write-offs. This study also finds that write-offs for SI firms are positively associated with unexpectedly high increases in earnings, whereas this is not the case for ND firms. The importance of dividends for Japanese firms thus appears to lead to this association.

FRPS26 *Chair : Gerald Lobo* Room : **A307**

Firms' Strategic Management Disclosure Policy Before Debt Offerings

Author : KYOUNGWON MO, KAIST BUSINESS SCHOOL

EA = Empirical Archival

Co-authors : Kooyul Jung, Korea Advanced Institute of Science and Technology (KAIST)
Boyoung Kim, Korea Advanced Institute of Science and Technology (KAIST)

This study examines firms' strategic management disclosure policy before debt offerings. We extend prior studies by performing multiple regression analyses for both the level of and the change in management disclosure prior to debt offerings using a much more comprehensive set of sample firms. We find that debt issuing firms issue more management disclosures or increase them prior to debt offerings than do non-debt issuing firms, and that these management disclosures tend to be conservative rather than optimistic. We also provide some evidence that public debt issuing firms use more management disclosures than private debt issuers. Additional tests using alternative measures of management forecasts and methodologies similar to prior studies confirm our results. These results add convincing evidence to the literature in this area, where there is a lack of strong evidence.

FRPS26 *Chair : Gerald Lobo* Room : **A307**

Earnings Management In The Context Of Fair Value Accounting: Adjusting The Modified Jones Model To Fair Value Accounting

Author : CORINNA EWELT-KNAUER, MUENSTER UNIVERSITY

EA = Empirical Archival

Co-authors : ,

Over the last decade, the Financial Accounting Standards Board (FASB) has intensified fair value accounting. Until today, the models for measuring earnings management do not consider fair value at all. In detail, these models typically classify accruals resulting from changes in fair value as discretionary under all circumstances. Beyond this background this paper points out, that – with respect to the fair value hierarchy under FAS No. 157 – only those instruments recorded at fair value can be used for earnings management ranging on level 3 of the hierarchy. Conclusively, earnings related to instruments recorded on the first and on the second level can be characterized as nondiscretionary since they are subject to a strict market orientation. On this basis the Modified Jones Model (MJM) of Dechow et al. (1995) is adjusted by adding earnings related to level 1 and level 2 instruments as explanatory variable to nondiscretionary accruals, resulting in the so called Fair Value Adjusted Modified Jones Model (FVAMJM). This model results in significantly different discretionary accruals and is at least as well specified as the MJM and has even a slightly better power to detect earnings manipulation.

FRPS26 *Chair : Gerald Lobo* Room : **A307**

Mandatory Supervisory Disclosure, Voluntary Disclosure, And Risk-Taking Of Financial Institutions: Evidence From The Eu-Wide Stress-Testing Exercises

Author : HOLGER DASKE, UNIVERSITY OF MANNHEIM

EA = Empirical Archival

Co-authors : Jannis Bischof, University of Mannheim

We use the EU-wide stress-testing exercises and the concurrent Eurozone sovereign debt crisis as a setting to study consequences of supervisory disclosure of proprietary bank-specific information (i.e., credit risk xposures and stress-test simulations). First, we analyze how onetime supervisory disclosures interact with banks' subsequent voluntary disclosures and, thus, bank opaqueness. Second, we analyze whether stress-test disclosures may induce a change in banks' risk-taking behavior, thus mitigating industry-wide risk exposure and uncertainty in financial markets. We find a substantial and relative increase in stress-test participants' voluntary disclosure of sovereign credit risk exposures subsequent to the mandated release of credit risk related disclosures. Such a commitment to increased disclosure is accompanied by a decline in bank opaqueness, as measured by the bid-ask spread. Our findings further show that negative stress-test results are associated with a subsequent reduction in sovereign risk-taking. The latter finding highlights that the efficacy of supervisory disclosure as a macro-prudential tool hinges on whether it indirectly contributes to a decrease in financial market uncertainty by providing disciplining incentives for banks to reduce their level of exposure.

MONDAY 16:00-17:30

FRPS34 *Chair : Stefan Weith* Room : **A309**

Managerial Overconfidence And Accounting Behavior Around Ceo Turnover

Author : *JOCHEN PIERK, HUMBOLDT UNIVERSITY OF BERLIN* EA = Empirical Archival

Co-authors : *Valentin Burg, Humoldt University Berlin*
Tobias Scheinert, Humoldt University Berlin

This paper investigates the relationship between managerial overconfidence and accounting behavior around CEO turnover. Using a sample of S&P 1,500 firms between 1992 and 2010 we find that overconfident managers are less likely to engage in big bath accounting. Overconfident managers systematically perceive their companies to be undervalued and therefore expect that costs of big bath accounting outweigh their benefits. Furthermore, overconfident managers increase discretionary accruals in their first full year of tenure in response to the perceived undervaluation of their companies. Our results are robust to alternative explanations of accounting behavior around CEO turnover, such as turnover type, managerial compensation and corporate governance mechanisms.

MONDAY 16:00-17:30

FRPS34 *Chair : Stefan Weith* Room : **A309**

Bank Executive Overconfidence And Delayed Expected Loss Recognition

Author : *JOHN GALLEMORE, UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL* EA = Empirical Archival

Co-authors : *Dirk Black, Duke University*

While prior work shows that delayed expected loan loss recognition is related to lending propensity (Beatty and Liao, 2011), bank risk (Bushman and Williams, 2011), and bank risk taking (Bushman and Williams, 2012), we provide evidence that executive overconfidence is a potential driver of delayed expected loan loss recognition. We find that overconfident bank CEOs and CFOs recognize lower loan loss provisions and incorporate current and future deterioration in nonperforming loans in their loan loss provisions less than other bank CEOs and CFOs. Our evidence of delayed expected loss recognition is driven primarily by CFOs, consistent with CFOs being closer to the financial reporting function than CEOs. The study is important because it demonstrates that manager characteristics can have meaningful economic consequences for financial institutions through the reporting of asset risk.

MONDAY 16:00-17:30

FRPS34 *Chair : Stefan Weith* Room : **A309**

How Well Do Accounting-Based Risk Measures Predict Bank Failure/trouble? Evidence From The Recent Financial Crisis

Author : *KIRIDARAN KANAGARETNAM, MCMASTER UNIVERSITY* EA = Empirical Archival

Co-authors : *Chee Yeow Lim, Singapore Management University*
Gerald J Lobo, University of Houston

We examine the relation between accounting-based risk measures and bank failure/trouble using a sample of banks from 60 countries. Using three pre-financial-crisis-period, accounting-based, summary risk measures, we find a positive relation between these measures and bank failure/financial trouble during the financial crisis. We also study whether the ability of accounting-based risk measures to predict bank failure/financial trouble varies systematically with characteristics of the institutional environment. We find that stronger legal, extra-legal and political systems enhance the ability of accounting-based risk measures to predict bank failure/financial trouble. Overall, our study documents that accounting-based measures have not lost their relevance in predicting bank failure/financial trouble.

FRPS35 *Chair : Teri Yohn* Room : **A309**

An Examination Of The Relative Deterrent Effects Of Legislated Sanctions On Attitudes About Financial Statement Fraud: A Policy Capturing Approach

Author : *JOSEPH UGRIN, KANSAS STATE UNIVERSITY*

EX = Experimental

Co-authors : *Stacy Kovar, Kansas State University*
John Pearson, Southern Illinois University Carbondale

To advance knowledge about fraudulent financial reporting and the value of recent legislation, this study examines the relative deterrence effects of three types of legislated sanctions for fraudulently reporting financial data using a multi-criteria (policy capturing) decision method. Specifically, the study tests the relative effects of threats of incarceration, fines and professional censure on attitudes about committing financial statement fraud. The results show that the threat of incarceration is less salient than threats of fines and professional censure in the formulation of attitudes about committing financial statement fraud. Reasons for that are tested and the findings show that individuals believe that the enforcement of jail sentences is less certain and less likely to be enforced to the maximum as compared to fines and professional censure rendering incarceration less effectual than threats of fines and professional censure in the formulation of attitudes about committing financial reporting fraud. The results should be of interest to policy makers and regulators aiming to curb fraudulent financial reporting.

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

FRPS35 *Chair : Teri Yohn* Room : **A309**

Bold-Faced Lies: Testosterone And Financial Misreporting

Author : *YACHANG ZENG, TILBURG UNIVERSITY*

EA = Empirical Archival

Co-authors : *Yuping Jia, Frankfurt School of Finance & Management*
Laurence Van Lent, Tilburg University

We examine the relation between the CEO's facial structure, a measure of an individual's exposure to the hormone testosterone during adolescence, and financial misreporting. Baseline testosterone is associated with a complex of behaviors in males, which includes aggression, egocentrism, risk-seeking, and a desire to maintain social status. Using a sample of CEOs from S&P 1500 firms in the period 1992-2010, we document a positive association between our measure of testosterone exposure and financial misreporting. Our evidence is consistent across several proxies for misreporting based on the prediction models proposed by Dechow et al. (2011) and by Beneish (1999) and with using financial restatements due to irregularities as a measure of misreporting. We show that testosterone-related behaviors are different from overconfidence, which prior studies have associated with misreporting. Finally, we demonstrate that testosterone-related behaviors not only affect financial reporting decisions, but also explain the incidence of option backdating in the sample.

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

FRPS35 *Chair : Teri Yohn* Room : **A309**

Lie To Us: Why Companies Are Cheating In Form 8-K And Press Releases Announcing Restatement

Author : *NOURHENE BEN YOUSSEF, REGINA UNIVERSITY*

EA = Empirical Archival

Co-authors : *Gaétan Breton, University of Quebec in Montreal (UQÀM)*

Lying, confusing, withholding key information, and/or delaying the release of pertinent explanations are manipulation techniques used by companies to mislead investors. This paper explores whether and why publicly held companies manipulate the restatement announcement arising from material errors and/or fraud. Merging accounting literature with Information Manipulation Theory, we developed a disclosure score that encompass the quantity, the quality, the manner and the timing of restatement information released in the Form 8-K and in the press releases (8K_PRs). Based on this score, we found companies that mislead investors tend to do so by withholding critical information (quantity), disclosing inaccurate information (quality) and presenting ambiguous information (manner) in their 8K_PRs. To understand the reasons companies mislead investors, our findings suggest that some restatement characteristics affect the likelihood of manipulating restatement information in 8K_PRs.

TUESDAY 11:00-12:30

FRPS01 *Chair : Anne D'Arcy* Room : **A304**

Does Benchmark-Beating Detect Earnings Management? Evidence From Accounting Fraud

Author : *DAVID HARRIS, SYRACUSE UNIVERSITY*

EA = Empirical Archival

Co-authors : *Linna Shi, Binghamton University, SUNY*
Hong Xie, University of Kentucky

We examine the association between slightly meeting or beating earnings benchmarks (benchmark-beating) and accounting fraud, the most extreme and certain case of earnings management, and whether benchmark-beating appears to motivate firms to commit accounting fraud. For a sample of fraud firms that restate earnings, we compare their first-reported earnings with restated earnings in terms of meeting or beating three prominent earnings benchmarks: (1) earnings of the same quarter last year, (2) zero earnings levels, and (3) consensus analyst earnings forecasts. We also compare the fraud sample with a control sample where earnings are not restated. We find that (1) the percentages of first-reported earnings of the fraud sample that slightly meet or beat the three benchmarks are all significantly higher than their respective percentages of restated earnings, (2) the percentages of first-reported earnings of the fraud sample that slightly meet or beat the three benchmarks are all significantly higher than their respective percentages of reported earnings of the control sample, (3) benchmark-beating is useful for explaining the probability of accounting fraud incremental to discretionary accruals, arguably the most widely used predictor for accounting fraud, and the F-score (Dechow et al. (2011)), arguably the most powerful predictor of accounting misstatements, (4) benchmarkbeating ties with and sometimes outperforms discretionary accruals for explaining the probability of accounting fraud in a one-on-one horse race, and (5) the amount of earnings misstatement for the fraud sample is positively associated with the amount of earnings needed to slightly meet or beat an earnings benchmark. Overall, our findings suggest a link between slightly meeting and beating an earnings benchmark and earnings management and thus substantiate the use of benchmark-beating as a proxy for earnings management.

TUESDAY 11:00-12:30

FRPS01 *Chair : Anne D'Arcy* Room : **A304**

Meeting Or Beating Forecasts And Uncertain Earnings Bonuses

Author : *KONRAD LANG, TUEBINGEN UNIVERSITY*

AM = Analytical / Modelling

Co-authors : ,

It is a widespread notion that managers' strong incentives not to disappoint the market are pivotal for why a vast majority of firms meet or beat the analyst consensus forecast. However, "it is not clear why analysts do not unravel the effects of these incentives" (Ramnath et al. 2008, p. 62), i.e., why the majority of firms still meet or beat expectations (MBE). This model studies the interaction between a manager exercising reporting discretion and financial analysts forecasting the firm's earnings. It examines the forces that drive predominant MBE by explicitly considering both MBE incentives and an additional, though, uncertain earnings bonus. Combining the evidence of high earnings bonuses and the absence of complete pre-forecast information about these bonuses provides a possible theoretical explanation for MBE predominance. The analysis yields that, surprisingly, unexpected excess bonuses, rather than MBE incentives, cause predominant MBE. In addition, the probability of disappointing the market increases in the incentives not to disappoint the market. The model predicts that firms in industries with little compensation disclosure and high excess bonuses are more likely to achieve MBE.

TUESDAY 11:00-12:30

FRPS01 *Chair : Anne D'Arcy* Room : **A304**

On the rationale behind the market premium (discount) for meeting or beating (missing) analysts' earnings forecasts

Author : *ETI EINHORN, TEL AVIV UNIVERSITY*

AM = Analytical / Modelling

Co-authors : ,

Research on security analysts provides strong empirical evidence of a market valuation premium (discount) for firms whose earnings reports meet or beat (miss) prior analysts' forecasts, after controlling for the earnings news. The present study suggests a theoretical foundation for this seemingly anomalous pricing pattern. The study is based on the argument that the observed pricing effect of analysts' earnings forecasts might be the rational consequence of the practice of earnings management, rather than the cause of earnings management activities as conventionally perceived in the literature. This argument is established by demonstrating that the market premium (discount) associated with meeting or beating (missing) analysts' earnings forecasts might be simply an adjustment that the market applies to the reported (managed) earnings in order to extract the underlying true (unmanaged) earnings measure.

FRPS02

Chair : Holger Daske Room : **A304**

Does Mandatory Ifrs Adoption Affect Crash Risk?

Author : *MARK DEFOND, UNIVERSITY OF SOUTHERN CALIFORNIA*

Co-authors : *Mingyi Hung, USC*
Siqi Li, Santa Clara University
Yinghua Li, CUNY-Baruch College

EA = Empirical Archival

We examine the impact of mandatory IFRS adoption on firm-level 'crash risk,' defined as the frequency of extreme negative stock returns. An important feature of our study is that we separately analyze non-financial firms and financial firms because IFRS adoption is likely to affect crash risk for these firms through different mechanisms. We find that crash risk decreases among non-financial firms after the adoption, especially among firms in poor information environments and in countries with large GAAP changes. In contrast, although the evidence is somewhat weaker, we also find that crash risk increases for financial firms, especially among banks with more fair value exposure and less restrictive regulations. Overall, our results are consistent with IFRS decreasing crash risk among non-financial firms by improving transparency, and with IFRS increasing crash risk among financial firms through its fair value provisions.

TUESDAY 14:00-15:30

FRPS02

Chair : Holger Daske Room : **A304**

Causes And Consequences Of A Voluntary Turn Away From Ifrs To Local Gaap

Author : *JEROME HALBERKANN, UNIVERSITY OF ZÜRICH*

Co-authors : *Peter Fiechter, University of Zurich*
Conrad Meyer, University of Zurich

EA = Empirical Archival

This paper investigates the causes and economic consequences of a voluntary turn away from IFRS to Swiss GAAP. As companies are permitted to switch from IFRS to Swiss GAAP in Switzerland, we can exploit this unique setting to observe potential capital market effects associated with the switch. Prior literature on mandatory IFRS adoption generally finds a decrease in information asymmetry associated with increasing levels of disclosure. Accordingly, turning away from IFRS is expected to increase the information asymmetry. However, the empirical results from a difference-in-differences design do not support this prediction. We interpret this finding as evidence that the disclosure level of Swiss GAAP is sufficient to meet the informational demand for information of the switching companies' investors. By providing evidence that—for certain companies—a switch away from IFRS does not necessarily induce negative economic consequences, the findings contribute to the current discussion on whether IFRS fits for small- and medium-sized companies.

TUESDAY 14:00-15:30

FRPS02

Chair : Holger Daske Room : **A304**

Does Mandatory Ifrs Adoption Facilitate Financial Market Integration

Author : *YAN LI, NATIONAL UNIVERSITY OF SINGAPORE*

Co-authors : *Dan Dhaliwal, University of Arizona*
Wen He, University of New South Wales
Yan Li, National University of Singapore
Raynolde Pereira, University of Missouri

EA = Empirical Archival

Do accounting standards impact financial market integration? This question is important because financial market integration is posited to entail improved risk sharing and stock price efficiency. Prior research contends accounting quality can hamper financial market integration. A resulting implication is that accounting standards will have a bearing on financial market integration since it significantly impacts accounting quality. We evaluate this contention by focusing on the mandatory adoption of International Financial Reporting Standards (IFRS). We find IFRS adoption positively impacts financial market integration. This finding is robust across multiple measures of financial market integration. We further find these results to be pronounced in countries where there is significant distance in quality between IFRS and domestic accounting standards. We also find the impact of IFRS to be pronounced in countries with stringent legal enforcement in place. Overall, our study provides initial evidence on the role of accounting standards on financial market integration.

FRPS03

Chair : Niclas Hellman Room : **A304**

R&d Costs Capitalization And Volatility Of Earnings

Author : *IRINA DUSCHER, HAMBURG UNIVERSITY OF TECHNOLOGY*

AM = Analytical / Modelling

Co-authors : *Matthias Meyer, Hamburg Technical University*

We examine the impact of accounting choice for R&D costs on volatility of earnings for each year of a drug's life cycle. We predict that introduction of an uncertain asset to financial reporting increases the volatility of earnings. We find that the increase in volatility due to capitalization occurs, with the highest impact in the approval phase where earnings are almost three times more volatile as compared to expensing. However, accounting choice impacts the difference in volatility of earnings only in the development stage. In the market stage, accounting choice for R&D costs has only a negligible effect on volatility of earnings. Additionally, our results indicate that an earlier (later) capitalization leads to a higher (lower) difference in volatility of earnings.

TUESDAY 16:00-17:30

FRPS03

Chair : Niclas Hellman Room : **A304**

Market Reaction To Goodwill Impairments

Author : *THORSTEN KNAUER, MUENSTER UNIVERSITY*

EA = Empirical Archival

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

This paper examines the information content of goodwill write-offs under International Accounting Standard (IAS) 36 (Impairment of Assets) and whether or not the informational value depends on the reliability of the news. Using a sample of 499 goodwill write-off announcements issued from 2005 to 2009, our results indicate that investors revise their expectations downward upon the write-off announcement. We provide evidence that the market reaction is associated with the level of legal protection, with greater absolute price reactions in common law countries where strong protection limits managers' benefit from exerting their discretion opportunistically. We further report that market reaction is associated with managers explaining the write-off decision and that the market reaction depends on the verifiability of the explanations. In sum, our study suggests that the announcement of goodwill impairment losses reveals negative news to the market, but that the informational value depends on factors that constrain management discretion and enhance the reliability of the news.

TUESDAY 16:00-17:30

FRPS03

Chair : Niclas Hellman Room : **A304**

Hedge Fund Intervention And Accounting Conservatism

Author : *YINGHUA LI, BARUCH COLLEGE*

EA = Empirical Archival

Co-authors : *C.S. Agnes Cheng, Hong Kong Polytechnic University and Louisiana State University*
Henry Huang, University of Houston

Recent evidence shows that hedge fund intervention has elicited many positive corporate changes and is becoming an important vehicle of informed shareholder monitoring. It is also shown that effective monitoring is positively associated with accounting conservatism. Building upon these two streams of literature, we predict an increase in accounting conservatism after hedge fund intervention. Using a large sample of hedge fund interventions, we find that target firms have significantly increased accounting conservatism compared with their control firms identified through the propensity score matching method. Furthermore, we find that in those activist events where hedge fund activists have greater monitoring power (as measured by higher fund ownership levels, longer holding periods, and the use of hostile tactics), target firms experience greater increases in conservatism. Finally, we show that post-intervention CFO turnovers and improvements in audit committee independence are accompanied by more pronounced increases in accounting conservatism. Our study adds important new evidence on the effectiveness of shareholder monitoring on accounting conservatism.

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

FRPS07 *Chair : Chen Dikolli* Room : **A306**

Managerial Discretion In Accruals And Informational Efficiency

Author : *DAVID WINDISCH, GRAZ KARL-FRANZENS UNIVERSITY* EA = Empirical Archival

Co-authors : *Pietro Perotti, University of Graz*

In this paper we examine the relation between discretionary accruals and informational efficiency. Assuming that efficient prices follow a random walk, we measure informational efficiency by using stock return variance ratios. Our analysis concentrates on a large sample of US non-financial firms between 1988 and 2007. We find that the absolute value of discretionary accruals is positively associated with informational efficiency. The results are consistent with the view that managerial discretion is informative for market participants; discretionary accruals convey useful information to investors and facilitate the price convergence to its fundamental value.

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

FRPS07 *Chair : Chen Dikolli* Room : **A306**

Earnings Management Or Market Timing? Abnormally High Discretionary Accruals Accompanied By Insider Sales

Author : *HAN WU, NORWEGIAN SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION* EA = Empirical Archival

Co-authors : ,

This paper studies the earnings management and market timing behaviors accompanied by insider sales using a novel Chinese dataset. Prior studies document abnormally higher discretionary accruals accompanied by insider sales and attribute the positive link to earnings management. In my study, I show that market timing is another possible and likely more important factor that drives this link. The inference is based on my earnings management tests with market timing explicitly controlled. I control for market time through taking account of a group of insiders who can time the market while cannot manipulate earnings. The findings point towards potential endogeneity problem caused by market timing in the earnings management studies.

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

FRPS07 *Chair : Chen Dikolli* Room : **A306**

Industry Differences In Earnings Management: Evidence From Finnish Private Firms

Author : *DENNIS SUNDVIK, HANKEN SCHOOL OF ECONOMICS* EA = Empirical Archival

Co-authors : ,

This paper examines whether there are any variation between industries regarding the magnitude of manipulation of reported financial results among firms. The previous earnings management literature has in fact not dealt with this specific area to any large extent, although industry classification is underlying in many earnings management studies. Financial statements and specifically the accrual element of the accounting numbers are analyzed for a large sample of 10 524 private firms in Finland during the 2006-2010 period. Total accruals are estimated with the balance sheet as a starting point and an earnings management identification model that controls for performance is used for the identification of the discretionary accruals, which is considered as a proxy for earnings management. Both differences and similarities regarding the extent of earnings management between industries are documented. Deviant discretionary accruals are noted in the following industries: Construction, Information and communication, Professional, scientific and technical activities, and Administrative and support service activities, as well as in Electricity and water supply industries. These findings are to a certain degree consistent with the few sources of previous research that have noted differences in the earnings management distribution.

FRPS09 *Chair : Peter Kajuter* Room : **A305**

Does Public/private Status Affect Smes Earnings Management Practices? A Study On French Case

Author : *LUDOVIC VIGNERON, UNIVERSITY OF VALENCIENNES*

Co-authors : *Yves Mard, University of Valenciennes*

EA = Empirical Archival

In this article, we study the quality of accounting information among small and medium enterprises (SMEs) in the French context. Using a sample of 925 firms observed over the period 2002-2010, we compare the intensity of earnings management practices between public and private SMEs. We find evidences that private SMEs more frequently manipulate their net income report to avoid small losses than public ones. We also notice a more pronounced behavior of earnings smoothing among private SMEs than among public ones. The analysis of accruals shows that public SMEs use more intensively accounting flexibilities to influence their incomes. They use them to increase their appearing performance while private SMEs use them mostly to reduce incomes report with the objective to reduce taxes.

TUESDAY 9:00-10:30

FRPS09 *Chair : Peter Kajuter* Room : **A305**

Industry Effects On Voluntary Disclosure By Small Private Companies

Author : *STEFANIE CEUSTERMANS, FREE UNIVERSITY OF BRUSSELS*

Co-authors : *Diane Breesch, Vrije Universiteit Brussel*

EA = Empirical Archival

This paper examines the influence of company and industry-specific characteristics on the decision of small Belgian companies to withhold or voluntarily disclose financially sensitive information. Empirically testing hypotheses on voluntary disclosure by small private companies is very difficult, because of the absence of capital market incentives and lack of settings in which financial disclosures are voluntary. Small companies in Belgium have to publish and file abbreviated financial statements, by which they have the option to withhold sales and cost of sales. This paper uses a sample of 3 000 Belgian SMEs to determine whether industry-specific characteristics have an impact on the decision to disclose annual sales. The results of the logistic regression showed that the type of industry (manufacturing, retail/wholesale and services) and the industry concentration (based on the average number of employees) have an impact on the disclosure decision of small private companies. The contribution of this paper is twofold. First, it complements the literature on voluntary disclosure by focusing on small private companies in a Continental European environment, whereas the majority of the previous studies relates to large listed companies. Second, we provide empirical evidence on the effect of industry variables on the disclosure decision. To date, research on industry variables remain rather scant and are often contradictory.

TUESDAY 9:00-10:30

FRPS09 *Chair : Peter Kajuter* Room : **A305**

Determinants Of The Voluntary Adoption Of Ifrs By Uk Unlisted Firms

Author : *PETER WALTON, ESSEC BUSINESS SCHOOL PARIS*

Co-authors : *Paul Andre, ESSEC Business School*
Fani Kalogirou, ESSEC Business School
Dan Yang, Beijing Normal University

EA = Empirical Archival

We examine the determinants of voluntary adoption of IFRS by medium-to-large UK unlisted firms as defined by the revised 4th Directive (29,874 firms comprising 1,264 or 4.26% IFRS firms). Analysing voluntary adoption allows us to better understand the cost/benefits of choosing a specific set of accounting standards. we find that larger firms, with international orientation, lower levels of debt, more external funding needs, more employee productivity, and lower profitability are more likely to voluntarily adopter IFRS. In addition, new firms, firms audited by big-four auditors and firms controlled by governmental organizations, funds, or other companies tend to adopt more than other firms.

FRPS11 *Chair : Helena Isidro* Room : **A305**

The Spillover Effect Of Chinese Reverse Merger Frauds: Chinese Or Reverse Merger?

Author : *RONG HUANG, BARUCH COLLEGE*

EA = Empirical Archival

Co-authors : *Masako Darrough, City University of New York-Baruch College*
Sha Zhao, City University of New York-Baruch College

This paper examines the spillover effect of the news about fraud allegedly committed by Chinese reverse mergers (CRMs). In a reverse merger, a private, operating company becomes public when it is acquired by a public shell company. A large number of Chinese companies became public in the last 10 years through reverse mergers with U.S. shell companies rather than through the traditional initial public offering. A number of these companies, however, have been found to be involved with fraudulent activities or reporting. Once the regulators and the public became alarmed by the frequency of fraud revelations, the stock prices of not only the offending companies but also those of other companies were hammered. Those that were affected more negatively are other CRMs and U.S.-listed Chinese IPOs. The negative spillover effect differs across non-fraudulent CRMs according to operation locations and auditor characteristics. Since reverse mergers involving non-Chinese (U.S. and other foreign) private companies appear to have escaped the wrath of investors, the stock market reaction to fraud news appears to be China bashing rather than reverse merger bashing.

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

FRPS11 *Chair : Helena Isidro* Room : **A305**

Internal Control Disclosures: A Cross-Country Study Of The Effects Of National Culture

Author : *REGGY HOOGHIEMSTRA, UNIVERSITY OF GRONINGEN/ FACULTY OF ECONOMICS AND BUSINESS*

EA = Empirical Archival

Co-authors : *Niels Hermes, University of Groningen*
Jim Emanuels, University of Groningen

This study examines the association between national culture and the amount of internal control information that listed companies disclose in their annual reports. Based on an extended view of the voluntary disclosure literature and relying on agency theory to explain how national culture affects the cost-benefit trade-off managers make in their disclosure choices, this study builds on the notion that culture affects managers' and investors' perceptions of agency problems and, consequently, may drive managers' disclosure choices. Using unique hand-collected data from a sample of 4,370 firm-year observations for 1,559 firms from 29 countries for the period 2005 to 2007, we find that national culture directly affects such disclosures. Moreover, we show that national culture also indirectly affects disclosures via the level of investor protection in a country. This article is the first to examine cultural determinants of internal control disclosure using an extensive cross-national data set and to demonstrate that culture not only directly but also indirectly, via investor protection, influences managers' disclosure choices.

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

FRPS11 *Chair : Helena Isidro* Room : **A305**

Qualified Audit Opinions And Debt Contracting

Author : *DERRALD STICE, THE HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY*

EA = Empirical Archival

Co-authors : *Peter Chen, Hong Kong University of Science & Technology*
Shaohua He, Hong Kong University of Science & Technology
Zhiming Ma, Hong Kong University of Science & Technology

We examine the effect of qualified audit opinions on private debt contracts. Consistent with the monitoring role of auditor opinions on accounting quality, we find that a qualified audit opinion is associated with an average increase of 18 basis points in the interest rate of loan facilities issued in the following year. We also find evidence that lenders replace financial covenants with non-financial covenants following a qualified audit opinion of the borrower's financial statements. Furthermore, we also find that a qualified audit opinion is associated with a decrease in loan size and an increase in the likelihood of requiring collateral from the borrower, but we find no evidence that qualified audit opinions are associated with a change in the length of loan maturity. Finally, we find that qualified audit opinions are associated with a decreased use of financial ratios in performance pricing provisions. A variety of additional tests demonstrate that the effects of a qualified audit opinion on contractual terms are robust after controlling for other indicators of accounting quality such as abnormal accruals, volatility of accounting accruals and disclosure of internal control weakness. These results are not obvious given that private lenders have access to proprietary information unavailable to most market participants and suggest that auditors play a unique role in debt contracting through monitoring borrowers' financial reporting quality.

FRPS12 — *Chair : Stephen Hillegeist* — Room : **A305**

Fair Valuing Of Financial Liabilities And Own Credit Risk: What Does It Mean And When Does It Make Sense From An Accounting Perspective?

Author : *JOANA CARDOSO FONTES, LANCASTER UNIVERSITY / MANAGEMENT SCHOOL*

AM = Analytical / Modelling

Co-authors : *Argyro Panaretou, Lancaster University Management School*
Ken Peasnell, Lancaster University Management School

The extension of fair value accounting to financial liabilities, by requiring changes in own credit risk (hereafter OCR) to be separately labeled in the accounts, has been highly controversial. The fact that an entity would report a gain when the entity's OCR deteriorates has been raised as the main critic. Although the OCR gain is consistent with the wealth transfer predicted by the economic theory, there is no consensus about the economic rationale underlying the inclusion of OCR in the fair value measurement of financial liabilities. We use a comprehensive perspective of fair value accounting to show that, in order for the economics underlying the wealth transfer effect to be recognized in the accounts, changes in liabilities' fair values arising from changes in OCR should be included in net income. Failing to reflect the OCR effect leads to a misrepresentation of net income. On the other hand, we conclude that the opposition to include OCR in liabilities' fair value measurement is warranted, if some conditions are not met. We raise three critical issues, which we suggest standard setters to address in further development of accounting for financial liabilities.

TUESDAY 16:00-17:30

FRPS12 — *Chair : Stephen Hillegeist* — Room : **A305**

Comparing The Usefulness Of Historical-Cost Income And Fair-Value Based Income

Author : *IGOR GONCHAROV, WHU - OTTO BEISHEIM SCHOOL OF MANAGEMENT*

EA = Empirical Archival

Co-authors : *Dieter Wirtz, University of Amsterdam*

While IFRS permits firms to recognize unrealized gains and unrealized losses of non-financial fixed assets, U.S. GAAP forbids firms to report unrealized gains but requires firms to report impairment losses in financial statements once the depreciated book value is not recoverable. The asymmetric treatment under U.S. GAAP is due to the FASB's concern that firm managers overstate the value of assets based on unobservable inputs. In turn, impairments and unrealized losses are expected to inform investors about bad news equally well. We subject these arguments to an empirical test and argue that impairments are reported in nonroutine setting, which reduces their informativeness relative to unrealized losses. We also predict that unrealized gains explain the higher informativeness of fair-value based income over historical-cost income. We test our predictions using the real estate setting and contrasting U.S. GAAP impairments of investment property and U.K. unrealized property gains and losses reported under IFRS. We find that unrealized gains in the U.K. contain value relevant and timely information. Furthermore, unrealized losses are a better signal of the significant property market downturn and are more informative than impairments. Overall, this study provides evidence that reporting of unrealized gains and unrealized losses explains makes historical-cost income more useful in explaining share prices and market returns.

TUESDAY 16:00-17:30

FRPS12 — *Chair : Stephen Hillegeist* — Room : **A305**

Firm Location, Earnings Management And Financial Reporting Choice: An Analysis Of Fair Value Reporting For Investment Properties In Emerging Market

Author : *JING ZHANG, MCGILL UNIVERSITY*

EA = Empirical Archival

Co-authors : *Desmond Tsang, McGill University*

In this study, we examine the impact of earnings management on firms' decision to adopt the fair value model to account for investment properties, and how firm and property locations can affect this financial reporting choice. Unlike most other investments, investment properties are unique and cannot be traded in an exchange market. Hence, fair value estimation on investment properties is likely less verifiable and can be subject to more managerial manipulation. As investment properties are location-specific, firms may also have more opportunities to misstate fair values where the local real estate market is illiquid and investors' monitoring is low. Utilizing the emerging market setting of China, where earnings management is perceived as more prevalent and various regions are still under different stages of development, we find evidence that the fair value option for investment properties is predominantly chosen by firms that had significant earnings management activities. We also find that earnings management firms are more likely to adopt the fair value model when the firms' headquarters and investment properties are located at under-developed regions. We further show that firms that choose the fair value model use unrealized gains and losses to smooth earnings and to beat earnings benchmark. Overall, our findings suggest fair value reporting decision for investment properties in the emerging Chinese market is primarily driven by managerial opportunism.

TUESDAY 14:00-15:30

FRPS17

Chair : Jane Fehr Room : **A bis**

Timing The Adoption Of The New Canadian Gaap For Private Enterprises – Insights From The Diffusion Of Innovation And Reasoned Action Theories

Author : *SYLVAIN DUROCHER, UNIVERSITY OF OTTAWA*

Co-authors : *Anne Fortin, Université du Québec à Montréal*

SU = Survey

Prior research into the adoption timing decision of organizations in relation to newly promulgated accounting standards focused exclusively on public enterprises and used economic cost-benefit frameworks as a main method of analysis. The current study draws on the theories of organizational diffusion of innovation and reasoned action to identify the factors that influence the adoption timing decision of private firms respecting the new set of standards for private enterprises published in 2009 in Canada. The survey findings show that knowledge, relative advantages, compatibility, complexity and subjective norms play a significant role in managers' adoption behavior, as do sponsorship, managerial tenure and work groups. The study provides relevant insights for private enterprise managers, financial statement users, standard setters and academics.

TUESDAY 14:00-15:30

FRPS17

Chair : Jane Fehr Room : **A bis**

The Effect Of Stakeholder Power And Salience On Not-For-Profit Accountability

Author : *ALAN KILGORE, MACQUARIE UNIVERSITY*

Co-authors : *Jinhua Chen, Macquarie University*
Maria Dyball, Macquarie University
Alan Kilgore, Macquarie University

SU = Survey

The purpose of this study is to examine the association between stakeholder power and salience and the mechanisms not-for-profit organizations use to account to stakeholders. Data from 621 Australian not-for-profit organizations were collected using a mail survey. The results reveal that not-for-profit management prioritized their upward accountability to funding agents, despite seeing clients as the most salient stakeholder. The results also indicate that while the use of the downward accountability mechanism of participation was related to client power, the use of upward accountability mechanisms of reports and disclosure statements, performance assessment and evaluation, and self-regulation was driven by funding agents' salience. Implications are drawn with respect to not-for-profit managerial practices and regulatory reform.

TUESDAY 14:00-15:30

FRPS17

Chair : Jane Fehr Room : **A bis**

The Influence Of Professional Qualification On Customers' Perceived Quality Of Accounting Services And Retention Decision

Author : *MAJA ZAMAN GROFF, UNIVERSITY OF LJUBLJANA*

Co-authors : *Sergeja Slapni?ar, University of Ljubljana, Faculty of Economics*
Ne?a ?tumberger, University of Ljubljana, Faculty of Economics

SU = Survey

Considering the significance of small and micro firms for the European economy and increasing importance of financial reporting quality, surprisingly little discussion is related to minimum requirements for professionals preparing their financial reports. The purpose of the paper is to examine whether professional qualification increases the quality of accounting services as perceived by the customers. We advance the measurement of service quality by industry specific indicators and establish four dimensions of accounting service quality. We analyse the impact of professional qualification on separate dimensions of quality and their impact on customers' retention decision. The analysis is based on the survey data among 237 small and micro firms that outsource accounting. We find that professional qualification is positively associated only with accountant's competences. Perceived competences affect other dimensions of perceived service quality – assurance, reliability, responsiveness and empathy and only these latter dimensions are associated with customers' retention decision. Limitations of the study are contributed to the measurement of service quality as perceived by the customers. Yet, this is the only factor of choice that ultimately counts in the competitive market for accounting services. The findings contribute to the debate whether it would be beneficial to enforce more formal requirements for the professional accountants.

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

FRPS18

Chair : Frederick Lindahl Room : **A306**

Managerial Ability And Earnings Quality: An International Analysis

Author : SUNHWA CHOI, LANCASTER UNIVERSITY / MANAGEMENT SCHOOL

EA = Empirical Archival

Co-authors : Baik Bok, Seoul National University
David Farber, McGill University
Jingjing Zhang, McGill University

In this paper, we use an international setting to examine an unresolved issue in the literature on the relation between managerial ability and earnings quality. We also examine whether the strength of a country's investor protection system impacts this relation. Using multiple measures of earnings quality and managerial ability, we report that earnings quality is negatively associated with managerial ability. We also find that a strong system of investor protection mitigates this negative relation. Overall, our study adds to the literature on the impact of managerial characteristics on financial reporting decisions.

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

FRPS18

Chair : Frederick Lindahl Room : **A306**

Honoring One'S Word: Ceo Integrity And Accruals Quality

Author : SHANE DIKOLLI, DUKE UNIVERSITY / FUQUA SCHOOL OF BUSINESS

EA = Empirical Archival

Co-authors : Shane Dikolli, Duke University
William Mayew, Duke University
Thomas Steffen, Duke University

In this study, we define integrity as honoring one's word and propose a linguistic-based measure of CEO integrity derived from the extent of causation words used in CEO prose. We begin by validating our linguistic-based integrity measure via a proprietary survey dataset that solicits employee perceptions of CEO integrity. We document a positive association between (1) the extent of causal words in CEO responses to open-ended survey questions and (2) employee perceptions regarding the extent to which the CEO honors their word, suggesting the linguistic-based score is linked to the construct of integrity. In a large archival sample, we then derive CEO integrity scores based on unexpected use of causation words in the annual shareholder letter, our source of CEO prose. Accruals represent a CEO's word as a placeholder for cash flows, and as such we expect high integrity CEOs will have better accrual quality. We document a positive association between the linguistic-based integrity score and both an accrual-based and a market-based measure of accrual quality. This study adds to the literature on identifying manager-specific attributes that influence financial reporting outcomes.

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

FRPS18

Chair : Frederick Lindahl Room : **A306**

Do Managers Discuss Pro Forma Earnings In Earnings Press Releases And Conference Calls To Influence Street Earnings Exclusions?

Author : ERVIN BLACK, BRIGHAM YOUNG UNIVERSITY

EA = Empirical Archival

Co-authors : Theodore Christensen, Brigham Young University
Paraskevi Vicky Kiosse, University of Exeter
Thomas Steffen, Duke University

Prior research has documented the importance of street earnings to capital market participants. However, the literature provides very little evidence on the factors that affect the calculation of street earnings. Christensen et al. (2011) find evidence suggesting that managers actively influence analysts' exclusion decisions by providing non-GAAP earnings guidance during the fiscal period to influence the street earnings figure provided by I/B/E/S at the end of the period. We contend that, in addition to earnings guidance during the period, managers have two important venues at the end of the period through which they can influence the calculation of street earnings: (1) the earnings press release and (2) post-earnings-announcement conference calls. We explore whether managers' voluntary pro forma disclosures in earnings press releases and the discussion of pro forma exclusions in earnings conference calls influence I/B/E/S' street earnings exclusions. The results indicate that, in addition to ex ante earnings guidance, managers are able to influence the calculation of street earnings through the discussion of pro forma earnings exclusions in press releases and conference calls. In addition, our evidence suggests that investors appear to react more to earnings announcements preceded by earnings guidance during the period and when managers provide more pro forma earnings discussion in the earnings press release. However, subsequent discussion and clarification in the earnings conference call leads to apparent skepticism and lower investor reactions to street earnings information.

FRPS20 *Chair : Ding Yuan* Room : **A306**

Management Earnings Forecasts And Inventory Management

Author : *LING ZHOU, UNIVERSITY OF NEW MEXICO*

Co-authors : *Guojin Gong, Penn State University*
Laura Li, University of Illinois

EA = Empirical Archival

This study illustrates the informational value of management forecasts through the link between managers' earnings forecasts and their investment decisions. We find that greater optimism in quarterly management earnings forecasts are associated with higher abnormal inventories, suggesting that managers' forecasting biases transfer to inventory investment decisions. Furthermore, results show that more frequent, more accurate and more timely management earnings forecasts are related with more stable and smaller magnitude of abnormal inventories, consistent with higher quality management forecasts reflecting more efficient inventory investment decisions. Our findings illustrate how market participants can use the more observable management forecast quality to better evaluate the less observable efficiency of managers' inventory investments, contributing to the ongoing debate on the usefulness of quarterly management forecasts.

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

FRPS20 *Chair : Ding Yuan* Room : **A306**

Income Smoothing With Unlimited Liability Firms

Author : *PHILIPP SCHORN, RHINE-WAAL UNIVERSITY OF APPLIED SCIENCES*

Co-authors : *Jochen Bigus, Freie Universität Berlin, School of Business and Economics*
Nadine Georgiou, Freie Universität Berlin, School of Business and Economics

EA = Empirical Archival

We analyze income smoothing with private small and medium-sized enterprises (SMEs) in Germany using a unique database of the German central bank containing around 18,200 firm-year observations. With German corporations, payouts to shareholders are linked to net income; this is not the case with unlimited liability firms (including sole proprietors). Thus, we expect and find approximately 15% to 30% lower levels of income smoothing with unlimited liability firms than with corporations. Further, we expect and find that unlimited liability firms have stronger incentives to smooth income for tax reasons. Finally, due to reduced agency problems of debt, we expect and find that unlimited liability firms have less need to disclose stable net income to banks. The results provide a more detailed understanding on the relationship between legal form of private firms and income smoothing.

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

FRPS20 *Chair : Ding Yuan* Room : **A306**

Product Market Competition And Earnings Management: Some International Evidence

Author : *SURJIT TINAIKAR, UNIVERSITY OF MASSACHUSETTS BOSTON*

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

EA = Empirical Archival

We provide international evidence that industries facing increased intensity of import penetration and lower price-cost margins induce insiders of firms in these industries to smooth earnings and record higher accruals. We interpret this result to be consistent with the explanation that competition increases the variability of profits and decreases equilibrium profit levels. Income smoothing and accruals manipulation may thus arise from managerial desire to distort true economic performance. Doing so enables the manager to protect a portion of his or her private control benefits. To confirm the plausibility of this explanation, we correlate our earnings management proxies with a widely used measure of private benefits i.e. the voting premium between shares with differential voting rights. For a sub-sample of the firms with differential voting rights, we find a strong positive correlation between the voting premium and our earnings management proxies. This helps us strengthen the likelihood of the private benefits hypothesis relative to other alternative explanations. We also confirm the findings of prior research that competition mitigates managerial private benefits of control. However, this effect is found to be less pronounced in firms that manage earnings. We interpret this result to be consistent with the possibility of competition to more likely reveal inefficiencies or funds diversion in low earnings management firms relative to high earnings management firms.

FRPS21 *Chair : Xinge Zhao* Room : **A306**

Investors' Reaction On The Difference Between Actual And Expected Credit Ratings

Author : *KHURRAM SHAHZAD, VU UNIVERSITY AMSTERDAM* EA = Empirical Archival

Co-authors : *Khurram Shahzad, Vrije University*
Gerard Mertens, Open University

Baker and Mansi (2002) in their survey study show that investors do their own analysis to assess credit risk of different bonds. Assuming that investors use rating prediction models used in different studies, we examine the effect of difference between actual ratings (ratings assigned by credit rating agencies) and expected ratings (those predicted based on rating prediction models) on the bond yield spread. We find that investors require a higher (lower) yield on bonds that received higher (lower) than expected ratings compared to the base case bonds for which the credit ratings assigned by CRAs are equal to their expected ratings. We find that the difference between actual and expected ratings also affects the information content of credit ratings and also explains the extra yield on split rated bonds. Finally our results show that the difference between the actual and expected ratings forces Moody's to bring in a rating change earlier if such bonds sell at a yield that is higher than the expected yield. We do not find such evidence in the case of S&P.

TUESDAY 16:00-17:30

FRPS21 *Chair : Xinge Zhao* Room : **A306**

The Relative And Incremental Value Relevance Of Fair Value And Historical Cost Measurements Under Ifrs: Evidence From European Financial Institutions

Author : *LIN LIAO, THE UNIVERSITY OF NEW SOUTH WALES* EA = Empirical Archival

Co-authors : *Helen Kang, The University of New South Wales*
Richard Morris, The University of New South Wales
Qingliang Tang, The University of Western Sydney

This paper investigates the relative and incremental value relevance of financial assets and liabilities measured at fair value and historical cost using a set of sample financial institutions from 25 European countries over the period 2006-2010. Relative value relevance means that one measure alone provides greater information content than another measure. On the other hand, incremental value relevance means that one measure provides information incremental to that provided by another measure. Our results show that, overall, fair value measurements are not relatively more value relevant than historical cost measurements or vice versa. However, by splitting the full sample into two periods, the financial crisis period and the non-financial crisis period, we find that, in the financial crisis period, financial assets and liabilities measured at fair value are relatively more value relevant than those measured at historical cost. On the other hand, both fair value and historical cost measures are found to be incrementally informative in both the financial crisis and non-financial crisis periods.

TUESDAY 16:00-17:30

FRPS21 *Chair : Xinge Zhao* Room : **A306**

Determinants Of Impairments On Greek Government Bonds In Situations Of Financial Distress - Evidence From European Banks

Author : *MARTIN SCHMIDT, ESCP - EUROPE BUSINESS SCHOOL BERLIN* EA = Empirical Archival

Co-authors : *Martin Bierey, KFW IPEX-Bank GmbH*

This paper investigates the determinants of impairment losses recognized on Greek government bonds by European banks in 2011. We test our hypotheses on the full population of those 71 European banks defined by the European banking authority as having "systemic relevance", and use these banks' interim reports as of June and September 2011 – the time when the European sovereign debt crises considerably worsened. Impairment losses incurred on financial instruments are of fundamental importance for banks' performance and their regulatory capital. While earnings and regulatory capital management have been extensively researched for banks, existing evidence is limited to loans. Compared to loans, one would expect impairments on bonds to be associated with less room for discretion since bonds are publicly traded. Yet, our findings show that there is substantial diversity in practice and considerable room for discretion. Our findings show that banks make ample use of this discretion to manage regulatory capital as well as to smooth earnings. Our study contributes to the literature in providing first evidence on the determinants of impairment on publicly traded bonds in accordance with IFRS. Our findings have implications for financial statement analysis. In addition, we provide insight into the application of IFRS in times of financial distress. Accordingly, the results are of interest for standard-setting and enforcement institutions. Given that deficient application or a lack of rigorous enforcement may have significant implications for the stability of the financial sector, the results are also particularly interesting for prudential regulators of banks.

FRPS27 *Chair : Daphne Lui* Room : **A307**

Do Managers Disclose More Information About Tax Loss Carryforward When Future Profits Are Uncertain?

Author : *JENS MUELLER, GRAZ KARL-FRANZENS UNIVERSITY*

Co-authors : *Vanessa Flagmeier, University of Graz*

EA = Empirical Archival

The value of tax loss carryforwards is difficult to assess for an investor since it strongly depends on if and when they can be offset against taxable income. We examine whether companies voluntarily disclose additional information about tax loss carryforwards when their recoverability is more uncertain. To investigate whether companies consider such uncertainty in their disclosure policy, we employ a pooled cross-section regression analysis, controlling for other factors that might influence disclosure. We develop a disclosure index and distinguish between mandatory disclosure under IAS 12 and voluntary disclosure. Our empirical analysis is based on a sample of German hand collected data from notes of IFRS financial statements. We find that companies that are exhibited to greater ex ante uncertainty voluntarily disclose more and more useful information regarding the future usability of tax loss carryforwards. These findings are robust for several indicators representing information and income uncertainty. Our findings suggest that managers anticipate the investors' need for more private information and thus disclose them voluntarily to send a signal of credibility to the market participants. It can be assumed that disclosing this information is less costly than facing potential risk premiums demanded by investors leading to higher cost of capital.

FRPS27 *Chair : Daphne Lui* Room : **A307**

Accounting Discretion And Informativeness Of Voluntary Disclosure

Author : *BAOHUA XIN, UNIVERSITY OF TORONTO*

Co-authors : *Xu Jiang, Duke University*

AM = Analytical / Modelling

Earnings management is generally conceived to be detrimental to firm value as well as decreasing the informativeness of management earnings disclosure. We investigate the interaction between management's voluntary disclosure and the subsequent mandatory disclosure of value relevant information. We show that in equilibrium, allowing the manager to have some discretion over the mandatory financial report can actually enhance the informativeness of the more timely voluntary disclosure. However, allowing too much discretion for earnings management would result in again uninformative voluntary disclosure. Thus there is an optimal degree of discretion to be tolerated, and there is a hidden benefit of allowing the manager some (but not too much) discretion in reporting the true earnings of the firm, consistent with the discretion imbedded in generally accepted accounting principles.

FRPS27 *Chair : Daphne Lui* Room : **A307**

Voluntary Disclosure Quality, Operating Performance, and Stock Market Valuations

Author : *FLORIAN EUGSTER, UNIVERSITY OF ZÜRICH*

Co-authors : *Alexander Wagner, University of Zurich*

MB = Market Based

We document that firms with better voluntary disclosure quality (VDQ) have better operating performance and exhibit higher valuation ratios. These results hold controlling for firm fixed effects as well as with an instrumental variables approach. Thus, the evidence provides support for the hypothesis that VDQ is causally linked to value generation, adding to the previously established effects of information transmission that occur when managers use VDQ to convey privately known good news about future firm results. However, stock prices do not appear to fully incorporate the value of higher disclosure quality; specifically, VDQ and excess returns (beyond those available through passively investing in popular styles) are slightly positively related in the full sample. Here, the analysis adds to existing work by showing that, consistent with mispricing, the positive relationship between VDQ and excess returns is most pronounced among opaque firms (such as those with little analyst coverage), for which previous literature has shown that equity prices are slower to reflect any benefits or costs of a characteristic than for better-known firms.

FRPS28 *Chair : Ronita Ram* Room : **A307**

Corporate Governance Monitoring Effects On Corporate Environmental Responsibility

Author : *HABIBA AL-SHAER, DURHAM UNIVERSITY / BUSINESS SCHOOL*

AM = Analytical / Modelling

Co-authors : *Aly Salama, Durham University*

This paper examines the impact of audit committee and board of directors on corporate environmental responsibility (CER). We measure the environmental disclosure in corporate annual reports by applying the consolidated narrative interrogation instrument (CONI from Beck et al., 2010) on a sample of UK FTSE350 companies. We also construct a composite measure to capture the joint effects of audit committee characteristics. Consistent with the literature that audit committees help to attain an effective governance oversight, our findings indicate that effective audit committees have a positive impact on corporate environmental responsibility. The finding is robust to the alternative measure of corporate environmental responsibility based on the scores published by 'Management Today' Britain Most Admired Companies (MAC) survey, and to the controls of board of directors' characteristics. It highlights the role that audit committees may play in addressing corporate environmental responsibility issues and understanding the risks associated with them. This paper calls for a new role of audit committees in the relatively less regulated "comply or explain" of the UK in terms of corporate activities and accountability.

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

FRPS28 *Chair : Ronita Ram* Room : **A307**

Trust, External Capital And Accounting Transparency

Author : *DHANANJAY NANDA, UNIVERSITY OF MIAMI*

EA = Empirical Archival

Co-authors : *Peter Wysocki, University of Miami*

We examine the relation between societal trust and firms' accounting transparency, and how firms' external capital demand affects this relation. Trust and transparency are predicted to have a positive association if corporate disclosures are viewed as more credible in high trust environments thereby increasing stakeholders' demand for information. While competing theories predict a negative relation between trust and transparency, we document a robust positive empirical association between trust and accounting transparency measures across countries. We further find that firms' demand for external capital amplifies the positive association, suggesting that trust is an important factor affecting the relation between accounting transparency and external financing.

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

FRPS28 *Chair : Ronita Ram* Room : **A307**

Decision-Making On Stewardship – An Analysis Of The Standard-Setters' Process Of Identifying The Objective Of Financial Reporting

Author : *CHRISTOPH PELGER, UNIVERSITY OF COLOGNE*

CF = Case / Field Study

Co-authors : ,

In their joint project to create a revised conceptual framework, IASB and FASB decided to define valuation usefulness as the single objective of financial reporting while not stating stewardship as a separate objective. This paper addresses the question why the standard-setters decided that way. Based on the theoretical foundation of Foucault's concept of governmentality, a qualitative case study is employed to shed light on the rationales present in the discourses of the boards and its constituents. The detailed process-tracing builds on a comprehensive (content) analysis of all documents available from the due process and on interviews with key actors who participated in the framework development. It is revealed that different interpretations of stewardship and different views on its appropriateness as a separate objective exist among board members and constituents. In the end the US view of the supremacy of valuation concerns prevailed as most board and staff members were not convinced that a separate stewardship objective "mattered". Pressures arising from the financial crisis and convergence also contributed to keeping a straight identity based on valuation usefulness. Regarding the standard-setting process the study underlines the political nature of standard-setting by revealing the importance of personalities - which refers to both staff and board members - for the results of due processes.

FRPS29

Chair : Renata Stenka Room : **A307**

Measuring Reporting Conservatism Using The Dichev-Tang (2008) Model

Author : *JIMMY LEE, SINGAPORE MANAGEMENT UNIVERSITY*

Co-authors : *,*

AM = Analytical / Modelling

This paper provides a critical evaluation of an alternative measure of reporting conservatism introduced by Dichev and Tang (2008). Although there is substantial interest in research on accounting conservatism, there is no consensus among researchers on the most appropriate measure of conservatism in empirical studies. Dichev and Tang (2008) introduce a new measure of conservatism, which they believe to be a "natural and practical measure of conservatism (p. 1441)." However, the econometric properties of this measure have not been fully evaluated, and previous studies have not provided evidence of this measure's construct validity. Based on a parsimonious model of conservatism, I find that the Dichev and Tang (2008) measure is increasing in the conservatism parameter. However, although this measure produces well-specified test statistics that generate Type 1 errors according to researchers' specifications, it generates tests of low power that lead to relatively high Type 2 errors. Next, I use actual data to provide evidence consistent with the construct validity of this measure. Finally, I suggest an alternative measure by using the reverse regression specification of the Dichev and Tang (2008) model. Results from simulations suggest that this alternative measure is feasible and is slightly superior to the Dichev and Tang (2008) measure in terms of test power.

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

FRPS29

Chair : Renata Stenka Room : **A307**

Mandatorily Conservative Accounting: Evidence And Implications

Author : *RICHARD SLOAN, BERKELEY, UNIVERSITY OF CALIFORNIA*

Co-authors : *Alastair Lawrence, Berkeley / Haas School of Business*
Yuan Sun, University of California at Berkeley

EA = Empirical Archival

A large body of accounting research concludes that various economic incentives induce cross-sectional variation in managers' discretionary application of conservative accounting. We extend existing research by presenting evidence suggesting that mandatory accounting rules are also a significant determinant of conservative accounting. For example, accounting rules mandate asset impairments when fair values drop materially below book values. After attempting to model the determinants of mandatorily conservative accounting, we find that some previous variables representing economic incentives become insignificant.

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

FRPS29

Chair : Renata Stenka Room : **A307**

Earnouts: A Valuation Model In The Light Of The New Accounting Standards

Author : *ANNALISA PRENCIPE, BOCCONI UNIVERSITY*

Co-authors : *Anna Battauz, Bocconi University*
Stefano Gatti, Bocconi University
Luca Viarengo, Bocconi University

AM = Analytical / Modelling

The use of earnouts in M&A has been increasing in the last few years. Recently, US and International accounting standards have been revised and require to value these agreements at fair value. The models used so far to this purpose however, despite recognizing their optionality structure, do not take into consideration two peculiar sources of risk that affect these contracts, and that could influence their value strongly: counterparty risk and litigation risk. In order to fill this gap, in our paper we propose a model that takes these issues into account. Taking an income approach, we build an option pricing model that includes the potential losses arising from the event in which the bidder goes default before the expiration of the earnout and the costs of litigation that might arise in connection to these contracts. The sensitivity analysis performed and the case study presented show that including counterparty risk and litigation risk might have a dramatic impact on the value of these contracts: not including them might distort significantly the information provided in the financial statements.

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

FRPS30 *Chair : Franch Schiemann* Room : **A307**

Early Evidence From Canadian Firms' Choice Between Ifrs And Us Gaap

Author : *ELIZABETH GORDON, TEMPLE UNIVERSITY*

EA = Empirical Archival

Co-authors : *Brian Burnett, Indiana University*
Elizabeth Gordon, Temple University
Bjorn Jorgensen, University of Colorado at Boulder
Cheryl Linthicum, University of Texas at San Antonio

We study the unintended consequences of Canada abandoning Canadian Generally Accepted Accounting Principles (GAAP) and adopting International Financial Reporting Standards (IFRS) as the dominant accounting standard for fiscal years starting on or after January 1, 2011. Researchers and US regulators should be particularly interested in Canada's recent experience due to strong similarities in the standards and financial reporting incentives of US and Canada and because Canada de facto allowed firms to adopt US GAAP in lieu of IFRS. Hence, some Canadian firms opted to use US GAAP, others transitioned to IFRS. First, we examine Canadian firms that before 2011 were considered foreign private issuers by the U.S. Securities and Exchange Commission, which were more likely to adopt US GAAP. We document that more Canadian firms report under US GAAP after Canada's adoption of IFRS. As a result of this choice, 15% of foreign private issuers previously reporting under Canadian GAAP opted to voluntarily switch to US GAAP. We find that the firms more likely to choose IFRS are larger, in the developmental stage, or have fewer US operations. Second, we analyze the capital market effects of the adoption of either IFRS or US GAAP finding no or limited market reaction to Canada's adoption of IFRS. Third, we investigate whether liquidity changed for Canadian firms around their adoption of either IFRS or US GAAP. Consistent with an increase in information asymmetry around IFRS adoption, bid-ask spreads increased for Canadian firms, that are not listed in the US, especially smaller firms.

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

FRPS30 *Chair : Franch Schiemann* Room : **A307**

The Interaction Of Voluntary And Mandatory Disclosures: Evidence From The Sec's Elimination Of The Ifrs-U.S. Gaap Reconciliation

Author : *YINGRI YU, NANYANG TECHNOLOGICAL UNIVERSITY*

EA = Empirical Archival

Co-authors : ,

In November 2007, the SEC approved a new rule to eliminate the IFRS-U.S. GAAP reconciliation requirement for foreign private issuers (hereafter, IFRS firms). The relaxation of the SEC's reconciliation requirement raises concern about a potential information loss associated with the decreased mandatory disclosure. This study examines the interaction of IFRS firms' voluntary and mandatory disclosures surrounding the implementation of the SEC's new reconciliation rule. I find that IFRS firms significantly increase their voluntary disclosures in annual financial reports after elimination of the reconciliation. My results further show that such increases in IFRS firms' voluntary disclosure are associated with the magnitude of prior reconciliation and the strength of ties with U.S. capital and product markets. My findings are broadly consistent with the hypothesis that firms use voluntary disclosure to substitute mandatory disclosure.

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

FRPS30 *Chair : Franch Schiemann* Room : **A307**

The Influence Of Country- And Firm-Level Governance On Financial Reporting Quality: Revisiting The Evidence

Author : *PIETRO BONETTI, UNIVERSITY OF PADUA*

EA = Empirical Archival

Co-authors : *Michel Magnan, John Molson School of Business - Concordia University*
Antonio Parbonetti, Department of Economics and Management - University of Padova

Using a large sample of European firms that have mandatory adopted IFRS, this paper assesses how firm-level governance, as proxied by board attributes, and country-level enforcement interplay in affecting financial reporting quality. Financial reporting quality is assumed to have three dimensions: earnings informativeness, accruals management, and real earnings management. Three key findings emerge from our analyses. First, IFRS adoption per se does not seem to affect financial reporting quality. Second, in countries characterized by weak enforcement, strong board-level monitoring appears to enhance financial reporting quality, thus suggesting a substitutive effect between firm- and country-level governance. Third, in countries characterized by strong enforcement, firms with strong board-level monitoring exhibit a higher level of financial reporting quality than firms with weak board-level monitoring, thus suggesting that country- and firm-level governance are complementary. Overall, our findings help bridge the gap in the debate about the effects of country- and firm-level governance on the quality of financial reporting and provide further nuance of prior IFRS adoption research.

FRPS36 *Chair : Grace Pownall* Room : **A309**

Measuring The Comparability Of Company Accounts Conditionally

Author : *ROSS TAPLIN, CURTIN UNIVERSITY OF TECHNOLOGY* AM = Analytical / Modelling

Co-authors : *,*

Comparability indices summarise the level of comparability between companies at a national and international level, an issue of importance to investors, regulators and standard setters. Comparability indices can identify areas where comparability is low and where comparability is deteriorating. Furthermore, they can be used to quantify the extent to which initiatives such as International Financial Reporting Standards (IFRS) are successful in raising comparability between company accounts. Despite past literature emphasizing how factors other than country influence accounting methods used by companies, current comparability indices ignore these. This paper introduces new national and international indices within the T index framework to fill this gap in the literature. Formula for the new national and international indices, and their standard errors, are provided. An example using European data is used to demonstrate the calculations and illustrate the importance of controlling for these firm specific factors.

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

FRPS36 *Chair : Grace Pownall* Room : **A309**

Disclosure Patterns after IFRS adoption

Author : *SKRÅLAN VERGAUWE, LANCASTER UNIVERSITY / MANAGEMENT SCHOOL* AM = Analytical / Modelling

Co-authors : *Ann Gaeremynck, KU Leuven*

The absence of guidance in a principle-based accounting framework causes diversity in disclosure practices at IFRS introduction. While some advocate that after initial application disclosures will become more comparable over time due to learning, others argue that initial disclosure differences will remain due to the absence of specific rules and guidance in the standards. Using hand-collected data on 21 valuation-related disclosure items of real estate firms over the period 2005 to 2010, we find that firms with low initial disclosures levels catch up on firms with high initial disclosure levels although initial differences in disclosure levels do not totally disappear. Furthermore, our results suggest that in a principle-based accounting framework an exogenous shock, such as the financial crisis, accelerates the process to more comparable disclosure practices. These results are of interest in the debate of shifting from rule- to more principle-based accounting standards.

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

FRPS36 *Chair : Grace Pownall* Room : **A309**

Voluntary Disclosure And Value Relevance Of Segment Information

Author : *YUTARO MURAKAMI, KEIO UNIVERSITY* AM = Analytical / Modelling

Co-authors : *Atsushi Shiiba, Osaka University*

This paper considers how firms determine the disclosure of segment information in capital market setting. The analysis is based on a two-period model in which manager has private information and decides how to allocate her effort between two businesses in the first period by considering the stock price which is formed by public information. Each segment profit is determined by manager's effort level as well as manager's ability, the market size and uncertainty of each segment. The second-period earnings are determined by the persistence of core earnings in the first period. In this setting, we provide the conditions that manager does not voluntarily disclose segment earnings. In particular, we find that the manager chooses not to disclose segment earnings if both market sizes are almost the same and if the uncertainties of segment earnings are small and almost the same. Note that we do not consider the proprietary cost of segment disclosure such as the competitive effect on the rival firms. Moreover, we also examine the factors that affect value relevance of aggregate earnings and segment earnings, which provide the empirical hypotheses. For example, we show that value relevance of one segment earnings is greater than that of the other segment earnings when the uncertainty of earnings per market size in one market is smaller than that in the other market.

FRPS37 *Chair : Jean Marton* Room : **A309**

Accounting Conservatism And Firm Characteristics

Author : *YASUHIRO OHTA, KEIO UNIVERSITY*

AM = Analytical / Modelling

Co-authors : ,

Accounting conservatism is a long-lasting principle in accounting practices although its rationale has been frequently questioned. Recent analytical studies revealed that accounting conservatism could emerge in plausible settings. This paper examines how accounting conservatism relates to firm characteristics in a binary moral hazard setting with limited liability and a compensation cap. The degree of accounting conservatism increases with the firm's profitability, size and compensation variability.

TUESDAY 11:00-12:30

FRPS37 *Chair : Jean Marton* Room : **A309**

Does Accounting Conservatism Impede Corporate Innovation?

Author : *GILLES HILARY, INSEAD*

EA = Empirical Archival

Co-authors : *Xin Chang, Nanyang Technological University*
Jun-Koo Kang, Nanyang Technological University
Wenrui Zhang, Xiamen University

We examine the impacts of accounting conservatism on corporate innovation. We find that firms with a greater accounting conservatism create fewer patents and patents citations. They engage less in R&D activities but our results hold after controlling for this lower activity. Moreover, the cash-flows generated by firms with more conservative accounting have shorter horizons. The negative effects of accounting conservatism on innovation are more pronounced when firms' need for innovation is higher (i.e., firms operating in innovation industries or whose stocks displaying a lottery-like feature), when the principal is less informed about the behavior of the managers, when the product development cycle is longer, when managers face higher performance pressure or have shorter investment horizons, or when managers are under heavier pressure from short-term institutional investors.

TUESDAY 11:00-12:30

FRPS37 *Chair : Jean Marton* Room : **A309**

Misleading Mark-To-Market Accounting And The Use Of Risk Disclosures Around The Financial Crisis

Author : *MICHAEL STICH, UNIVERSITY OF ERLANGEN NUREMBERG*

EA = Empirical Archival

Co-authors : ,

This paper examines whether mark-to-market measurements and risk-related disclosures influence the accuracy of financial analysts' forecasts for the Financial Crisis. Using samples of non-financial companies and country-level and firm-level metrics, I find that market-related measurements (e.g., level 1 fair values) impair financial analysts' forecast accuracy, whereas risk-related disclosures improve the precision of financial analysts' forecasts in times of uncertainty. Further, I document that the effects of these drivers are not conditional on one another. I conclude that market participants fail to correctly interpret mark-to-market measurements and that insights into a firm's risk profile are important for decision makers.

FRPS38

Chair : Isabelle Martinez Conesa Room : **A309**

Does Eliminating the Form 20-F Reconciliation from IFRS to U.S. GAAP Improve the Quality of Financial Reporting?

Author : CHIA-LING CHAO, NATIONAL CHUNG CHENG UNIVERSITY

AM = Analytical / Modelling

Co-authors : *Shwu-Min Horng, National Chengchi University*

This paper compares accounting-quality metrics for a broad sample of firms in 28 countries that crosslist on U.S. exchanges before and after the SEC shifted from requiring foreign issuers comply with U.S. GAAP reconciliations to permitting the use of IFRS in financial reporting. Empirical results reveal that foreign issuers applying IFRS exhibit more income smoothing and less timely recognition of losses than do foreign firms filing U.S. GAAP reconciliations in the IFRS reporting period. However, the results also show that accounting amounts are more value relevant for IFRS firms than their counterparts. Differences in accounting quality between the two sets of firms in the U.S. GAAP reconciliation period do not account for the IFRS reporting-period differences. Overall, the combined evidence suggests that application of IFRS by non-U.S. firms has not enhanced financial reporting comparability with firms filing U.S. GAAP reconciliations.

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

FRPS38

Chair : Isabelle Martinez Conesa Room : **A309**

The Impact Of Eliminating The Form 20-F Reconciliation On Shareholder Wealth: Evidence From The U.S. Cross-Listed Firms

Author : INDER KHURANA, UNIVERSITY OF MISSOURI-COLUMBIA

EA = Empirical Archival

Co-authors : *Lucy Chen, Villanova University*

This paper examines the shareholder wealth effects in the U.S. and home markets to the announcement events relating to the U.S. Securities and Exchange Commission (SEC)'s rule to eliminate the Form 20-F reconciliation. We find stock prices of our treatment sample of U.S. cross-listed firms that prepare financial statements under International Financial Reporting Standards (IFRS) are positively affected by the examined events, but no such effects for the control sample. We also find the stock market impact of the SEC ruling for our treatment sample to be positively related to our proxy for cost savings and negatively related to the pre-adoption reconciliation magnitude from IFRS to U.S. GAAP. These results suggest that shareholders place some value on information in reconciliations, but the costs of preparing and auditing the reconciliations on average outweigh the concern for information loss. Moreover, we find that the information loss is more pronounced for firms from stronger enforcement countries and for firms that have used IFRS for a shorter period.

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

FRPS38

Chair : Isabelle Martinez Conesa Room : **A309**

Privatized Returns And Socialized Risks: Ceo Incentives, Securitization Accounting And The Financial Crisis

Author : ANTONIO PARBONETTI, UNIVERSITY OF PADUA

EA = Empirical Archival

Co-authors : *Michele Fabrizi,*

Using a sample of US financial institutions over the period 2003-2009 we document that CEOs with high equity incentives have systematically engaged in securitization transactions to a larger extent than CEOs with low incentives. We also show that CEOs with high equity and risk-related incentives have engaged in the securitization of risky loans and have used securitization for transferring risks to outside investors. Finally we show that highly incentivized executives have provided outside investors with low quality disclosure about losses recorded on securitized loans thus contributing to increase the opacity of securitization transactions undertaken. Overall we interpret these results as evidence that CEOs have foreseen in securitizations under US GAAP an opportunity to bypass regulatory requirements, hiding risks while bearing them and generating profits and cash flows because of the risks. In additional analyses we document that before the collapse of the subprime mortgage market in 2007, financial institutions involved in the securitization of subprime loans have largely over performed other banks. On the contrary, starting from 2007 subprime securitizers have recorded worse market performances than other financial institutions that were not involved in subprime securitization. This indicates that by securitizing risky loans CEOs have been successful in boosting stock price but the risks undertaken have turned out to be extremely costly.

TUESDAY 16:00-17:30

FRPS39 *Chair : Razvan v. Mustata* Room : **A309**

Problematizing The Interplay Between Mandatory And Voluntary Disclosures: Balancing Frames And Controlling Overflows

Author : *JOHAN GRAAF, STOCKHOLM UNIVERSITY* IC = Interdisciplinary / Critical

Co-authors : ,

The aim of this study is to contribute to the understanding of the interplay between mandatory and voluntary disclosure. The paper displays two examples of firms which developed off-balance sheet models of resources that could not be explained through mandatory reporting practices yet so important that the firms developed their own disclosures. By focusing on earnings conference calls, this study contributes with a deeper knowledge surrounding the boundaries of mandatory reporting and the circumstances with which voluntary disclosures gain relevance. Drawing on Callon's (1998, 1999) theory of the framing of markets, and the subsequent adaption of this theory by Mouritsen (2003, 2004, 2009), this paper tries to show voluntary reporting as a way of controlling overflow without being restricted by the frames of financial reporting. Findings show that voluntary reporting should be seen as something which enables the firm to account for important matters without having to internalize them completely because, although sounding contradictory, the moment they are put in the financial statement, they lose the purpose for which they were disclosed in the first place.

TUESDAY 16:00-17:30

FRPS39 *Chair : Razvan v. Mustata* Room : **A309**

Exploring The Role Of Staff In The Iasb'S Standard Setting Process. A Case Of Ifrs For Smes Standard

Author : *RONITA RAM, THE UNIVERSITY OF SYDNEY* HI = History

Co-authors : ,

This article using the case of the IFRS for SMEs standard explores the role of staff in the IASB's standard setting process. This article showed that the role of staff extends beyond acting as intermediaries to persuading and building support for the IASB's eventual standard. Technical staff carried out all the detailed technical work in devising the proposed SME standard and were also responsible to 'drum up publicity' for the project in an effort to ensure that the eventual standard when released was widely adopted. This project was controversial and the paper shows staff have the capacity of obscuring or omitting information that are presented to the board for consideration. This article also raised questions about the level of detail provided in staff summaries for board's consideration.

WEDNESDAY 9:00-10:30

FRPS04 *Chair : Juan Manuel Garcia Lara* Room : **A304**

Differential Information Consequences Of Real Versus Accruals Earnings Management

Author : *BEATRIZ GARCIA OSMA, AUTONOMOUS UNIVERSITY OF MADRID* EA = Empirical Archival

Co-authors : *Juan Manuel García Lara, Universidad Carlos III de Madrid*
Fernando Penalva, IESE Business School, University of Navarra

Real and accruals earnings management differ across a number of dimensions such as their level of visibility, accountability and also, their associated costs. Real earnings management is generally predicted to be more difficult to monitor by outsiders, who may struggle to estimate deviations from optimal behaviour. However, real actions are hardly opaque, and hence, expert users of financial statements should be able to undo them with relative ease. Despite this purported visibility, it is unclear the extent to which market participants fully understand these strategies and how they affect the firm information environment, and whether unravelling the bias introduced by real earnings management is truly a simple exercise, given the opacity of certain strategies. In this paper, we look at the differential information consequences of these two earnings management techniques. Consistent with our expectations, we find that both types of earnings management garble the earnings signal, but our evidence suggests that real earnings management is easier to undo for expert financial statement users, such as analysts.

FRPS04

Chair : Juan Manuel Garcia Lara Room : **A304**

Does Xbrl Adoption Constrain Managerial Opportunism In Financial Reporting? Evidence From Mandated U.S. Filers

Author : *JEE-HAE LIM, UNIVERSITY OF WATERLOO*

EA = Empirical Archival

Co-authors : *Jeong-Bon Kim, City University of Hong Kong*
Joung Kim, Nova Southeastern University

In this study, we examine whether XBRL disclosure (i.e., interactive data submissions) reduces the magnitude of accounting accruals for firms during SEC mandated years. Using mandated XBRL filers, we first compare the magnitude of discretionary accruals in the XBRL-adoption quarters with that in the non-XBRL-adoption quarters. This comparison shows that the magnitude of discretionary accruals decreases significantly from the pre-XBRL-adoption period to the post-XBRL-adoption adoption period. This finding is in line with the view that the XBRL adoption constrains managerial opportunism in financial reporting in general and opportunistic accrual management in particular. Our analyses further reveal that the use of standardized official XBRL elements significantly reduces levels of discretionary accruals in the post-adoption period, while the use of customized extension elements does not. This result is consistent with the view that, compared with the use of customized XBRL extensions, the use of official elements discourages opportunistic accruals management more effectively by improving transparency and comparability in financial reporting.

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

FRPS04

Chair : Juan Manuel Garcia Lara Room : **A304**

Reclassifying Core Expenses As Special Items: Cost Of Goods Sold Or Selling, General, And Administrative Expenses?

Author : *XIAOTAO LIU, NORTHEASTERN UNIVERSITY*

EA = Empirical Archival

Co-authors : *Yun Fan, University of Houston*

We develop expectation models for cost of goods sold (COGS) and selling, general, and administrative expense (SGA) to investigate how opportunity factors affect COGS and SGA reclassification as income-decreasing special items. These expectation models enable us to explore managers' portfolio approach of managing earnings by reclassifying core expenses and cutting real expenditures. We find that manufacturing (non-manufacturing) firms and firms with more material COGS (SGA) are more likely to reclassify COGS (SGA) as income-decreasing special items. Our results also suggest that firms with greater capital intensity shift more COGS, but not SGA, to special items, while those firms with greater intangible assets reclassify both COGS and SGA more. Furthermore, we demonstrate that firms use expense reclassification and real activities manipulation (RAM) jointly to meet or beat earnings benchmarks. In the supplemental analyses, we explore specific types of special items and find that restructuring costs, asset write-downs, loss on asset sale, and impairment of goodwill and other intangibles have been used as vehicles to camouflage the reclassified COGS and SGA. Overall, this study contributes to the earnings management literature by identifying conditions under which COGS and SGA are individually or jointly reclassified as special items and by documenting managers' portfolio approach for managing core expenses.

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

FRPS05

Chair : Sunyoung kim Room : **A304**

Do Firms Manage Tax Positions Toward Desired Levels?

Author : *ADRIAN KUBATA, MUENSTER UNIVERSITY*

EA = Empirical Archival

Co-authors : *Christoph Watrin, University of Münster*

We investigate whether firms have desired tax position targets, i.e. desired levels of 'cash income taxes paid' and 'total income tax expense', and if they do, whether they manage their actual tax positions toward these targets and how quickly they approach to them. We apply our model to a sample of U.S. firms for the period 1988-2009. We find that firms have desired targets of tax positions and that they manage both the amounts of 'cash income taxes paid' and 'total income tax expense' toward these targets. We also find a wide heterogeneity in adjustment speeds toward the desired targets. The typical firm needs, on average, 6.4 years to fully accomplish the management of actual income taxes paid values toward its desired values and 5.8 years to fully accomplish the management of actual total income tax expense values towards its desired values.

FRPS05

Chair : Sunyoung kim Room : **A304**

Information Flows, Tax Avoidance Policy And Firm-Level Institutional Variation: International Evidence

Author : *TIEMEI (SARAH) LI, UNIVERSITY OF OTTAWA* EA = Empirical Archival

Co-authors : *Jeong-Bon Kim, City University of Hong Kong*

Using a large sample of Type I offshore firms, i.e., firms registered in 14 jurisdictions or countries identified as offshore financial centers (OFCs), and firms with no offshore operations from 19 countries and jurisdictions that are not OFCs, we investigate the extent to which firm-specific information is capitalized into stock prices measured by stock price synchronicity. We also examine whether synchronicity is higher for Type II offshore firms, i.e., U.S. and U.K. companies that set up affiliates in an OFC or OFCs, compared with U.S. and U.K. firms with no OFC affiliates. We find that synchronicity is higher for both Type I and Type II offshore firms than for their respective benchmark firms with no offshore operations. The above results hold even when the extent of a firm's offshore operations is proxied by the extent of tax avoidance or by the offshore characteristics of an OFC where offshore operations take place.

WEDNESDAY 11:00-12:30

FRPS05

Chair : Sunyoung kim Room : **A304**

The Effect Of Corporate Tax Avoidance On The Cost Of Equity

Author : *BENG WEE GOH, SINGAPORE MANAGEMENT UNIVERSITY* EA = Empirical Archival

Co-authors : *Jimmy Lee, Singapore Management University*
Chee Yeow Lim, Singapore Management University
Terry Shevlin, University of California at Irvine

This paper examines the relation between tax avoidance and cost of equity. Based on the model developed by Lambert et al. (2007), we predict that tax avoidance can lead to a (i) higher cost of equity if investors perceive tax avoidance as involving complex transactions that increases firm opacity and facilitates managerial opportunistic rent-seeking, or (ii) lower cost of equity if cash savings from taxes can be redeployed to more productive uses and risk-neutral investors prefer risk-averse managers to engage in risky tax planning activities that create value. Our empirical results show that greater tax avoidance is associated with a lower cost of equity. This effect is economically significant: a one standard deviation increase in our measure of tax avoidance is associated with 20 basis points to 26 basis points reduction in the cost of equity. Further analyses show that the effect is stronger for (i) firms with better outside monitoring, (ii) firms that likely realize higher marginal benefits from tax savings, and (iii) firms with better information quality. Our study is the first large-sample study that directly examines how investors perceive corporate tax avoidance and our findings suggest that tax planning is a value-enhancing activity that investors appreciate in general.

WEDNESDAY 14:00-15:30

FRPS06

Chair : Susan Young Room : **A304**

Default Prediction Around The World: International Evidence On The Role Of Corporate Transparency And Market Frictions

Author : *MARK MAFFETT, CHICAGO UNIVERSITY* EA = Empirical Archival

Co-authors : *Edward Owens, University of Rochester*
Anand Srinivasan, National University of Singapore

We document significant heterogeneity across countries in the ability to assess a firm's likelihood of default using market- and accounting-based sources of default risk information. Surprisingly, for some countries, we find that a default prediction model based solely on public financial reporting information outperforms a model based solely on market variables. Our evidence suggests that variation in the predictive ability of market-based variables across countries is primarily attributable to the existence of capital market frictions, such as short sale constraints, which prevent the incorporation of information into prices, rather than the availability of information. Finally, we document that direct incorporation of accounting information into the default prediction model largely offsets the loss in overall predictive accuracy created by market frictions, especially in countries with high corporate transparency.

FRPS06

Chair : Susan Young Room : **A304**

Financial Reporting Enforcement And Mandatory Ifrs Disclosures

Author : *FERDY VAN BEEST, NYENRODE UNIVERSITY*

EA = Empirical Archival

Co-authors : *Robin Litjens, Nyenrode Business University*
Ruud Vergoossen, Nyenrode Business University

This study examines the association between enforcement and accounting quality, specifically the impact of enforcement on mandatory disclosure adherence. The 2002 EU IAS Regulation required EU member states to implement financial reporting enforcement. We analyse the effect of this implementation, exploring cross-sectional variation in implementation pace and severity, and differences in institutional settings at the country level. Based on handpicked cross-sectional data from 27 EU countries and controlling for other effects, our results show that compliance with mandatory IFRS disclosure increased after the introduction of securities regulation on enforcement. Compliance is stronger in countries with a high level of uniformity, such as Greece and Portugal. On contemporary IFRS topics such as employee benefits and financial instruments, the results show a stronger increase in adherence to disclosure compared to more traditional topics such as revenue recognition and property, plant and equipment, covered by the EU Accounting Directives. The findings contribute to the evaluation of costs and benefits of securities regulation on enforcement.

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

FRPS10

Chair : Joseph Atkins Johnston Room : **A309**

Segment Reporting In The Uk

Author : *MARK ALEKSANYAN, UNIVERSITY OF GLASGOW*

EA = Empirical Archival

Co-authors : *Mark Aleksanyan, Adam Smith Business School, University of Glasgow*
Jo Danbolt, University of Edinburgh Business School

Segment reporting requirements for UK companies changed fundamentally twice during the last decade, with a move from SSAP 25 to IAS 14R in 2005 and the adoption of IFRS 8 from 2009. We undertake a longitudinal study of segment reporting practices of a large sample of UK firms covering all three reporting regimes, critically evaluating the merits of IFRS 8 relative to its two predecessors. We find that although the overall volume of segmental accounting information disclosed by companies is significantly higher under IAS 14R and IFRS 8 than under SSAP 25, both IAS 14R and IFRS 8 are associated with a major loss in the volume of one of the most important types of segmental information – segmental profitability. This is particularly acute for geographical segments. We argue that while the managerial approach of IFRS 8 (and, to a lesser degree, IAS 14R) may be advantageous to preparers and provide investors and analysts with some insight into the perspective of the Chief Operating Decision Maker (CODM), the significant reduction in the volume of segmental profitability data casts doubt on the effectiveness of IAS 14R and IFRS 8 in providing more useful information to investors.

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

FRPS10

Chair : Joseph Atkins Johnston Room : **A309**

A Segment-Based Analysis Of Firms' Decision To Manage Earnings To Influence Existing And Potential Competition

Author : *ROLAND KOENIGSGRUBER, VU - UNIVERSITY OF AMSTERDAM, FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION*

EA = Empirical Archival

Co-authors : *Oliver Schinnerl, University of Graz*
Pietro Perotti, University of Graz
David Windisch, University of Graz

Recent research on the effects of product market competition on earnings management has found conflicting evidence. We contribute to this literature by disentangling the effects of existing competition and the threat of market entry by a potential competitor. Since product market competition as well as efforts to influence it are more likely to play out at the segment level than at the corporate level, we use segment data both for our competition measures as well as for our earnings management metric. We find that both existing and potential competition are negatively associated with absolute discretionary unallocated costs - our segment-level measure earnings management. On the other hand, absolute discretionary accruals are significantly negatively associated with potential competition but not with existing competition.

FRPS10

Chair : Joseph Atkins Johnston Room : **A309**

Earnings Management: Do Firms Play "follow The Leader"?

Author : *JEFF PAYNE, UNIVERSITY OF KENTUCKY* EA = Empirical Archival

Co-authors : *Brian Bratten, Univeristy of Kentucky*
Wayne Thomas, University of Oklahoma

We examine whether managers respond to industry leaders' earnings announcements by strategically managing their reported earnings. We find that after leader's bad news announcements (i.e., missed analysts forecasts) subsequent reporting firms report reduced levels of discretionary accruals, are more likely to manage earnings down, and use fewer income-decreasing special items. These results are consistent with follower firms reporting earnings that reflect a decrease in pressure to meet earnings expectations. Our study contributes to the academic literature on social learning where individuals base their decisions on the prior actions of others. We also contribute to the literature on intra-industry information transfer and suggest that management's incentives to manipulate earnings should be considered in future extensions of this research.

FRPS14

Chair : Mark Maffet Room : **A305**

Mandatory Adoption Of Ifrs By Eu Listed Firms And Comparability: Determinants And Analysts' Forecasts

Author : *PAUL ANDRE, ESSEC BUSINESS SCHOOL PARIS* EA = Empirical Archival

Co-authors : *Ioannis Tsalavoutas, University of Stirling*
Dionysia Dionysiou, University of Stirling

In 2005, the EU adopted IFRS for all listed companies publishing consolidated financial statements in Europe. The transition from national accounting standards to IFRS was complex and costly but the main arguments for it included the improvement in comparability across companies and improvement in capital markets' efficiency. This study focuses on the comparability of the financial statements of EU listed firms, before (2003) and after (2005 & 2010) IFRS mandatory implementation, and on its determinants and consequences. We find significant convergence in firm's accounting practices (input comparability) after IFRS. Output comparability also significantly improves between the pre and post IFRS periods. However, neither of the two measures improves with IFRS familiarity (no significant difference between 2005 and 2010). Furthermore, we find that output comparability is not driven by the convergence in accounting choices. Our tests strongly suggest that output comparability is improved because of IFRS adoption and more comparable accruals in relation to industry peers. This suggests that more comparable accruals facilitate investors to value firms more accurately. In fact, we find that more comparable accruals facilitate lower analysts' forecast dispersion. Finally, we find that analysts' forecasts errors declining as output comparability increases, suggesting that output comparability increases the usefulness of accounting information.

FRPS14

Chair : Mark Maffet Room : **A305**

Earnings Quality In Foreign Ipos In The U.S.: The Role Of Home Country Institutions

Author : *GILAD LIVNE, CITY UNIVERSITY LONDON* EA = Empirical Archival

Co-authors : *Igor Filatotchev, City Univeristy London - Cass*
Jonathan Jona, City Univeristy London - Cass

Using a unique dataset we compare measures of earnings management in foreign IPOs listed in the U.S. to U.S. domestic IPOs. Foreign IPOs are characterized by higher level of earnings management (more extreme reporting or earnings inflation) than U.S. IPOs. Earnings management by IPOs from countries with weaker legal institutions is either the same or lower than earnings management of IPOs from countries with strong institutions. Additional findings include evidence that a litigation threat constraints earnings management more in IPOs from countries with strong legal institutions. We also document a constraining effect of the Sarbanes-Oxley Act on earnings management of IPOs from countries with weak institutions. We contrast these findings with prior research on cross-listed firms and argue that although foreign IPOs may abandon their home capital markets by listing in the U.S., their reporting characteristics are nonetheless influenced by home country institutions.

WEDNESDAY 9:00-10:30

FRPS14 *Chair : Mark Maffet* Room : **A305**

The Relative Importance Of Country, Industry And Firm Factors For Determining Ifrs Policy Choice

Author : *CHRISTIAN STADLER, LANCASTER UNIVERSITY / MANAGEMENT SCHOOL* EA = Empirical Archival

Co-authors : *Christopher Nobes, Royal Holloway, University of London*

This paper proposes a theory of management decision-making about observable accounting policy choices. The theory is used to predict aspects of the relative importance of country, industry and firm factors for determining IFRS policy choices. These predictions are then tested on the choices made by the largest firms from ten countries on a comprehensive set of IFRS policy topics. The results are consistent with the theory: country factors are relatively more important if the choice does not affect accounting numbers; country factors are relatively less important if one of the options is undesirable (e.g. costly); industry factors are relatively more important if the topic is of varying relevance across industries; firm factors are relatively more important if the topic is of varying relevance across firms; overall, country factors are most important for determining IFRS policy choices, and industry factors are more important than firm factors.

WEDNESDAY 14:00-15:30

FRPS15 *Chair : Yingri Yu* Room : **A305**

Do Information Releases Increase Or Decrease Information Asymmetry? New Evidence From Analyst Forecast Announcements

Author : *DAN AMIRAM, COLUMBIA UNIVERSITY* EA = Empirical Archival

Co-authors : *Dan Amiram, Columbia University*
Edward Owens, University of Rochester
Oded Rozenbaum, Columbia University

Prior literature documents an announcement period increase in information asymmetry for earnings announcements and management forecasts. In sharp contrast, we predict and document a decrease in information asymmetry upon announcement of analyst forecasts. We find that this decrease is more pronounced for analyst forecasts with greater information content and when analysts exert higher effort, and is less pronounced after exogenous regulatory actions that diminished analysts' ability to obtain private information. Our predictions and evidence demonstrate the general insight that the directional effect of an information release on announcement period information asymmetry depends on whether the information is unprocessed or processed, and on how the information interacts with prior information held by sophisticated and unsophisticated investors. These findings enhance our understanding of the effects of information intermediaries in capital markets.

WEDNESDAY 14:00-15:30

FRPS15 *Chair : Yingri Yu* Room : **A305**

What Determines The Value Relevance Of Management Cash Flow Forecasts?

Author : *YUN FAN, UNIVERSITY OF HOUSTON* EA = Empirical Archival

Co-authors : ,

Prior research on the value relevance of management guidance focuses almost exclusively on earnings forecasts. In recent years, managers have increasingly provided additional guidance in the form of cash flow forecasts. Yet relatively little is known about the impact of these forecasts and their incremental value relevance beyond earnings forecasts. In this study, I show that management cash flow forecasts are generally informative to investors and financial analysts beyond existing management earnings forecasts. More importantly, these cash flow forecasts are increasingly value-relevant for firms 1) with bad news in contemporaneous earnings forecasts, 2) in financial distress, 3) with higher growth opportunities, and 4) with higher value relevance of reported cash flows relative to that of reported accruals. In addition, analysts appear to incorporate the information in management cash flow forecasts into their earnings forecasts. Analysts revise their earnings forecasts to a larger extent when management cash flow forecasts are accompanied by contemporaneous bad news in management earnings forecasts and when firms reported cash flows are relatively more value-relevant. This study contributes to the understanding of management guidance by investigating the impact of a relatively new form of disclosure. I provide evidence that the impact varies predictably with firm characteristics.

FRPS15 *Chair : Yingri Yu* Room : **A305**

Analyst Rounding: Is It Only A Matter Of Uninformed Analysts?

Author : ANA SIMPSON, THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Co-authors : Vasiliki Athanasakou, London School of Economics

EA = Empirical Archival

Abstract: Previous literature has examined analyst rounding, i.e. issuing of earnings forecasts with zeros or fives in the second digit after the decimal point, at a single point in time. In this paper we examine persistence of analyst rounding. We evaluate persistence based on the frequency of rounding across the analyst's portfolio of followed companies and over the years of firm-specific experience. Our evidence shows that the type of rounding documented so far in the literature, i.e. rounding by analysts that exercise less effort and have fewer economic incentives to be precise, is driven by persistent rounders. Non-persistent rounders exhibit characteristics of more active and accurate analysts with high incentives to be precise. The market appreciates this difference in rounding type and assigns lower weights to rounded forecasts issued by persistent rounders, in line with the lower accuracy and consistency of such forecasts. Our results suggest that not all rounded forecasts are issued by uninformed analysts; rounding persistence is key in identifying the less accurate and less consistent rounded forecasts.

FRPS16 *Chair : Zhaoyang Gu* Room : **A305**

Cash Flow Accounting And The Cost Of Debt ?

Author : MAHMOUD LARI DASHTBAYAZ, FERDOWSI UNIVERSITY OF MASHHAD

Co-authors : Styart Mcleay, University of Sydney
Mohammad Hossein Vadiei Nowghabi, Ferdowsi University Of Mashhad

EA = Empirical Archival

The aim of this study is to examine why firms may manipulate not just their earnings but also ?their cash flows, and to investigate the effects of this behaviour on the cost of debt. The ?study highlights the discretion afforded in IFRS and US GAAP with regard to the reporting ?of operating cash flow. Using samples of firms in the UK and the USA, the results show that, ?for the ten years to 2010, the cost of debt has a significantly positive association with the ?managed (abnormal) component of operating cash flow. The market is more likely to ?incorporate abnormal operating cash flow information into pricing when firms are ?experiencing financial problems, especially when such companies are faced with low cash ?flows. ? Key words: Cost of debt, Cash flow manipulation, Abnormal operating cash flow, GAAP ?discretion

FRPS16 *Chair : Zhaoyang Gu* Room : **A305**

Disclosure Quality, Cost Of Capital And Firm Productivity

Author : WEIYI CYNTHIA CAI, MONASH UNIVERSITY

Co-authors : ,

AM = Analytical / Modelling

This research investigates the link between disclosure and cost of capital in a production-based economy via several stylized models. Specifically, I examine how the presence of 'real effects' of disclosure might affect a firm's cost of capital relating to different time periods, namely the post-disclosure cost of capital (the cost of capital subsequent to disclosure), the pre-disclosure cost of capital (the cost of capital for the period leading up to disclosure) and the overall cost of capital (the cost of capital across both periods). There are three key findings of this research. First, I demonstrate that, in a production-based economy both the overall cost of capital and the investors' ex ante welfare can be affected by disclosure quality. Second, I show that a firm's profitability of existing and new production are critical factors in determining whether cost of capital increases or decreases in disclosure quality. Third, I show that when disclosure affects the interrelated firm's production decision, the disclosing firm's overall cost of capital changes with disclosure quality, even when the marginal (unconditional) distribution of the disclosing firm's cash flow is not affected by the disclosure.

FRPS16 *Chair : Zhaoyang Gu* Room : **A305**

Directors' And Officers' Liability Insurance And The Cost Of Equity

Author : ZHIHONG CHEN, CITY UNIVERSITY OF HONG KONG

Co-authors : Oliver Li, National University of Singapore
Hong Zou, City University of Hong Kong

EA = Empirical Archival

We investigate how investors perceive directors' and officers' (D&O) insurance by examining its association with firms' cost of equity using data from Canada. We find that D&O insurance is positively associated with firms' cost of equity and that a change in the cost of equity follows, but does not precede, a change in D&O insurance. Further analysis suggests that this positive association is more pronounced in firms cross-listed in a more litigious environment and in firms with a large wedge between directors' and officers' voting and cash flow rights. The high cost of equity associated with D&O insurance adversely affects firms' ability to raise capital through seasoned equity offerings. We conclude that D&O insurance is associated with incentive problems and that investors penalize firms carrying a high level of D&O insurance by charging a high cost of equity.

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

FRPS22 *Chair : Martin Schmidt* Room : **A306**

The Role Of Accounting Quality In The Decision To Report Earnings Early

Author : SCOTT SEAVEY, UNIVERSITY OF NEBRASKA-LINCOLN

Co-authors : James Whitworth, University of North Carolina Wilmington

EA = Empirical Archival

In recent years increasing numbers of firms are choosing to release earnings reports prior to the release of formally audited financial statements. But releasing earnings early without the independent verification of the external auditor leads to a potential trade-off between the reliability and relevance of that information for users. We examine whether firms with more reliable financial statements, in the form of higher accounting quality, are more likely to choose to release their earnings announcements substantially before the audit report date. Using two accruals-based measures of accounting quality, we find that firms with higher accounting quality are more likely to announce earnings early and that the effect is greater for firms with income-decreasing versus income-increasing accruals. We do not find a differential effect of increasing accounting quality on just how early a firm reports. Further, we find that firms that switch to a consistently early disclosure strategy have higher accounting quality compared to firms that always announce with or after the audit report date. Our results indicate that accounting quality affects the strategic decision of whether to report early or not, but not how early to report. Finally, we find that the stock market is more skeptical of earnings announcements by firms switching to an early disclosure strategy after the switch.

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

FRPS22 *Chair : Martin Schmidt* Room : **A306**

Does Reliance On Ebitda Distort Management Operational Decisions?

Author : ODED ROZENBAUM, COLUMBIA UNIVERSITY

Co-authors : ,

EA = Empirical Archival

This paper investigates the effect of EBITDA reliance by companies on their capital investment decisions. I find that companies that include EBITDA measures in their earnings announcements over-invest in capital, under-invest in labor for a given level of sales, and are characterized by lower fundamental performance. These results contribute to prior literature in various ways. First, these results suggest that managers' reliance on EBITDA leads them to deviate from the optimal levels of capital and labor which is a form of earnings management that – to the extent that it exists – is sustainable in a steady state as long as EBITDA is considered an appropriate performance measure. Second, this paper provides new evidence on the inferior characteristics and implications of pro-forma earnings. Lastly, this paper provides a link between accounting disclosure and labor economics.

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

FRPS22 *Chair : Martin Schmidt* Room : **A306**

Product Market Competition And The Role Of Financial Reporting Quality In Managers' Hiring Decisions

Author : BRYAN BYUNG-HEE LEE, UNIVERSITY OF MACAU

EA = Empirical Archival

Co-authors : Boochun Jung, University of Hawaii at Manoa
Sungwook Yoon, California State University, Northridge
Desmond Yuen, University of Macau

This paper examines the interacting relation between product market competition and financial reporting quality in terms of improving efficiency in firms' hiring practices. Prior literature in economics and finance show that product market competition acts as a monitoring mechanism to reduce agency problems. On the other hand, the accounting literature document a similar monitoring role of financial reporting quality. We find that better quality financial reporting leads to more efficient hiring decisions by managers in less competitive industries, suggesting a substituting relation between the quality of financial reporting and product market competition. We further find evidence that the substituting relation between financial reporting quality and product market competition exists in reducing both over-investment in labor (over-hiring and under-firing) and under-investment in labor (under-hiring and over-firing).

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

FRPS23 *Chair : Ana Simpson* Room : **A306**

The Effect Of Corporate Governance, Auditor Choice And Global Activities On Eu Company Voluntary Disclosures Of Estimates And Judgments

Author : SUSAN HUGHES, UNIVERSITY OF VERMONT

EA = Empirical Archival

Co-authors : Susan Hughes, University of Vermont
Christopher Hodgdon, Quinnipiac University

Following the 2005 EU adoption of IFRS, several descriptive studies noted that some companies omitted a separate disclosure of key judgments and estimation uncertainty within the notes to the financial statements, and that other companies limited their disclosure to uninformative boilerplate narrative. Although IAS 1 requires the disclosure of key judgments and estimates, it does not require a separate disclosure; such disclosure is voluntary. Using a sample of 151 companies from 25 countries and 35 industries, we determine if the choice of specific Big-4 audit firm and the independent variables included in the international financial reporting literature associated with voluntary disclosure are related to the decision to provide a separate disclosure of judgments and estimates and the format and content of the separate disclosures. We find that certain of the independent variables are significant in the decision to make a separate disclosure, the format of the separate disclosure, and the length and content of the separate disclosure. These findings add to the literature by identifying the factors that influence voluntary disclosure within the notes to the financial statements and illustrate there is a connection between the choice of a specific Big-4 audit firm and the extent of voluntary disclosure within that section of the financial statements.

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

FRPS23 *Chair : Ana Simpson* Room : **A306**

The Association Between Accruals Quality And Voluntary Disclosure: Evidence Based On Regulation Fair Disclosure In Korea

Author : KWANG HWA JEONG, KOREA UNIVERSITY

EA = Empirical Archival

Co-authors : Seok Woo Jeong, KOREA UNIVERSITY
Kwang Wuk Oh, KOREA UNIVERSITY

This study investigates how accruals quality relates to managers' voluntary disclosure behavior under Regulation Fair Disclosure in Korea by using Francis, LaFond, Olsson, and Schipper's (2005) model of measuring accruals quality. It finds that accruals quality is negatively associated with fair disclosure that involves qualitative information. This study also finds that the effects of this relationship are more pronounced for innate accruals quality than for discretionary accruals quality. The results of this study contribute to extant literature by offering expanded evidence regarding whether accruals quality affects managers' disclosure behavior.

WEDNESDAY 11:00-12:30

FRPS23 *Chair : Ana Simpson* Room : **A306**

The Determinants Of Synergy Disclosure By French Target Companies In Takeover Bids

Author : *ISABELLE MARTINEZ, PAUL SABATIER UNIVERSITY - TOULOUSE III*

EA = Empirical Archival

Co-authors : *Emmanuelle Nègre, LGCO - Toulouse University (Paul Sabatier)*

We examine the determinants of voluntary synergy disclosure by target companies during takeover bids. The sample contains 124 French takeover bids between 1999 and 2011. The variables assumed to influence the targets' synergy disclosure are the characteristics of the bid and the characteristics of both the target and the bidding companies. Disclosure is significantly more likely in the case of equity payment. Moreover, there is some evidence that i) CEO non-duality and the size of the target company; ii) the nationality of the bidder influence disclosure. Finally, the European Directive on Takeovers encourages targets to disclose synergy forecasts.

WEDNESDAY 14:00-15:30

FRPS24 *Chair : Jie Zhou* Room : **A306**

Does Foreign Firms' Shortcut To Wall Street Cut Short Their Financial Reporting Quality? Evidence From Chinese Reverse Mergers

Author : *KUNCHIH CHEN, SINGAPORE MANAGEMENT UNIVERSITY*

EA = Empirical Archival

Co-authors : *Qiang Cheng, Singapore Management University*
Ying Chou Lin, Missouri University of Science and Technology
Yu-Chen Lin, National Cheng-Kung University
Xing Xiao, Tsinghua University

We find that Chinese reverse merger (RM) firms exhibit lower financial reporting quality than U.S. RM firms, which in turn have poorer financial reporting quality than U.S. regular firms. These results indicate that the use of RM process is associated with poor financial reporting quality and the weak legal enforcement on Chinese RM firms exacerbates the problem. Moreover, the financial reporting quality of Chinese RM firms is inferior to that of other Chinese firms listed in the U.S. Compared with other Chinese firms listed in the U.S., Chinese RM firms exhibit lower bonding incentives and poorer corporate governance. Overall, the results indicate that the RM process provides foreign firms that exhibit low bonding incentives and poor governance with a "shortcut" to Wall Street, leading to poor financial reporting quality.

WEDNESDAY 14:00-15:30

FRPS24 *Chair : Jie Zhou* Room : **A306**

Why Do Analysts Revise Their Stock Recommendations After Earnings Announcements?

Author : *ARI YEZEGEL, BENTLEY COLLEGE*

EA = Empirical Archival

Co-authors : ,

This paper examines why and how analysts revise their recommendations following earnings announcements. I find that recommendation revisions are more concentrated after earnings announcements for firms with more complex information, informative earnings, greater mispricing, less information availability and greater demand from investors. The results also indicate that analysts revise their recommendations in the direction of the earnings surprise measured based on their own and consensus estimates. However, analysts give more weight to consensus expectations than their own forecasts. Finally, analysts appear to assign less weight to earnings surprises when consensus expectations are likely to have been achieved through expectation management and when the earnings information confirms analysts' prior opinions.

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

FRPS24

Chair : Jie Zhou Room : **A306**

What Determines Analysts' Reactions To Earnings Management

Author : *YUYAN GUAN, CITY UNIVERSITY OF HONG KONG*

Co-authors : *,*

EA = Empirical Archival

This study examines the determinants of analysts' reactions to firms' earnings management when analysts revise their earnings forecasts in response to earnings announcement. We expect that analysts revise their forecasts according to their forecast errors and adjust for the reporting biases (i.e., earnings management) embedded in reported earnings. I hypothesize that the relationship between forecast revisions and reporting biases can be affected by analysts' forecasting ability, the inherent uncertainty of whether reporting biases have occurred, as well as analysts' incentives. The empirical results show some evidence that well-experienced analysts adjust more for earnings management while analysts following a great number of industries adjust less for earnings management. I also find that analysts adjust less for earnings management when: 1) the past volatility of discretionary accruals is high; and 2) the firm has a great propensity to smooth earnings. Moreover, analysts adjust more for earnings management in the post-Reg FD period than in the pre-Reg FD period.

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

FRPS31

Chair : Mari Paanenen Room : **A307**

Determinants And Economic Consequences Of Voluntary Disclosure Of Internal Control Weaknesses: Evidence From Chinese Listed Firms

Author : *WEN QU, DEAKIN UNIVERSITY*

Co-authors : *Xu-Dong Ji,*
Wei Lu,

EA = Empirical Archival

Using a sample of 1,629 Chinese listed firms that provide internal control reports (ICRs) in the voluntary disclosure regime over 2010-2011, this paper investigates determinants and economic consequences of disclosing internal control weaknesses (ICWs) in China. Our results show that the severity of ICWs reported by Chinese listed firms is moderate. Most ICWs are reported in the areas of organisational structure, human resources management, financial reporting, finance and investment. It also provides evidence that the likelihood of Chinese firms' disclosing ICWs is strongly associated with firm characterises, such as profitability, age, size of board of directors, concentration of top 3 shareholders' ownerships, tradability of shares and external auditor status. Finally, this paper examines the economic consequences of voluntary disclosure of ICWs from four different perspectives: investors, preparers, creditors and auditors. The results show the disclosure of ICWs is negatively and significantly associated with earnings response coefficients (ERCs). There is a significant negative relationship between disclosure of ICWs and conditional conservatism and the absolute discretionary accruals (ABSDA) are positively related to disclosure of ICWs. The audit fees are positively related to disclosure of ICWs but no significant results have been found for creditors. Overall, we find that ICRs provide additional useful information to the users. Internal control reporting is not a

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

FRPS31

Chair : Mari Paanenen Room : **A307**

Cross-Listing And Firm Information Environment: Does Sox Section 302 Have Any Material Effect?

Author : *SAVERIO BOZZOLAN, UNIVERSITY OF PADUA*

Co-authors : *Pietro Bonetti, Dept. of Economics and Management - University of Padova*

EA = Empirical Archival

Previous literature documents an increase in the quality of the firm information environment following cross-listing and motivates this result with the bonding effect. This paper disputes the idea that the cross-listing per se enhances the quality of the firm information environment. We challenge this idea considering whether the quality of the information environment for cross- listed firms depends on an effective or a mimicking adoption of stricter rules. As research setting, we use the Section 302 of the Sarbanes-Oxley act that requires to disclose any discovered internal control deficiency on internal controls over financial reporting. Our findings support the idea that the quality of the firm information environment increases following cross-listing only when cross-listed firms effectively commit themselves to higher levels of corporate transparency, and not merely in name just mimicking the adoption of stricter rules. Our results are robust to the endogeneity of cross-listing decision, to unobservable factors related to internal control deficiency, to some measurement issues and to the inclusion / exclusion of some overrepresented countries in the sample.

FRPS31 *Chair : Mari Paanenen* Room : **A307**

Reliability Of Disclosed Internal Control Weakness And Changes In Disclosure Regulation

Author : *YANJU LIU, SINGAPORE MANAGEMENT UNIVERSITY*

Co-authors : ,

EA = Empirical Archival

This paper investigates whether changes in internal control weakness (ICW) disclosure regulation affect the reliability of a firm's disclosed ICW in a unique Canadian setting. In Canada, public firms have been required to provide internal control weakness disclosures since 2006. However, the credibility enhancement mechanisms (i.e., the implementation of effectiveness evaluation and CEO/CFO certification) were not adopted until 2008. Taking advantage of such an evolutionary process of regulations and inferring the reliability of the disclosed ICW from the magnitude of the negative association between disclosed ICW and investment efficiency, I first document that in the pre-adoption period, the association between Canadian firms' disclosed ICW and their investment efficiency is insignificant; however, in the post-adoption period, the disclosed ICW negatively affects firms' investment efficiency. This finding suggests that the credibility enhancement mechanisms improve the reliability of disclosed ICW in Canada. In addition, using the U.S. sample as a benchmark, I find that in the post-adoption period, the association is weaker between Canadian firms' disclosed ICW and their investment efficiency, which is consistent with my prediction that the external audit requirement increases the reliability of the disclosed ICW. Overall, the study implies that changes in disclosure regulation lead to efficient resource allocation by improving the reliability of the information disclosed.

FRPS32 *Chair : Heibatillah Sami* Room : **A307**

Flexibility In Cash Flow Reporting Classification Choices Under Ifrs

Author : *CHERYL LINTHICUM, THE UNIVERSITY OF TEXAS AT SAN ANTONIO*

Co-authors : *Elizabeth Gordon, Temple University*
Bjorn Jorgensen, University of Colorado - Boulder
Elaine Henry, Fordham University

EA = Empirical Archival

Relative to U.S. GAAP, IFRS allows more flexibility in classifying certain items within the statement of cash flows. Where U.S. GAAP requires firms to classify interest paid, interest received, and dividends received as operating cash flows (OCF), IFRS allows firms to report these within OCF or classify them as investing or financing. Studying IFRS-reporting firms in 13 European countries, we document firms' cash-flow classification choices vary, with about 77%, 54%, and 49% of our sample classifying interest paid, interest received, and dividends received, respectively, in OCF. Reported OCF tends to be higher under IFRS than it would be under U.S. GAAP classification. We find the main determinants of OCF-enhancing classification choices are capital market incentives and other firm characteristics, including greater likelihood of financial distress, greater probability of default, and accessing equity markets more frequently. We also find the cross-listed firms in our sample do not necessarily make choices consistent with U.S. GAAP.

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

FRPS32 *Chair : Heibatillah Sami* Room : **A307**

Financial Analyst Stock Recommendations And Corporate Disclosures: Complements Or Substitutes?

Author : *ANASTASIA KOPITA, UNIVERSITY OF CYPRUS*

Co-authors : *Andreas Charitou, University of Cyprus*
Irene Karamanou, University of Cyprus

EA = Empirical Archival

This paper investigates whether the mandatory IFRS adoption has significantly affected the informativeness of analysts' recommendations revisions. Using a dataset of 9054 analysts' stock revisions over the period 2003 – 2007, we document a significant increase in the informativeness of both stock upgrades and downgrades. In line with related research, we also document that this increase is more pronounced for firms in strong enforcement environments. We do not find similar changes in the market reaction for a control sample of firms that had voluntarily adopted IFRS before the 2005 mandated switch. This alleviates concerns that our results are affected by other concurrent capital market or other macroeconomic events. Overall, our evidence suggests that analysts' role is mostly related to that of information intermediary rather than information provider and highlight the complementarity rather than the substitution effect between stock recommendations and firm provided disclosures.

FRPS32 *Chair : Heibatillah Sami* Room : **A307**

Comparability Between U.S. Gaap And Ifrs Financial Statements

Author : *THORSTEN SELLHORN, WHU - OTTO BEISHEIM SCHOOL OF MANAGEMENT*

Co-authors : *Stefan Hahn, WHU - Otto Beisheim School of Management*

EA = Empirical Archival

We investigate if U.S. GAAP firms' adoption of IFRS enhances comparability to a matched group of IFRS firms by analyzing pre- and post-IFRS adoption periods in a difference-in-differences setting. Given the requirements of IFRS 1 (First-time Adoption of IFRSs), it is not obvious that comparability between IFRS adopters and IFRS 'incumbents' will necessarily increase. We find significant increases in comparability with IFRS firms after U.S. GAAP firms adopt IFRS. In addition we provide extensive descriptive evidence on U.S. GAAP-to-IFRS reconciliations of earnings and equity book values, providing insights into existing de-facto differences between U.S. GAAP and IFRS. The findings are relevant for the SEC's considering IFRS adoption in the U.S., one objective of which would be enhanced comparability between U.S. and non-U.S. firms.

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

FRPS33 *Chair : Tielei (Sarah) Li* Room : **A307**

Fair Value Accounting For Liabilities: Presentation Format Of Credit Risk Changes And Individual Information Processing

Author : *ULRIKE STEFANI, KONSTANZ UNIVERSITY*

Co-authors : *Maik Lachmann, TU Dortmund University*
Arnt Woehrmann, University of Muenster

EX = Experimental

The International Accounting Standards Board has issued a revised standard for financial instruments, IFRS 9. The preceding International Accounting Standard, IAS 39, and Financial Accounting Standard No. 159 (SFAS 159) require fair value changes of liabilities attributable to changes in credit risk to be presented in net income. The revised standard, in contrast, stipulates that credit risk effects be presented in other comprehensive income (OCI). Though previous research has confirmed that counterintuitive effects of gains and losses resulting from credit risk changes confuse financial statement users, it is unclear how the new presentation format will affect the risk of misinterpretation and, more interestingly, the overall perception of credit risk information and firm performance. In an incentivized experiment with 93 auditors, we apply a comprehensive information processing framework to compare the presentation formats provided for in SFAS 159/IAS 39 (net income) and IFRS 9 (OCI). We find that our subjects are more likely to acquire credit risk changes when corresponding income effects are presented in other comprehensive income. The perceived importance of credit risk information for firm performance evaluation is only slightly higher when it is presented in net income. Overall, however, the evaluation of firm performance is less biased in the context of the recently issued IFRS 9. In addition, we identify the entity's profitability as an important moderating factor.

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

FRPS33 *Chair : Tielei (Sarah) Li* Room : **A307**

Are We Lost In Translation? An Experimental Investigation Of The Effects Of Ifrs Translation On Accounting Judgement

Author : *BARBARA E. WEISSENBERGER, UNIVERSITY OF GIESSEN*

Co-authors : *Gero Holthoff, Giessen University*
Florian Hoos, HEC Paris

EX = Experimental

All IFRS are issued in English and subsequently translated into a multitude of languages to make them accessible to non-English-speaking users. As translation inevitably entails a degree of shift in meaning from the original text, accounting scholars have argued that the use of translated versions of IFRS might impair accounting judgements. However, this assertion lacks empirical support. Therefore, we examine the impact of IFRS translation on accounting judgement, based on a series of 2x2 between-subjects experiments with 229 German participants possessing different levels of accounting knowledge. The experimental setting requires participants to make judgements about a series of cases according to IAS 24 Related Party Disclosures. Our manipulations entail the language of the accounting standard used (English vs. German) and the language of the input case information (English vs. German). We find that the use of IAS 24 in the participants' mother tongue (German) has a positive impact on the quality of accounting judgements and that accounting knowledge and participants' English skills are positively associated with accounting judgement quality. Our study contributes to the literature on the translation and adoption of IFRS and yields recommendations for accounting regulation, practice and education.

WEDNESDAY 14:00-15:30

FRPS33 *Chair : Tielei (Sarah) Li* Room : **A307**

An Empirical Investigation Of The Influence Of Translation And Context On Accounting Judgments: Evidence From China

Author : *PEIPEI PAN, MACQUARIE UNIVERSITY* EX = Experimental

Co-authors : *Chris Patel, Macquarie University*

International convergence of accounting standards has resulted in researchers' greater interests in international accounting research, which often involves the translation from one language into other languages. A number of studies have been conducted to examine the cross-cultural and cross-national similarities and differences in accountants' judgments on 'uncertainty expressions'. National culture has been a dominant variable in explaining differences in accountants' judgments in a significant number of cross-cultural and cross-national studies published in leading journals, such as Accounting, Organizations and Society (AOS). However, it has been argued that the employment of the culture concept has been an excuse for intellectual laziness (Patel, 2004). The differences in subjects' judgments may not be fully attributable to differences in national culture. One of the possible reasons for cross-cultural and cross-national differences in judgments may attribute to language and translation. To address this gap in literature, a within-subject experiment was conducted among final year undergraduate accounting students from three Chinese universities. The objectives of this study are to examine the influence of translation and economic context, namely financial performance of corporations, on subjects' judgments on the concept of control, which is the essential criterion in preparing consolidated financial reports.

MONDAY 16:00-17:30

FRRF05 *Chair : Maria Balatbat* Room : **A407**

Segment Information: What Do European Small And Mid-Caps Disclose?

Author : *ANNE LE MANH, ESCP - EUROPE* EA = Empirical Archival

Co-authors : *David Alexander, University of Birmimgham*
Pascale Delvaille, ESCP Europe
Frédéric Demerens, Novancia
Jean-Louis Paré, Novancia

The adoption of the IFRS 8 accounting standard symbolises the IASB's dual commitment: an effort toward convergence and harmonisation with the American standard, but also an effort to optimise the standardisation process through an unprecedented study: a post-implementation review. Many studies have laid the groundwork for an implementation review of the standard, mostly focusing on large firms. However, intermediate-size companies – which are much more numerous – are also faced with the application of IFRS standards. In this context, our study aims to analyse the implementation of IFRS 8 by a sample of intermediate-size European listed companies. Our research questions mainly focus on issues of compliance with the standard and the comparability of segment information reported by intermediate-size European companies. Our findings reveal a lower level of compliance than that observed in previous studies on samples of multinationals. The intermediate-size European companies in our sample use fewer segments and provide less information per segment, without however neglecting voluntary disclosures. Some significant differences emerge between companies depending on their country of domicile and their economic sector.

MONDAY 16:00-17:30

FRRF05 *Chair : Maria Balatbat* Room : **A407**

The Debate On Rented Assets: Effects On The Analysis Of Family Firms

Author : *ANGELS FITO, UNIVERSITAT DE OBERTA DE CATTALUNYA* EA = Empirical Archival

Co-authors : *Soledad Moya, EADA Business School*
Neus Orgaz, Universitat Oberta de Catalunya

International accounting regulators wish to include "rented" assets and future payment commitments in balance sheets. This paper shows the effect of this proposal on family enterprises. Since the literature on family firms shows that they have particular finance structures and tend to avoid excessive debt levels, a significant effect is expected. We build on the capitalization method and look for consequences on firms' business analyses. Additionally, we run a regression analysis to determine the "family nature" effect. The results show that family firms would be heavily penalized, especially with respect to leverage. The retail sector would be affected particularly heavily.

FRRF05

Chair : Maria Balatbat Room : **A407**

The Market Reaction To Embedded Value Announcement And Its Determinants

Author : *SZU-JUNG WU, NATIONAL TAIWAN UNIVERSITY* MB = Market Based

Co-authors : *Chi-Chun Liu, Department of Accounting, National Taiwan University*
Yiping Liao, Ming Chuan University

Embedded value (EV) reporting has become the most widely-accepted supplementary performance measure in the insurance industry for years. Despite that the existing studies provide favorable evidence on the usefulness of EV reporting (Horton, 2007; Wu and Hsu, 2011), a puzzling issue —the majority of insurers choose not to provide EV data—remains unanswered. Possibly, some are skeptical whether the capital market really incorporates EV data in valuing firms because practitioners have constantly criticized the subjectivity involved in projecting EV (Okeeffe et al., 2005; Paulson and Bernstein, 2008). We directly test whether EV metrics provide new information and explore the effect the credibility of EV on the magnitude of the market reaction. Using data from 20 insurers listed in LSE during 2004 and 2010, we find that: (1) 3-day CARs are positively related to EV metrics, and (2) when the four characteristics of EV imply that the insurer applies a less consistent approach in projecting EV metrics, the market reaction is smaller. In some cases, the offsetting effect is so large that the EV metrics turn out to be irrelevant. Our findings have crucial practical and policy implications. First, managers who do not provide EV data should consider the potential adverse outcome. Second, because EV is similar to IFRS 4 Phase II proposal, IASB should be aware of the negative consequences that the lack of credibility may eliminate the overall relevance of fair-value-oriented system.

MONDAY 16:00-17:30

FRRF05

Chair : Maria Balatbat Room : **A407**

Impact Of The Financial Crisis In Income Smoothing Through Loan Loss Provisions. Exploratory Factors After The Revision Of Standards Cbe 4/2004

Author : *MERCEDES PALACIOS MANZANO, MURCIA UNIVERSITY* EA = Empirical Archival

Co-authors : *Isabel Martinez-Conesa, University of Murcia*
Pedro Soto Acosta, University of Murcia
Inmaculada Diaz-Sanchez, University of Murcia

It is argued that the system of provisions designed by the Bank of Spain (CBE 4/2004) has given the Spanish banks a cushion preventing one's counter-cyclical financial regulation emphasizes the cycle and allowing them to be in a stronger position to face the crisis. That is why we analyze the factors explaining the income smoothing and regulatory capital management practices through loan loss provisions (LLP) in the Spanish banking industry during the period 2005-2009. The results evidence the hypothesis that the LLP carries a countercyclical role by offering a different pattern in the period of expansion and recession in Spanish banking industry. The relevance of the subject is clear as the crisis has called into question the system of recognition of the loss of credit for bad debt under IFRS, resulting in the revision of the IFRS 39 to introduce systems based on expected losses.

MONDAY 16:00-17:30

FRRF05

Chair : Maria Balatbat Room : **A407**

Oh What A Beautiful Morning! The Effect Of Time Of Day On The Tone Of Managerial Communications

Author : *ELIZABETH DEMERS, UNIVERSITY OF VIRGINIA / THE DARDEN SCHOOL OF BUSINESS ADMINISTRATION* EA = Empirical Archival

Co-authors : *Jing Chen, NYU*
Baruch Lev, NYU

Using textual analysis software, we examine whether and how the tone of the question and answer ("Q&A") portion of earnings-related conference calls varies with the time of day. We find that, for calls initiated later in the day when managers and analysts participating in the calls are likely to be suffering from greater physical and mental fatigue, the tone of the conversations between analysts and managers is significantly more negative than for earlier calls. Furthermore, this conversational tone has economic consequences: more negatively toned conversations are associated with more negative abnormal stock returns during the call period. Further analyses show that there is negative drift during the 15-day post-call period for both morning and afternoon "bad news" calls, but that there is relatively higher positive abnormal returns over the subsequent 45 trading days (i.e., days (16, 60) relative to the t=0 call day) for afternoon calls. The combined results suggest that there is an initial and negative over reaction to both bad news earnings information and, incrementally, to negative tone and to calls initiated in the afternoon, that eventually (at least partially) reverses. To the best of our knowledge, this is the first study to document the effects of human physiological factors on corporate communications with analysts and to provide evidence regarding their impact on the firm's stock price dynamics.

FRRF13 *Chair : Mark Anthony Clatworthy* Room : **A409**

An Investigation Of Greek Firm'S Compliance To Ifrs Mandatory Disclosure Requirements

Author : *CHRISTOS TZOVAS, ATHENS UNIVERSITY OF ECONOMICS AND BUSINESS*

EA = Empirical Archival

Co-authors : *Apostollos Ballas, Athens University Of Economics and Business*
Christos Tzovas, Athens University of Economics and Business
Konstantinos Vasilacopoulos, Athens University of Economics and Business

The paper investigates the compliance with IFRS disclosure requirements and ultimately the quality of financial statements. Using a checklist based on the IFRS disclosure requirements, a compliance score was calculated for a sample of 58 listed, non-finance, Greek firms for the 2006 and 2008 financial statements. Disclosure compliance was measured under the "dichotomous approach" and the "partial compliance unweigheted method". Subsequently, univariate tests and a multivariate regression model were used to investigate what firm characteristics are related with disclosure compliance. Closely-held firms exhibit higher compliance rate, while disclosure compliance is not associated with firms' profitability, leverage and size. There is a positive association between the engagement of a Big-4 international auditing firm and the compliance rate. This study can be of interest to accounting regulators who set disclosure requirements and capital market participants by providing indication regarding Greek firms' compliance with IFRS disclosure requirements. In addition, it examines the disclosure compliance with the important disclosure items of all IFRS rather than focusing in the disclosure items of specific IFRS. By adopting both approaches proposed in literature for measuring compliance, we enhance the robustness of the findings this study, while we provide empirical evidence concerning the extent to which the two approaches provide significantly different results. We found that the two methods do not produce significantly different results.

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

FRRF13 *Chair : Mark Anthony Clatworthy* Room : **A409**

An Empirical Examination Of Financial Reporting Lags Among Small Firms

Author : *TOM VAN CANEGHEM, HU BRUSSELS*

EA = Empirical Archival

Co-authors : *Steve Van Uytbergen, KU Leuven | Thomas More*

We examine financial reporting lags among a large sample of Belgian small firms and find that financial reporting lags are affected by specific reporting incentives. For example, our results indicate that firms tend to delay the disclosure of unfavorable information (e.g., a loss) in the financial statements. Moreover, our findings suggest that financial reporting lags are affected by factors related to the financial reporting "production process". For example, we observe a significantly negative relationship between firm age and the financial reporting lag, which is consistent with a learning curve effect. Importantly, we note that about 29 percent of our sample observations do not file their financial statements within the legal time span.

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

FRRF13 *Chair : Mark Anthony Clatworthy* Room : **A409**

Ifrs And Accounting Quality: The Impact Of Enforcement

Author : *ANN TARCA, THE UNIVERSITY OF WESTERN AUSTRALIA*

EA = Empirical Archival

Co-authors : *Nelunika Samarasekera, Treasury, WA Government*
Millicent Chang, University of Western Australia
Ann Tarca, University of Western Australia

The aim of this study is to investigate the impact of enforcement (greater monitoring of auditors and more regulatory scrutiny of financial reporting) on accounting quality under IFRS using measures of earnings smoothing, managing towards earnings targets, timely loss recognition and value relevance. Our sample consists of 495 UK listed firms in 2000-2009 under UK GAAP and IFRS (2,356 and 1,823 firm-years respectively), including 246 cross-listed firms (predominantly listed in Germany and the US). We find value relevance improves under IFRS for all firms and that firms are less likely to manage towards earnings targets. However measures based on earnings smoothing and timely loss recognition improve only for cross listed firms, pointing to a favourable impact of changes in the regulatory scrutiny of cross listed firms in the IFRS period.

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

FRRF13 *Chair : Mark Anthony Clatworthy* Room : **A409**

Earnings Quality And Financial Crisis

Author : *MARCO TROMBETTA, IE UNIVERSITY* EA = Empirical Archival

Co-authors : *Claudia Imperatore, IE Business School - IE University*

Although earnings quality and earnings management have long been an important area of interest in the accounting literature, few studies analyzed the effect of macroeconomics factors on accounting discretion's decisions. We expect that a financial crisis significantly affects earnings management practices. Nevertheless we are not able to specify the direction of the relationship since the existing literature provide arguments supporting both a negative and a positive association. Moreover we add the survival of the firm as an objective of earnings management together with meeting earnings targets. This new objective is assumed to become more stringent as crisis become worse. So our second hypothesis states that the relationship between financial crisis and earnings management is non-monotonic. Our empirical analysis corroborates our two hypotheses. Earnings management decreases when the intensity of the crisis is low, it increases when the crisis is very acute.

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

FRRF13 *Chair : Mark Anthony Clatworthy* Room : **A409**

Contributions To The Exposure Draft Revenue From Contracts With Costumer: An Analysis Of The Comment Letters Sent By The North American And European Firms About The Onerous Performance Obligation

Author : *MARCIA TAVARES, FEDERAL UNIVERSITY OF PARAÍBA* EA = Empirical Archival

Co-authors : *Edilson Paulo, Federal University of Paraíba*
David Carter, University of Roehampton
Luiz Dos Anjos, Federal University of Alagoas

This study aims to investigate if the incentives that influence the contributions of the North American and European companies, sent to the IASB/FASB during the public hearing regarding the Exposure Draft ED/2010/6, Revenue from Contracts with Costumer, are related to a favorable vote when there is a proposal of the Boards of immediate reduction of the result. This research analyzed the forth question, which is related to the recognition of the onerous performance obligations at the individual level. In order to reach the objectives of this study, a research was done by means of the analysis of the content of the comment letters sent by the referred companies. Most of the work is composed of 127 North American and European companies, however this research has showed that 54 companies did not analyzed the forth question, 61 of them opposed themselves to the requirement, 6 were favorable to the proposal and 6 did not have a position. The evidence suggests that other factors, besides the political and regulatory ones, influenced the decision of the companies of not agreeing with an accounting criterion that reduces immediately their result. From the arguments presented by the companies, it can be inferred that the increase in the expense of the production of the information associated to a lack of conceptual coherence, specifically related to the confrontation of the revenue realization prevailed over the rest of the incentives of the company.

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

FRRF14 *Chair : Charles Chen* Room : **A409**

Disclosure Policy And Accounting Narratives Of French Distressed Companies

Author : *MARIE-ANNE VERDIER, IAE TOULOUSE BUSINESS SCHOOL* EA = Empirical Archival

Co-authors : *Jennifer Boutant, University of Toulouse 1 Capitole*

This paper aims at studying whether managers of distressed companies adopt the same disclosure strategies from those of healthy companies before the annual earnings announcement. We perform manual analyses using a sample of 146 French listed companies (73 distressed and 73 healthy companies) which issued 523 press releases before annual earnings announcement over a five-year period (2007-11). Our empirical survey points out three main results. First, the number of press releases issued by distressed companies is higher than the one of healthy companies. Second, the results show no significant difference according to the amount and the nature of news disclosed by the two populations of companies. However, they reveal that managers of distressed companies prefer spreading over time the report of good news in comparison to managers of healthy companies. Finally, the analysis of accounting narratives suggests that managers of distressed companies are more involved in the discourse and more cautious in the presentation of good news than managers of healthy companies. They attempt to improve the readability of their press releases and be more transparent. Overall, our findings highlight the wish of distressed companies' managers to maintain confidence of stakeholders and to preserve both their reputation and future employability.

FRRF14

Chair : Charles Chen Room : **A409**

A Long-Term Perspective On Securities Regulation And Its Market Effects

Author : *STEFAN VEITH, BREMEN UNIVERSITY* EA = Empirical Archival

Co-authors : *Michael Meser, Bremen University*
Jochen Zimmermann, Bremen University

The paper inquires into the question whether securities market regulation is associated with long-run market effects. Using a sample of six countries, we analyze the link between regulation and liquidity and valuation effects for the period from 1991 to 2010. In sum, our findings show that regulation is associated with a lower price impact, share of zero-return days and bid-ask spreads, and with an increased Tobin's Q and market-to-book ratio. The results even hold when we control for the time-series properties of our panel suggesting that these effects have a long-term character. We further provide evidence for the fact that regulatory effects are conditional on country characteristics. High regulation countries, like the U.S., exhibit the largest impact. Low regulation countries, like Germany and Japan, experience only minor capital markets effects. Alternative metrics for regulation support our findings.

FRRF14

Chair : Charles Chen Room : **A409**

The Relations Among Earnings Quality, Ifrs Adoption, And Book-Tax Conformity

Author : *JOYCE VAN DER LAAN SMITH, RICHMOND UNIVERSITY / ROBINS SCHOOL OF BUSINESS* EA = Empirical Archival

Co-authors : *Carolyn Callahan, University of Memphis*
Valaria Vendrzyk, University of Richmond

Prior studies have observed that the adoption of IFRS and the institutional setting influence earnings quality (Daske, Hail, Leuz, and Verdi 2008; Jeanjean and Stolowy 2008; Houqe, van Zijl, Dunstan and Karim, 2012). A parallel stream of research finds that the level of conformity between financial reporting and tax reporting influences earnings quality. With the adoption of IFRS, countries replace their domestic financial reporting systems with internationally developed standards implying changes in the level of book-tax conformity. However, this issue has received relatively little research attention. Using a sample of firms from 41 countries, we measure the level of book-tax conformity from 1993 – 2011, a period when many countries were transitioning to IFRS. Controlling for institutional features we find that both the adoption of IFRS and book-tax conformity influence earnings quality suggesting that research on earnings quality should consider both accounting standards and book-tax conformity.

FRRF14

Chair : Charles Chen Room : **A409**

Financial Structure And Conditional Conservatism

Author : *JOERG R. WERNER, FRANKFURT SCHOOL OF FINANCE & MANAGEMENT* EA = Empirical Archival

Co-authors : *Theresa Reintjes, KfW Bankengruppe*

Accounting conservatism has caused a controversy in recent literature in regards to whether it is rather driven by reporting demands originating from debt or equity markets. This paper sheds light on the role of financial structure in public and private firms, respectively. Our findings suggest that conditional conservatism is influenced by financial structure and that the relative stakes of equity investors and debtholders differently shape reporting incentives. Consistent with the expectation that demand for asymmetric timeliness in earnings decreases when firms face sufficient liquidity and relatively low refinancing risk, we find that public firms with higher liquidity and higher fixed assets coverage ratio report conditionally less conservative compared to public companies with lower levels of these ratios. Moreover, we find conditional conservatism also to be responsive to ownership structure. Our findings contribute to the discussion which reporting demands drive conservatism.

FRRF14

Chair : Charles Chen Room : **A409**

Properties Of International Financial Reporting Standards: Insights Into The Importance Of Principles And Fair Value Measurement

Author : *MARCUS WITZKY, HUMBOLDT UNIVERSITY OF BERLIN* EA = Empirical Archival

Co-authors : *Jens Günther, Humboldt University Berlin*

In this paper we develop two innovative objective linguistic measures that document the development of central properties of International Financial Reporting Standards (IFRS) over time. We focus on the relative relevance of fair value measurement concepts and on the dominance of principles over rules. Based on our proxies, we find that fair value measurement has consistently increased in relevance since the International Accounting Standards Board (IASB) resumed responsibility for international accounting standard setting in 2001. This is consistent with common public perception. Furthermore, we show that the importance of principles in the IFRS declined steadily between 2001 and 2012. Our results add objective evidence to the discussion on the properties of IFRS in the light of current international accounting convergence.

FRRF01

Chair : Robert Magee Room : **A405**

Voluntary Income Reporting

Author : *PHILIP BEAULIEU, UNIVERSITY OF CALGARY* AM = Analytical / Modelling

Co-authors : ,

This paper proposes a voluntary income reporting regime, in which firms could choose whether or not to publish an income statement. Firms choosing not to issue it would report fund flows in a cash flow statement employing the direct method, similar to the cash flow statement advocated by Ohlson et al. (2010). Voluntary income reporting is motivated by managers' numerous motives to manipulate earnings, recent research challenging the value relevance of earnings compared to cash flows, and costs of auditing income, including litigation risk. Another motivation for voluntary income reporting is rising investor dissatisfaction with reported earnings, but unlike many critics in the investing community, the paper does not claim that earnings do not have significant information value. Rather, given recent developments, it is worth reconsidering whether the benefits of reporting accrual earnings exceed the costs for all firms. Dye and Verrecchia (1995) is used as the basis for a voluntary income reporting framework in which firms reporting cash flow only provide a baseline for judging the costs and benefits of reporting income also.

TUESDAY 16:00-17:30

FRRF01

Chair : Robert Magee Room : **A405**

Accounting-Based Valuation Of Employee Stock Options: Vesting Clauses, Employee Termination, Early Exercise, And Default Risks

Author : *I-CHENG LIN, NATIONAL CHANGHUA UNIVERSITY OF EDUCATION* AM = Analytical / Modelling

Co-authors : *Ming-Cheng Wu, Department of Business Education/National Changhua University of Education*
I-Cheng Lin, Department of Business Education/National Changhua University of Education
Yun-Chu Chiu, Department of Business Education/National Changhua University of Education

Based on the International Financial Reporting Standard 2 (IFRS 2) and the revised Financial Accounting Standard 123 (FAS 123R), the new accounting regulation mandates companies to recognize the relevant compensation costs as an expense item and leave companies the only choice of adopting the fair value method. The objective of this paper is to construct a more general employee stock options pricing model that captures several characteristics of ESOs in reality and provides estimations for evaluating ESOs fair values. The pricing model takes into account the vesting period, the employee termination, the early exercise, and the possibility of being default of the company. The result of this study provides a more accurate pricing model than before and establishes the more estimations of the pricing model by completing an empirical analysis.

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

FRRF01

Chair : Robert Magee Room : **A405**

Interim Accounting Earnings And Price Momentum

Author : *JAVAD IZADI ZADEH DARJEZI, UNIVERSITY OF SUSSEX*

Co-authors : *McLeay Stuart, University of Sydney*

AM = Analytical / Modelling

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

FRRF01

Chair : Robert Magee Room : **A405**

Conservatism Under Book-Tax Conformity

Author : *JUMPEI NISHITANI, RITSUMEIKAN UNIVERSITY*

Co-authors : ,

AM = Analytical / Modelling

This paper analyzes the relationship between conservatism and taxation with a moral hazard model, presenting an accounting information system that enables the analysis of conservatism and informativeness separately. It also shows that unconditional conservatism can be brought about under taxation with the book-tax conformity rule, although unconditional conservatism will not be adopted in a plausible situation. The adoption of a conservative accounting information system as an optimal solution by the owner depends on the magnitude of relationships among relevant economic factors. These findings should be able to provide hypotheses for further empirical studies. Moreover, this paper implies that conservative accounting policies are likely to be chosen in cases of high informativeness of accounting information under the book-tax conformity rule, and that there could be a conflict of interest between an anti-conservatism tax authority and an accounting standards-setting body making efforts toward informativeness.

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

FRRF01

Chair : Robert Magee Room : **A405**

Is Segment Reporting Useful For Creditors? Discretion In Aggregating Information

Author : *MICHAEL EBERT, UNIVERSITY OF MANNHEIM*

Co-authors : *Michael Ebert, University of Mannheim*
Dirk Simons, University of Mannheim
Jack Stecher, Carnegie Mellon University

AM = Analytical / Modelling

In recent years, both the Financial Accounting Standards Board and the Interna- tional Accounting Standards boards adopted a management approach to segment reporting. Firms now base their reporting segments on their internal operating segments, rather than on geography or industry. Our purpose in this article is to persuade you that the implicit discretion in the new approach informs capital markets about the riskiest firms in risky populations. This is accomplished with a fairly small number of segments. For all other firms, the benefits of segmentation are negligible, and segment reporting may even be harmful if it falls short of full disaggregation. These results explain the empirical findings that segment reports have become more informative without appreciably increasing in their number or granularity. The key is that segment reporting achieves what is sometimes assumed to be the aim of conservatism: it makes it incentive compatible to provide more information about the worst cases during already bad times.

FRRF06 *Chair : Dandre Merwe* Room : **D**

Earnings Quality And International Financial Reporting Standards In Europe: The Persistence Of Cultural Influences

Author : *SIDNEY GRAY, THE UNIVERSITY OF SYDNEY*

EA = Empirical Archival

Co-authors : *Tony Kang, Oklahoma State University*
Zhiwei Lin, Shanghai University of Finance and Economics
Qingliang Tang, University of Western Sydney

We study the effects of national culture on earnings quality as captured by the degree to which managers exercise accounting discretion (i.e. earnings management) subsequent to the mandatory adoption of International Financial Reporting Standards (IFRS) in the European Union. Our main interest is in investigating whether the adoption of high quality accounting standards across jurisdictions reduces the effects of an important country-specific institutional factor that is known to influence financial reporting, i.e. national culture. We find that the relationship between national culture and earnings discretion varies pre and post-IFRS, and that this relationship is more pronounced in the post-IFRS period. At the same time, this relationship is mitigated somewhat by the extensiveness of national disclosure regulations. These results suggest that the setting of uniform high quality standards is but one step towards achieving accounting harmonization.

FRRF06 *Chair : Dandre Merwe* Room : **D**

Management Earnings Forecasts And Long Run Performance Ipos

Author : *DIMITRIOS GOUNOPOULOS, UNIVERSITY OF SURREY*

EA = Empirical Archival

Co-authors : *Dimitrios Gounopoulos, University of Surrey*
Dimitris Kousenidis, Aristotel University of Thessaloniki
Christos Negakis, University of Macedonia

Companies making initial public offerings in Greece were obliged to include next year?s profit in prospectuses until the regulation changed to voluntary status. This study takes advantage of these two regulatory regimes and analyzes the long-term performance of 303 IPOs over 36 months of secondary market performance. Findings indicate behavioural change, as positive three years return during the mandatory era turn negative in the voluntary period. The comparison of these two regimes suggests that mandatory regulatory environment by forcing firms to provide earnings forecast delivered better investors returns. Instead, the results reveal that existence of a regulation penalizing IPOs for providing highly inaccurate earnings affects long term returns as it creates unsecure investment environment. Opportunities for good long term performance improves for IPOs going public in a mandatory earnings setting during a „cold? period with low given ownership and high oversubscription. It is noteworthy that luck of experience and high associated cost prohibits a number of IPOs from providing earnings forecast during the voluntary period.

FRRF06 *Chair : Dandre Merwe* Room : **D**

Opportunity Provided In Ias 41 For Earnings Management: Australian Evidence

Author : *LIYU HE, MACQUARIE UNIVERSITY*

EA = Empirical Archival

Co-authors : *Sue Wright, Macquarie University*
Elaine Evans, Macquarie University

Earnings management needs not only incentives but also opportunities. In the principle based IFRS, opportunities are provided by the discretion and flexibility within the standards. This study focuses on the opportunity provided in the IAS 41 - Agriculture and examines whether managers use the opportunity inherent in the application of fair value accounting to the agricultural sector to manage earnings. Under IAS 41, firms are required to include any changes in fair value of biological assets (either realized or unrealized) in an income statement and managers have discretion to estimate fair value if active markets do not exist. Using Australian data in the period from 2001 to 2011, we find that reported agriculture gains are relatively larger while pre-agriculture earnings are low, or inferior to the prior level. This is consistent with managers being aware of the opportunity and also using the discretion to manage earnings. We also find that earnings management mainly exists in the Level 3 fair value measurement where managers themselves have the chance to estimate fair value. To achieve this goal, we find that firms choose discount rates in a wide range. Also, firms selecting high discount rates tend to report extremely large agriculture gains. This finding supports the story that managers are aware of the insignificant incremental benefits brought by large agriculture gains when the upper bound bonus is reached and therefore decided to 'save' the gains for future.

FRRF06 *Chair : Dandre Merwe* Room : **D**

Reverse Mergers And Earnings Quality

Author : *GIORGIO GOTTI, THE UNIVERSITY OF TEXAS AT EL PASO*

EA = Empirical Archival

Co-authors : *Chu Chen, University of Texas at El Paso*
Kathryn Schumann, James Madison University

We test for differences in financial reporting quality between companies that went public through a reverse merger (RM) vs. other public companies and IPO firms. Moreover we test whether audit quality (Big 4), foreign incorporation, and seasoned equity offering (SEO) play a role in the earnings quality of RM firms, above and beyond reverse mergers. The presence of a Big 4 auditor does appear to enhance reporting quality and contribute to the survival for firms audited by one of the Big 4 auditors. The rate of survival is significantly higher (almost twice as much) than the rate of survival for firms that went through RM with a non-Big 4 auditor. Furthermore, contrary to popular beliefs, we find evidence of earnings management in both U.S. and international RM companies. Finally, we find that earnings management is pervasive at all RM firms, especially those that need to raise capital through an SEO after the merger.

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

FRRF06 *Chair : Dandre Merwe* Room : **D**

The Business Press As An Intermediary Of Accounting Information

Author : *JOERG-MARKUS HITZ, GOETTINGEN UNIVERSITY*

EA = Empirical Archival

Co-authors : ,

This paper presents exploratory evidence on the role of the business press as information intermediary with respect to accounting information. For a sample of large listed German firms, I analyze press coverage by three daily newspapers pertaining to the release of annual financial statements. Findings, consistent with theory, indicate that the press assumes an aggregation role by broadcasting accounting information to the investment public. The evidence, however, also raises concerns with the quality of this aggregation, as non-GAAP pro forma earnings are not sufficiently covered, which potentially results in detrimental communication to retail investors. The findings also indicate that the press assumes the role of enhancing reported information by providing additional content, but with substantial variation between newspapers. Taken together, the results shed light on the informational role of newspapers in the financial markets, point out limitations, and indicate potential for future research.

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

FRRF07 *Chair : John Barrios* Room : **A407**

Effects & Determinants Of The Reclassification Option According To The Amendments To Ias 39 & Ifrs 7 – A Banking Sector Analysis On Reclassification Behaviour

Author : *NATASCHA JAROLIM, LINZ JOHANNES KEPLER UNIVERSITY*

EA = Empirical Archival

Co-authors : *Carina Öppinger, Johannes Kepler University, Linz - Department of Accounting and Auditing*

Fair value accounting is an essential feature of International Financial Reporting Standards. Even though this accounting method did not spark the financial crisis, it did enhance its impact. As a consequence of the financial crisis the IASB amended IAS 39 to override the fair value recognition. The amendments to IAS 39 & IFRS 7 permitted reclassifications of the categories Held for Trading and Available for Sale, some of which had explicitly been forbidden prior to the amendment. Critics argue that these modifications to IAS 39 made it possible to camouflage losses of hundreds of billions of euros. The main goal of this paper is to evaluate the amendment to IAS 39 & IFRS 7 by conducting a survey of the banking sector. Furthermore fair value accounting in general is critically discussed.

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

FRRF07

Chair : John Barrios Room : **A407**

Earnings Management And Conservatism Under China Special Treatments Policy

Author : *YUSHUN HUNG, FU JEN CATHOLIC UNIVERSITY*

EA = Empirical Archival

Co-authors : *Chien-I Lien, Department of Accounting, Fu Jen Catholic University*

This paper examines the timing of accrual / real earnings management and motivation under China's special treatments policy for A-share listed firms with the first year of loss. Results show that loss-making companies engage in both upward and downward earnings management behavior in the previous year, depending on industry natures. When the first year of the loss could not be avoided, loss-making companies, for the first time through discretionary accruals and downward adjustments in earnings, can successfully turn around the next year. In addition, the study also found that the motivation is biased towards the big bath rather than towards conservatism.

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

FRRF07

Chair : John Barrios Room : **A407**

The Effect Of The Financial Crises On European Banks Narrative Communication

Author : *KRISTINA JONALL, THE UNIVERSITY OF GOTHENBURG*

EA = Empirical Archival

Co-authors : *Michael John Jones, University of Bristol*
Gunnar Rimmel, Jönköping International Business School

Accounting narratives have become an increasingly important part of the financial information that companies provide as an integral part of corporate financial reports. Accounting narratives play a crucial role for management when communication finnacial performance. Accounting narratives are considered an important document for the investment decisions of both private and institutional investors. However, since accounting narratives are unaudited they may be influenced by corporate management and thus may be subject to impression management. This paper focuses on the chairman's narratives in European top banks before, during and after the first recent banking crisis. It discusses how banks' reporting strategies and narratives depend on underlying financial performance. The aim of this study is to examine how the financial crisis affects the accounting narratives and whether this differs between countries and over time. This study also investigates if the President's explanations of performance in the CEO letter are affected by the crisis by looking at textual characterisitcs about good and bad news in different ways. The results in this paper indicate that banks´ chairman's statements are subject to impression management techniques and contribute to an enhanced understanding of impression management in banks reporting context.

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

FRRF07

Chair : John Barrios Room : **A407**

Investment Relevance Around The World How Do Differences In Earnings Attributes Affect Corporate Investment Behavior?

Author : *TETSUYUKI KAGAYA, HITOTSUBASHI UNIVERSITY*

EA = Empirical Archival

Co-authors : *,*

The objective of this study is to examine the changes in earnings attributes after convergence toward or endorsement of the IFRS between the late 1990s and 2000s and how the changes affect corporate investment behavior worldwide. I conduct three analyses. Firstly, I investigate the trends in accrual quality and earnings smoothness in the past 10 years. I find that accrual quality and earnings smoothness worldwide have decreased in the past 10 years, especially in Far East countries and Western Europe countries, and not in English-speaking countries. Secondly, I examine the investment relevance around the world. The results show that earnings smoothness plays important roles in the Far East countries, not English Speaking countries. Thirdly, I examine the relation between accounting standards and investment behavior. The results show that the adoption of the IFRS or the U.S. accounting standards discourages long-term capital investment, and earnings smoothnesis not necessarily significantly positive for firms that adopted the IFRSs or the U.S. accounting standards. Those results suggest that earnings smoothness contributes to the long-term investment in the Far East countries and Western Europe countries and the convergence toward or endorsement of the IFRSs in those countries makes negative effects to the corporate investment behavior.

FRRF07 *Chair : John Barrios* Room : **A407**

Disclosure, Auditing And Debt Contracts: Evidence From Private Firms

Author : *KATHARINA HOMBACH, WHU - OTTO BEISHEIM SCHOOL OF MANAGEMENT*

EA = Empirical Archival

Co-authors : *Matthias Breuer, WHU - Otto Beisheim School of Management*
Maximilian Mueller, WHU - Otto Beisheim School of Management

This paper examines the effects of increased disclosure and auditing requirements on trade credit and financial reporting quality of private firms. We test a common assertion that information asymmetries between private firms and their key contracting parties – lenders – are mainly resolved via private information channels. EU accounting and company law, however, mandates increased disclosures and audits for private firms based on different size cutoffs. It is an open question how this regulation affects firms' lending structure and financial reporting quality. We investigate these questions for firms just above and below the cutoff and argue that firms lack control of just missing these cutoff values. This creates a randomized assignment of treatment with increased disclosures and financial statement verification. We find that increased disclosure and auditing requirements have a positive effect on credit provided by arm's length lenders, and provide evidence consistent with higher financial reporting quality being a channel through which this effect occurs. The results of this powerful and transparent way of estimating the effects of this regulation should be of interest to regulators, firms and their stakeholders.

FRRF08 *Chair : Massimiliano Bonacchi* Room : **A407**

Determinants Of Lobbying Towards The Iasb: Participation, Content And Success

Author : *OLIVER KNOSPE, DRESDEN UNIVERSITY OF TECHNOLOGY*

EA = Empirical Archival

Co-authors : *Michael Dobler, Dresden University of Technology*

This paper provides evidence on key determinants of lobbying the International Accounting Standards Board (IASB) through comment letters. We adopt Sutton's (1984) theoretical framework, focus on the project "Post-employment Benefits (including Pensions)" and conduct a content analysis of 377 comment letters submitted at various stages of the due process to analyse the participation, content and success of lobbying. Key results on the first two points support Sutton's predictions on participating interest groups and on regulators and accountants using comment letters to foster their legitimacy. They are inconsistent with his predictions on the timing of lobbying and on the focus of lobbying of preparers and users with regards to content. Results of consistent sets of logit and linear regressions imply that lobbying success is positively related to information on preferences conveyed in comment letters. But they are indecisive on the effect of the intensity of comments. This seems consistent with Board members relying on summary feedback provided by the staff and could erode some constituents' incentives to lobby through comment letters. Our findings have implications for the legitimacy and independence of the IASB and research on lobbying through comment letters.

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

FRRF08 *Chair : Massimiliano Bonacchi* Room : **A407**

Does Comprehensive Income Influence Dividends?

Author : *TAKUMA KOCHIYAMA, HITOTSUBASHI UNIVERSITY*

EA = Empirical Archival

Co-authors : *Kunio Itou, Hitotsubashi University*

We examine whether comprehensive income and other comprehensive income influence dividends of Japanese companies. Whilst comprehensive income is considered as a new "bottom line" of companies' income statements, the impact on dividends has not been examined empirically. Linter (1956) and subsequent prior studies predict that only earnings which are more persistent and less volatile are related to dividends. Contrary to this prediction, our findings suggest that both comprehensive income and other comprehensive income have positive coefficients with dividend changes. From additional regression analyses, we further find that negative other comprehensive income more likely leads to lower dividends. We propose several explanations on our findings.

TUESDAY 14:00-15:30

FRRF08 *Chair : Massimiliano Bonacchi* Room : **A407**

Reliability Of Fair Value Measurements In Japan

Author : *KENJI KAWASHIMA, HOSEI UNIVERSITY*

EA = Empirical Archival

Co-authors : ,

This study investigates whether reliability of asset revaluations differ across types of fair value measurements which means who measures fair values and how fair values are measured. The land revaluation in Japan provides a unique research opportunity to test the reliability of fair value estimates. In evaluating reliability, I carried out an analysis of the management choice of measurement type and the gain on sale of lands (GSL) after the revaluations. The results of my tests indicate that, on average, the financial characteristics at the time of fair value measurement influence the management choice of measurement type. Empirical results revealed that firms choosing the licensed real estate appraiser (LREA) were more likely to have a large amount of land, high debt-equity ratio, and high foreign ownership holdings. In the analysis of the GSL after the revaluation, firms that recorded GSL were more likely to have chosen the LREA. This means that the LREA had a tendency to measure fair value more conservatively than the non-licensed appraiser who referred to the public price index. The evidence reveals that reliability of fair value measurements depends on the business environment and measurement methods.

TUESDAY 14:00-15:30

FRRF08 *Chair : Massimiliano Bonacchi* Room : **A407**

Internet Financial Reporting (IFR) in Europe – A Comprehensive Comparison of Major Stock-listed Companies

Author : *CHRISTIAN KUNZ, UNIVERSITY OF MANNHEIM*

EA = Empirical Archival

Co-authors : ,

Investor Relations (IR) today owns a high priority in the public relations of stock listed companies. From the set of possible instrument (e.g. Conference Calls, Investor Meetings) the IR-specific parts of the company website haven't been analyzed in full extend. The purpose of this paper therefor is to close a gap in research concerning the website based Investor Relations. Since some studies already provided the instrument of an IR-website quality score this paper will further develop and enhance a comprehensive multi-criteria and two-tiered scores which bases on carefully hand collected data of websites from 168 European companies, dating from April/May 2012. It covers the CAC40, DAX30, FTSE MIB, IBEX35, STOXX Nordic, and a market capitalization based selection of the 30 biggest companies from the FTSE100. As the statistical analysis reveals there are several factors which relate to the web site quality. Besides quite common factors (e.g. market capitalization and return on total assets) some unique evidence could be found: The Secrecy of the auditing culture, analyst following, US-Cross-Listing and the percentage of different Free-Float share classes relate to the overall web site quality-score and/or its underlying sub-scores. While some findings represent confirmation of prior studies, some new aspects result from this paper.

TUESDAY 14:00-15:30

FRRF08 *Chair : Massimiliano Bonacchi* Room : **A407**

The Influence Of Culture And Legal Origin In Country Participation Through Comment Letter Writing To The Iasb

Author : *ROBERT K. LARSON, UNIVERSITY OF DAYTON*

EA = Empirical Archival

Co-authors : *Mark Myring, Ball State University*

Many key supporters of the International Accounting Standards Board (IASB) desire diverse geographical participation in the determination of International Financial Reporting Standards (IFRS). Widespread constituent participation in the IASB's due process is seen as increasing the legitimacy of both the IASB and IFRS. Prior research finds that while almost one hundred countries participate in the IASB's standard-setting due process, just seven countries provide a majority of the comment letter responses. Possible reasons for this situation have not been fully investigated. Culture provides explanations for a number of phenomena in accounting. This study examines whether a country's culture influences its participation in the due process of the IASB through comment letter writing. The study uses a multi-issue/multi-period approach and utilizing data from The Globe Study to measure culture. The results suggest that some cultural and legal origin differences do affect the number of writers or responses from a country. This may reflect a difference by countries in their preferred modes of participation in the development of IFRS. This has implications regarding the best due process for the IASB if greater participation by more countries is to be achieved.

TUESDAY **16:000-17:30**

FRRF10

Chair : Linda Smith Bamber Room : **A407**

Regulation, Supervision And Accounting Conservatism In Banks

Author : *ISABEL MARTINEZ CONESA, MURCIA UNIVERSITY*

EA = Empirical Archival

Co-authors : *Inmaculada Díaz-Sánchez, Universidad de Murcia*
Manuel Illueca-Muñoz, Universidad Jaume I

Of key importance in the management of banks is the role of accounting conservatism. The main purpose of this article is to analyze how different forms of bank regulation and supervision, as well as market discipline (measured by market concentration, listing status and corporate governance) affect incentives to practice conservatism or, in other words, the timeliness with which banks recognize losses. The direct and indirect impact of regulation and supervision on accounting quality is examined. Major empirical findings are that, first, greater bank regulation and supervision regimes are positively associated to conservatism; second, unlisted banks and commercial banks are more conservative than listed entities and savings banks, respectively; and third, we find that the more concentrated the market is, the less conservative banks are. Further analysis suggests that regulation and supervision smooth the negative effect that market discipline may have on conservatism, which constitutes one of the major contributions of this paper.

TUESDAY **16:000-17:30**

FRRF10

Chair : Linda Smith Bamber Room : **A407**

Has East Met West? The Effect Of Laws On Accounting Quality In The European Union

Author : *FREDERICK LINDAHL, GEORGE WASHINGTON UNIVERSITY*

EA = Empirical Archival

Co-authors : *Frederick Lindahl, George Washington University*
Hannu Schadéwitz, University of Turku

The EU continues to converge: increasing use of the euro, harmonization of laws, increasing mobility of labor and expanding coordination of monetary and fiscal policy. One important mechanism to form a more solid union has been the adoption of IFRS. A single set of high quality accounting standards is intended to produce accounting reports of high quality. While this is the aim, it is by no means certain that this will be the result. If firms do not follow the standards, and if auditors do not enforce strict compliance, then the goal will not be met. The first objective of this paper is to evaluate the uniformity of compliance with IFRS among EU countries. The paper also investigates the causes for less-than-complete compliance. One factor that is often discussed is the legal system. This study investigates the effect of the law on financial reporting. It uses the "natural experiment" of the EU, where ten countries share a past tradition of socialist law, and the other fifteen Continental European countries share a tradition of Roman law. We find that the forces of convergence within the EU have not brought the legal quality in the eastern countries up to the level of the western neighbors. We hypothesize that the weaker legal force in the east is associated with poorer accounting quality. An effect, though not strong, is detectable in two tests of accounting quality. The lower cost of capital that results from good reporting may curb earnings management.

TUESDAY **16:000-17:30**

FRRF10

Chair : Linda Smith Bamber Room : **A407**

Does Corporate Tax Aggressiveness Reduce Earnings Informativeness?

Author : *GERRIT LIETZ, MUENSTER UNIVERSITY*

EA = Empirical Archival

Co-authors : *Adrian Kubata, University of Münster*
Christoph Watrin, University of Münster

We investigate a previously overlooked type of non-tax cost associated with tax aggressiveness: the potential loss of earnings informativeness. Up-front benefits realized by corporate tax planning include positive effects on after-tax cash flows and an increase in firm value. However, we argue that the complexity of aggressive tax structures impairs earnings informativeness, possibly causing an undesired negative effect on equity valuation. To the extent that managers do not communicate their complex actions to shareholders, we expect a decrease in the ability of earnings to provide decision useful information. We conduct firm-level tests on a large U.S. sample over the period 1999 to 2009. First, we find evidence that tax aggressiveness is negatively associated with earnings informativeness as measured by the Earnings Response Coefficient (ERC). Second, we show that the overall timeliness of market's reaction to mispriced securities remains rather stable across different levels of tax aggressiveness. Our interpretation of this result is that the market relies on other information sources to price a firm when earnings informativeness is impaired by tax aggressiveness. In a third step, we contribute methodologically, as we repeat our main analysis applying a novel dynamic model that leads to less biased ERC coefficients.

TUESDAY 16:000-17:30

FRRF10 *Chair : Linda Smith Bamber* Room : **A407**

Principles-Based Mandatory Disclosures

Author : *JAN MARTON, THE UNIVERSITY OF GOTHENBURG* EA = Empirical Archival

Co-authors : *Emmeli Runesson, University of Gothenburg*

In recent years the amount and format of mandated disclosures have been discussed.For example, in a draft discussion paper, EFRAG suggests that disclosures should be more principles-based. In this study, we empirically test disclosures that are currently principles-based, being disclosures on judgment and uncertainties in the preparation of financial statements, in accordance with IAS 1 Presentation of financial statements.We use a sample of over 2,300 annual reports from listed firms in the EU. Testing was done of the extent to which disclosure are driven by incentives, enforcement setting, management ability, or whether they provide information on the underlying economics of the firm. Results show that incentives are important, but that enforcement setting and management ability are even stronger explanatory factors for disclosure. Controlling for such factors, the disclosures do also provide information on underlying economics. This suggests caution should be used in applying principles-based disclosure standards. Further, we show that disclosures do provide some information on the accruals quality, related to the transition to IFRS. There are indications that the increase in accruals quality following the IFRS introduction, is driven by firms subject to a low level of judgment, and that there is no or weak improvement for firms with a high level of judgment.

TUESDAY 16:000-17:30

FRRF10 *Chair : Linda Smith Bamber* Room : **A407**

The Impact Of Firm-Supplied Versus User-Supplied Fair Values On Analyst Outputs

Author : *LIHONG LIANG, SYRACUSE UNIVERSITY* EA = Empirical Archival

Co-authors : *Edward Riedl, Boston University*

This paper examines how the source of fair value estimates affects user valuation outputs. Following accounting-based valuation theory, we examine two analyst forecast outputs: a balance sheet construct (net asset value, or NAV, which requires fair values of assets as a primary input) and an income statement construct (earnings-per-share, or EPS). Our sample includes publicly-traded UK and US real estate firms, for which real estate is the primary operating asset. The UK captures firm-supplied fair values, with firms reporting property fair values as mandated under both UK and international reporting standards. In contrast, the US captures user-supplied fair values, with firms reporting properties at depreciated historical cost as mandated under US standards, and also not voluntarily disclosing property fair values. We predict and find that relative to US firms, analysts of UK firms have more accurate and less dispersed NAV forecasts, consistent with firm-supplied fair values revealing private information that is incorporated into users' valuation estimates in a balance sheet construct. However, we further find that analysts of US firms have more accurate EPS forecasts, consistent with historical cost reporting models leading to either more predictable earnings streams and/or greater analyst effort on income statement constructs.

TUESDAY 9:00-10:30

FRRF15 *Chair : MIKIHITO Jinnou* Room : **A409**

Do Annual Reports Cover Properly Main Stakeholders?

Author : *ALONSO MORENO, UNIVERSITY OF JAÉN* HI = History

Co-authors : *Macario Camara, Universidad de Jaén*

Most of the accounting research drawing on stakeholder theory have focused on CSR. In contrast, they have not focused on studying if annual reports reflect reliably the main events of a company on specific issues or stakeholders. With the aim to fill this gap, this paper analyses the extent to which the annual report serves to communicative the most important events of a company with three critical stakeholders. To address this issue, we use internal information of the government bodies of a Spanish medium-sized brewery company (1928-93), supplemented through interviews maintained with a representative of each stakeholder. The context of the focal firm, i.e. the sector and the country, suffered from significant economic, social and political changes during the observation period. Our findings show that the annual report covers most of key events for the shareholders, only a small part of the events for the workers and many events for the customers. The results confirm that the annual report has been a document traditionally focused on shareholders. In the case of the workers, we can distinguish two different periods related to disclosure. However, social activities devoted to workers were constant in the company. Consequently and conversely to some authors, strategy and disclosure have been quite independent at least until the 1960s. Regarding the customers, a more random pattern is found, although the bad news is not reflected outward.

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

FRRF15

Chair : MIKIHITO Jinnou Room : **A409**

Medieval Modes Of Accounting, Control And Accountability

Author : *MIKE JONES, UNIVERSITY OF BRISTOL* HI = History

Co-authors : ,

All societies need administrative mechanisms to guard against fraud, inefficiency and waste. This article draws on published sources to look at medieval modes of accounting, control and accountability. It uses an accountability framework. This article looks at eleven ways in which the Medieval world sought to ensure an efficient well-run administrative system. These are classified as ongoing controls (personal accountability, audit and assignment), controls over assets (inventory, sampling, livestock control and seals) and controls over due income and authorised expenditure (authorised and recorded transactions, internal check, personal supervision and normalised returns). This is the first systematic investigation of internal controls in the Middle Ages. Personal accountability was ensured by making officials directly responsible for the accounts they rendered. Audits were carried out both at the Royal Exchequer, on the manors and in other medieval institutions. The article suggests that most of these features are recognisable today and that the essence of internal control remains the same. However, in the Middle Ages there was a relatively greater use of person-to-person control such as personal accountability and personal supervision. In addition, normalised returns were used much more. These normalised returns are seen as precursors of standard costs. Together these mechanisms of controls represented a coherent set of control mechanisms.

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

FRRF15

Chair : MIKIHITO Jinnou Room : **A409**

The Introduction Of The 'incurred Loss' Model For Credit Losses In Ias 39

Author : *KEES CAMFFERMAN, VU - UNIVERSITY OF AMSTERDAM, FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION* HI = History

Co-authors : ,

The financial crisis has focused attention on impairment of amortized-cost financial instruments. The view has become widespread that IFRS, because it is based on a so-called incurred-loss approach, has led to significant overstatement of financial assets by placing tight restrictions on the recognition of loan losses. The IASB is considering the introduction of an alternative expected-loss model in its standards. This paper provides a reconstruction of the introduction of the incurred loss model in IAS 39. As a matter of historical interest, it highlights how the relevant provisions of IAS 39 were developed, between 1998 and 2003, at a time when it was not yet common to view the issue in terms of a clear-cut dichotomy of incurred-loss versus expected-loss models. This leads to the more general conclusion that the way in which a standard setter and its constituents form their understanding of an issue, as well as the evolution of the concepts used to analyze and debate it, can be important elements of the standard-setting process that merit more attention from researchers.

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

FRRF15

Chair : MIKIHITO Jinnou Room : **A409**

Manipulation Of Depreciation Policies In The British Railway Industry.

Author : *JOHN STITTLE, UNIVERSITY OF ESSEX* HI = History

Co-authors : *Sean Mccartney, Queen Mary, University of London*

Abstract This paper evaluates the extent to which depreciation levels have been manipulated in the British railway industry since its formation. Using a case study approach, the paper finds that the manipulation of depreciation charges for accounting, economic and political reasons has continued irrespective of whether the industry has been in a privatised or nationalised form. Indeed, the impact of manipulating levels of depreciation in the asset-intensive railway industry has been particularly marked. The paper concludes, that despite recent IASB pronouncements, this manipulation – often for convenience of management -continues as a key defining feature of accounting in the railway industry.

TUESDAY	9:00-10:30

FRRF15

Chair : MIKIHITO Jinnou Room : **A409**

Rethinking The Practice And Value Added Of External Audits: The Aicpa's Audit Data Standards (ads) Initiative

Author : *MICHAEL ALLES, RUTGERS UNIVERISTY* HI = History

Co-authors : *Miklos Vasarhelyi, Rutgers University*
Hussein Issa, Rutgers University

The Assurance Services Executive Committee (ASEC) Emerging Assurance Technologies Task Force of the American Institute of Certified Public Accountants (AICPA) has issued an exposure draft on the Audit Data Standard (ADS), which is a proposal describing a set of essential data that would be extracted from an audit client's IT system and made available to auditors in a standardized format of either flat files or in XBRL-GL. The object of ADS is to reduce the obstacles to obtain data for audit purposes. The exposure draft focuses on the technical aspects of ADS but does not discuss either the best way in which such a standard should be created, or what its implications will be on the broader practice of auditing. This paper first discusses issues in the ADS approach in terms of how the taxonomy is created and what it encompasses. Then, using Elliot's (1998) model of the information value chain, it analyzes the implications of ADS for the evolution of audit practice and the role of auditors relative to other third party analysts of business data. It concludes that ADS has the potential to be a disruptive innovation (Christensen, 1997) in auditing.

TUESDAY	11:00-12:30

FRRF16

Chair : Christina Samson Room : **A409**

Distributed Accounting Valuation: Considering Fair Value Accounting From A Distributed Cognition Perspective

Author : *NORIAKI OKAMOTO, RYUTSU KEIZAI UNIVERSITY* IC = Interdisciplinary / Critical

Co-authors : ,

This study offers a new interdisciplinary perspective on fair value accounting. Valuation plays a crucial role in modern financial reporting. Given the growing influence of esoteric financial instruments whose valuation is becoming increasingly complex and controversial, it is necessary to turn our attention to actual valuation practices and consider their characteristics. This paper then introduces the framework of distributed cognition and applies it to some actual valuation practices. It suggests that the processes of valuation of complex financial instruments are distributed among individuals who are located inside and/or outside of reporting entities. This point is aptly explained from the viewpoint of distributed cognition, which leads to focus on reporting companies' external and internal resources for fair value accounting. It thus facilitates a theoretical understanding of increasingly specialized, complicated, and professionalized accounting valuation. Furthermore, the results of some experimental cognitive studies imply that interactions of distributed knowledge among professional people may contribute to more reliable accounting numbers.

TUESDAY	11:00-12:30

FRRF16

Chair : Christina Samson Room : **A409**

Financial Crisis And Legitimacy Of Global Accounting Standards

Author : *MASAKI KUSANO, KYOTO UNIVERSITY* IC = Interdisciplinary / Critical

Co-authors : *Masatsugu Sanada, Osaka City University*

The purpose of this study is to examine and clarify a mechanism of global accounting standard-setting and accounting regulation exposed by politicization of accounting from the perspective of the legitimacy of global accounting standards. Especially, we investigate the legitimation crises of global accounting standards and their restoration process focusing on the IASB's response to the financial crisis. With using an analytical framework of 'decoupling, compromises, and systematic dominance' (Tamm Hallström, 2004), we find that the IASB tried to maintain the mechanisms of the endorsement from the EU, in other words, the legitimacy element of 'taking advantage of the power of other organizations' with decoupling the legitimacy element of 'theoretical consistency' and 'justification through due process' in order to avoid a further 'curve-out'. In order to reconcile the concerns from the United States and the outside of Europe about the IASB's decision to bypass its usual due process, the IASB tried to maintain and restore its legitimacy by establishing the monitoring board, with compromising two elements of 'justification through organizational structure' and 'superior organizations' delegation and/or acceptance of standard-setting activity.' We also find that the IASB always had made it a priority to the element of 'justification through organizational structure' based on the needs of the EU as the biggest customer.

FRRF16 *Chair : Christina Samson* Room : **A409**

Intellectual Capital Reporting Content Analysis - Parsimony In Research Design

Author : *VIKTORIA ZERR, THE UNIVERSITY OF EDINBURGH*

IC = Interdisciplinary / Critical

Co-authors : *,*

The purpose of this methodological study is to explore what level of detail is necessary for investigating Intellectual Capital (IC) reporting in content analysis research frameworks. Prior literature has suggested content analysis disclosure frameworks with a wide range of IC components. However, it may not be feasible to consider all possible IC components in content analysis studies. This study contributes to the IC reporting literature by providing suggestions on how to develop parsimonious content analysis research frameworks for IC reporting. The context of German companies offers an interesting research setting, because additional information on the value creation process is published in a mandatory management report. To examine how parsimonious the research checklist for an IC reporting research framework should be, a correlation analysis is conducted. IC reporting scores for a full list of IC components are correlated to considering only certain widely-used IC components. The results indicate that for structural capital the majority of IC disclosure can be captured with eight important IC components. For relational and human capital the reporting behaviour can be investigated by focusing on the three most widely-used IC components. Therefore, this study innovatively shows that future studies of IC reporting should pay close attention to the most widely-used IC components rather than designing very detailed checklists.

TUESDAY 11:00-12:30

FRRF16 *Chair : Christina Samson* Room : **A409**

Statutory Regulation Of Accounting In Russia Over The Period From The 18th To The 21st Century

Author : *EKATERINA ZUGA, ST PETERSBURG STATE UNIVERSITY*

HI = History

Co-authors : *Svetlana Karelskaya, St Petersburg State University*

The current phase of accounting development in Russia is characterized by the process of harmonization of national rules and international financial reporting standards (IFRS). An insight into the history of the Russian accounting system based on statutory regulation, would make it possible to reveal the major problems connected with imbedding of IFRS into Russian practice and define the ways for overcoming the complexities which specialists in the field often encounter in their comprehension. The analysis of the major statutory documents which make the basis for the regulation of accounting practice in Russia makes it possible to distinguish a number of characteristic features that form the traditions in Russia: 1)a strict and extremely detailed normative definition of the accounting procedure. This approach established in Russian accounting practice hinders the process of bringing the Russian practice of accounting closer to IFRS and of furthering the application of the accountant's professional judgment; 2) differentiation of the accounting rules depending on the scope and volume of business a particular company is doing; 3) the idea of primary documents as a compulsory and requisite precondition of making entries on the accounts. All the above mentioned reasons made the process of imbedding of IFRS into Russian accounting practice considerably complicated.

TUESDAY 11:00-12:30

FRRF16 *Chair : Christina Samson* Room : **A409**

Non-Practices Of Nonfinancial Communication

Author : *MARKUS GROTTKE, UNIVERSITY OF PASSAU*

IC = Interdisciplinary / Critical

Co-authors : *,*

The present exploratory interview study investigates what actors do not when writing and auditing annual reports and when extracting information out of annual reports. For this purpose I draw on the methodology employed by Michel Foucault in order to characterize rationality from the perspective of madness. The identified non-practices provide insights into what are the power relations which shape the impact of individual actors in the course of an annual report. For accounting research, among other things, the insights provide new interpretations and competing explanations on the theory of information (-inefficiency) of capital markets, the thesis of the expectation gap of auditors work and the thesis that the production of annual reports results in hyperrealities produced by bullshitters.

TUESDAY 14:00-15:30

FRRF17 *Chair : James Matthew Bonnet* Room : **A409**

Capital Market Effects Of The Ifrs Adoption For Separate Financial Statements: Evidence From The Italian Stock Market

Author : VERA PALEA, UNIVERSITY OF TURIN MB = Market Based

Co-authors : ,

Using a sample of Italian firms, I investigate whether separate financial statements are useful to capital market investors and IFRS are more value-relevant than domestic GAAP. I find significant differences in value-relevance between Italian GAAP and IFRS, with IFRS being more informative than Italian GAAP. However, while results are robust for book value, they provide mixed evidence on net income. I also investigate the value-relevance of separate financial statements under IFRS relative to consolidate financial statements and I find that the former are more value-relevant than the latter. Overall, this study provides evidence supporting the choice of adopting IFRS for separate financial statements.

TUESDAY 14:00-15:30

FRRF17 *Chair : James Matthew Bonnet* Room : **A409**

Deviations From The Mandatory Adoption Of Ifrs In The European Union: Implementation, Enforcement, Incentives, And Compliance

Author : GRACE POWNALL, EMORY UNIVERSITY MB = Market Based

Co-authors : Maria Wieczynska, Emory University

In this paper, we evaluate the common assertion that EU firms began using IFRS by 2005 when the EU formally adopted IFRS. We find that although the incidence of firms using local (or some other) GAAP has declined between 2005 and 2009, it is still nontrivial. For instance, by 2009 the incidence of non-IFRS financial statements was still in excess of 17% (42% of which were fully consolidated). We estimate a model of the non-adoption of IFRS as a function of proxies for EU-wide and country-specific implementation of the IFRS regulation, country-specific enforcement mechanisms, and firm-specific reporting incentives. We find that being traded in EU-regulated markets, preparing fully consolidated financial statements, and having a more diversified corporate structure are positively associated with the likelihood of using IFRS, and using US GAAP in the preceding year is significantly negatively associated with adopting IFRS. We find little evidence that country-specific enforcement is associated with IFRS adoption during our time period. Finally, we find that several reporting incentives proxies are associated with adopting IFRS, such as being large and closely-held with wider analyst following. We interpret our results to mean that many EU firms do not use IFRS; that firms exploited definitions, exemptions, and deferrals in the regulation to avoid adopting IFRS; and that firms responded to their reporting incentives in making the decision to adopt IFRS.

TUESDAY 14:00-15:30

FRRF17 *Chair : James Matthew Bonnet* Room : **A409**

Mandatory Ifrs Adoption And The Cost Of Equity Capital. Evidence From Spanish Firms

Author : NEUS ORGAZ-GUERRERO, UNIVERSITAT DE OBERTA DE CATTALUNYA MB = Market Based

Co-authors : David Castillo-Merino, IQS
Carlota Menéndez-Plans, Universidad Autónoma Barcelona
Neus Orgaz-Guerrero, Universitat Oberta Catalunya

This paper analyses the effects of mandatory International Financial Reporting Standards (IFRS) adoption by Spanish firms in 2005 on the cost of equity capital. Using a sample of listed Spanish companies during the 1999 to 2011 period and a country-level focused analysis, we find evidence that, unlike previous studies' results, Spanish listed companies show a significant reduction in their cost of equity capital after the mandatory adoption of IFRS in 2005, after controlling by a set of firm-risk and market variables. Increased financial disclosure and enhanced information comparability, along with changes in legal and institutional enforcement, seem to have a joint effect on the cost of capital, leading to a large decrease in expected equity returns.

TUESDAY 14:00-15:30

FRRF17 *Chair : James Matthew Bonnet* Room : **A409**

The Effect Of Enforcement, Accounting Standards, And Institutional Features On Earnings Attributes: Evidence From Cross-Listed Firms

Author : *ROGER SILVERS, UNIVERSITY OF UTAH* MB = Market Based

Co-authors : *Roger Silvers, University of Utah*

This study examines the attributes of the return-earnings relationship in a unique environment (firms cross-listed in the U.S.) which provides time-series and cross-sectional variation in public and private enforcement, accounting standards, and institutional features. The current state of the literature in measuring accounting outputs is reviewed, a research design is proposed, and preliminary results are tabulated. Preliminary results are consistent with the prediction that changes in enforcement, accounting standards, and institutional features change the relation between accounting outputs and capital markets in meaningful ways.

TUESDAY 14:00-15:30

FRRF17 *Chair : James Matthew Bonnet* Room : **A409**

Buy On Bad News, Sell On Good News: How Insider Trading Analysis Can Benefit From Textual Analysis Of Corporate Disclosures

Author : *ADRIANA KORCZAK, UNIVERSITY OF BRISTOL* MB = Market Based

Co-authors : *Michael Hagenau, Boston Consulting Group*
Adriana Korczak, University of Bristol
Dirk Neumann, Universität Freiburg

We demonstrate how insider trading analysis may benefit from textual analysis. We analyze reported insider trading behavior and explain the association between corporate as well as 3rd-party news announcements on directors' dealings activity. Previous approaches are extended by adding the sentiment of news to the research setting. We find strong evidence that insiders follow the stock market adage "Buy on bad news, sell on good news": They tend to buy (sell) securities in those years where their respective companies issue negative (positive) news. Likewise, insiders tend to buy (sell) stocks in years when 3rd-party news coverage is pessimistic (optimistic). The impact of corporate news on insider trading is higher than for 3rd-party news, as corporate news are subject to direct influence by the insiders. We also find that insiders buy when next year's news improves compared to the current year. Looking more concretely into the language, we also demonstrate that insiders buy when expressing insecurity and uncertainty. Overall, the findings reveal additional insights for insider trading analysis and demonstrate how finance may benefit from textual analysis.

TUESDAY 11:00-12:30

FRRF18 *Chair : Christof Beuselinck* Room : **A407**

Is The Pricing Of Accrual Quality Really Only A January Effect?

Author : *LIJUAN ZHANG, THE AUSTRALIAN NATIONAL UNIVERSITY* EA = Empirical Archival

Co-authors : ,

We examine seasonality in the pricing of firms' accrual quality (AQ), following Mashruwala and Mashruawala's (2011) finding that abnormal returns to AQ are concentrated around the turn-of-the-year, and likely reflect a correlation with investors tax-loss selling. Extending Mashruala and Mashruala's study, we employ an intrnational sample comprising contries where tax-loss selling incentives exist, and control for the effects of illiquid low-priced stocks. While we find that a turn-of-the-year effect does exist in some cases, abnormal returns to AQ and AQ-based hedge portfolio are positive and significant for the remainder of the year if low-priced stocks are controlled. We further show that the apparent AQ premium concentrates in firms with low competition for their stock, consistent with an information risk explanation. Finally, we demonstrate that poor AQ is associated with higher implied costs of equity capital. Collectively, our results are consistent with the existence of an AQ premium, which is not singularly driven by tax-loss selling effects.

FRRF18 *Chair : Christof Beuselinck* Room : **A407**

Are Loan Loss Provisions Value Relevant? Evidence From Islamic And Conventional Banking

Author : *MARWA EL NAHASS, LANCASTER UNIVERSITY / MANAGEMENT SCHOOL* EA = Empirical Archival

Co-authors : *Marwa Elnahass, Lancaster University*
Marwan Izzeldin, Lancaster University
Omneya Abd-Elsalam, Aston University

This study examine the extent to which stock markets perceive the aggregate level of Loan Loss provisions (LLPs) as value relevant information for Islamic banks (IBs) and conventional banks (CBs). We decompose LLPs into discretionary (DLLPs) and non-discretionary (NLLPs) components to test for differential valuations between listed IBs versus CBs. We utilize the Ohlson (1995) price-level valuation model. The study sample comprises 630 bank-year observations for listed IBs and CBs in the MENA region for the period of 2006-2011 inclusive. Empirical analyses follow a two-stage approach, consistent with (Beaver and Engle, 1996). Our results show that, in line with predictions, LLPs have positive and incremental value relevance on average to investors in both banking sectors. Investors in IBs and CBs price DLLPs, conditional on NLLPs information, as information that is favourable to enhancing bank value. Investors in CBs place relative higher valuations on DLLPs, than investors in IBs. Listed stock markets for both sectors interpret an increase in NLLPs as irrelevant valuation information. Our results are robust, that investors in both IBs and CBs differentially price the two components of LLPs. Findings support the increased attention given to shifting the accounting treatment for LLPs under the proposed IFRS 9. Furthermore, there are important implications for the economic stability of Islamic banking and the emergence of Islamic banking indices.

TUESDAY 11:00-12:30

FRRF18 *Chair : Christof Beuselinck* Room : **A407**

The Impact Of The Greek Sovereign Crisis On European Banks’ Disclosure

Author : *JIE ZHOU, UNIVERSITY OF ZÜRICH* EA = Empirical Archival

Co-authors : *Peter Fiechter, University of Zurich/Department of Business Administration*

This paper examines the link between disclosure and its economic consequences of European banks. We exploit an exogenous cost of capital shock created by the Greek Sovereign Crisis and analyze banks’ disclosure responses to this shock. First, we find that European banks increase the length of their annual reports from 2009 to 2011, particularly the risk management section. Our cross-sectional results show that the increase in length of either the annual report or the risk report is positively associated with the bank-specific cost of capital shock. Second, we find empirical evidence that the change in disclosure—particularly the increase in risk disclosure—results in subsequent positive market reactions and thus mitigates the cost of capital shock. Finally, our cross-country analysis shows that the market reaction to the change in disclosure is more pronounced for banks domiciled in a strong institutional environment.

TUESDAY 11:00-12:30

FRRF18 *Chair : Christof Beuselinck* Room : **A407**

Consistent Application Of Ifrs, An Empirical Study Of The Effect Of Enforcement On Impairment Of Assets (ias 36)

Author : *MIRA YAMMINE, UNIVERSITY OF LIEGE - HEC* EA = Empirical Archival

Co-authors : *Henri Olivier, University of Liege - HEC*

This study aims to determine whether there is an impact exercised by enforcement on IAS 36 ‘impairment of assets’. Listed companies from 25 countries applying IFRS are selected. Linear and logistic regressions are performed on 5524 companies from these countries in order to study the impact of enforcement on impairment magnitude and recognition. Enforcement is represented by different indexes which are used in the literature. The enforcement effectiveness variables are defined according to reports generated by different institutions and organizations. The main results have shown a negative impact exercised by the enforcement variable on impairment recognition.

FRRF20 *Chair : Reggy Hooghiemstra* Room : **A409**

A Meta-Analytic Review Of The Determinants Of The Degree Of Compliance With Ias/ifrs

Author : *KHALED SAMAHA, THE AMERICAN UNIVERSITY IN CAIRO*

Co-authors : *Khaled Samaha, The American University in Cairo*
Hichem Khlif, University of Monsatir, Tunisia
Khaled Dahawy, The American University in Cairo

AM = Analytical / Modelling

The objective of this paper is to meta-analyze a set of 17 empirical papers dealing with the determinants of the degree of compliance with IAS/IFRS standards. We consider firm size (proxy for agency theory), profitability (proxy for signaling theory), leverage (proxy for agency and signaling theories), auditor (proxy signaling theory), internationality (proxy for capital need theory), and ownership diffusion (proxy for agency theory). Our results provide evidence that firm size, auditor type, multi-nationality, profitability and ownership dispersion have a positive effect on IAS/IFRS compliance. Compliance with IAS/IFRS in emerging markets is strongly associated with firm size, auditor type, leverage, profitability and ownership dispersion. Given the low disclosure environment, weak investors' protection and capital external need prevailing in these contexts; these factors are likely to enhance corporate reporting policy. Managers comply seriously with IAS/IFRS in developing countries to reduce agency costs, signal a higher financial statements' credibility and get more easily external finance from financial institutions. Compliance with IAS/IFRS in developed countries is associated with corporate size, audit firm size and multi-nationality. In addition, investor protection level also moderates the association between corporate characteristics and compliance IAS/IFRS. For instance, in low investor protection settings, corporate size and profitability are more associated with IAS/IFRS compliance, while audit firm size, leverage and multi-nationality increase the degree of compliance with IAS/IFRS in countries characterized by high protection level. The findings emphasize the need to explicitly consider the legal and institutional setting when one analyzes the effect of corporate characteristics on IAS/IFRS compliance.

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

FRRF20 *Chair : Reggy Hooghiemstra* Room : **A409**

Intangibles And Bank Performance: Testing The Resource-Based Theory Using Mixed Methods

Author : *JO DANBOLT, THE UNIVERSITY OF EDINBURGH*

Co-authors : *Lei Chen, University of Exeter*
John Holland, University of Glasgow

CF = Case / Field Study

Empirical testing of the resource-based view (RBV) is still in its embryonic stages. This paper aims to explore potential ways of testing the RBV by combining quantitative and qualitative methods together, with particular interests in the European banking sector. Both the quantitative and qualitative approaches produce evidence in support of the resource integration idea as part of the RBV theory, and the importance of top management human capital (HC) in superior bank performance. Moreover, the qualitative study provides the means to explore ways of improving intangible proxies and identifying new measures of strategic resources. This paper contributes to the strategy literature by providing tentative empirical evidence on some specific aspects of the RBV in the critically important banking sector. It also contributes to the methodological development of management research by providing an example of how mixed methods can enhance the testing of the RBV.

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

FRRF20 *Chair : Reggy Hooghiemstra* Room : **A409**

Rhetoric In International Standard Setting Process: Strategies Employed By The Iasb/fasb And The Constituents

Author : *RENATA STENKA, HENLEY BUSINESS SCHOOL AT THE UNIVERSITY OF READING*

Co-authors : ,

AM = Analytical / Modelling

The paper seeks to explore in depth the ways in which rhetorical strategies are employed in the international accounting standard setting process. The study proposes that rather than simply detailing new accounting requirements, the texts of accounting standards are artefacts, i.e. deliberately and carefully crafted products, that construct, persuade and encourage certain beliefs and behaviours. Standards are prepared and written by members of a regulatory body and as such they are shaped by a particular point of view regarding the significance of various accounting matters. The present study draws on the notion of dialogic structuring of persuasion promoted by Billig (1987) and inspired by the structuralist views of Peirce (1839-1914) and de Saussure (1857-1913). It considers rhetoric as a dialogue rather than a monologue. Notably, the persuasive and constructive strategies are also employed by the constituents submitting comment letters on the regulatory proposals. In our study we explore the joint IASB and FASB proposals and subsequent regulations that address issues of off-balance sheet financing, a subject that is very timely and of great topical importance. The analysis revealed sophisticated rhetorical devices used by both the Boards and by the lobbyists. These reflected Aristotelian 's ethos, pathos and logos. The research demonstrates that those using accounting standards as well as those reading comment letters on the proposals for new standards should be aware of the normative nature of these documents and the subjectivity inherent in the nature of the text.

TUESDAY 16:00-17:30

FRRF20 *Chair : Reggy Hooghiemstra* Room : **A409**

Accounting Conservatism Shaped By Debt Holders: A Comparison Between Public And Private Firms In China

Author : *MINGZHU WANG, LONDON UNIVERSITY / KING'S COLLEGE*

Co-authors : *Jigao Zhu, University of International Business and Economics*

AM = Analytical / Modelling

In this study we analyse the accounting conservatism of Chinese public and private non-financial firms during the sample period of 2001-2006. We provide empirical evidence that accounting information of public firms is more conservative than that of private firms in China. Private firms with more newly borrowed long-term debts and longer term oriented debt maturity report more conservative accounting information. Further analyses show that private firms from regions with a low level of marketisation adopt more conservative accounting than those from regions with a high level of marketisation. The difference in accounting conservatism between public and private firms stays robust after controlling for the differences in newly borrowed long-term debts and debt maturity structure. Finally, we find that accounting information provided by public firms is more conservative than that provided by private firms after controlling for the newly-borrowed long-term debts and maturity structure. This difference does not change across regions with different levels of marketisation. Overall, our results show that the difference in accounting conservatism between public and private firms may have been caused either by the demand from equity market or by the regulatory intervention by Chinese government to public firms.

WEDNESDAY 9:00-10:30

FRRF02 *Chair : Christoph Pelger* Room : **A405**

A Grounded Theory Model Of Bank Intangibles

Author : *LEI CHEN, UNIVERSITY OF EXETER*

Co-authors : *Jo Danbolt, EDINBURGH UNIVERSITY*
John Holland, UNIVERSITY OF GLASGOW

CF = Case / Field Study

This paper provides a new way of rethinking banking models by using qualitative research on intangibles. The banking sector has been transformed significantly by the changing environment over the past two decades. The 2007-2009 financial crisis also added to concerns about existing bank business models. Using qualitative data collected from interviews with bank managers and analysts in the UK, this paper develops a grounded theory model of bank intangibles. The model reveals how intangibles and tangible/financial resources interact in the bank value creation process, and how they actively respond to environmental changes. Grounded theory provides the means to search for ways to improve the financial intermediation, information intermediation and risk management roles of banks and hence further develop bank models as business models and theoretical models. Such development is critical to the understanding of banks and the market for information, and for bank regulation and further research.

WEDNESDAY 9:00-10:30

FRRF02 *Chair : Christoph Pelger* Room : **A405**

Veils Of Ambiguity: Professional'S Categorization Of Oil And Gas Reserves

Author : *KENNETH FOX, UNIVERSITY OF SASKATCHEWAN*

Co-authors : *Lianne Lefsrud, University of Alberta School of Business*
David Cooper, University of Alberta School of Business
Yvette Taminiau, VU University

CF = Case / Field Study

We examine how accountants and engineers redefine categories of oil and gas reserves. This is a story of an industry in flux; categorical meanings are reconstructed and re-embedded through emerging practices and regulatory review. While attempting to create greater clarity in the processes for categorizing reserves, these professions also maintain double veils of ambiguity, first, between each other's scope of practice and, second, between themselves and consumers/users. These veils reflect contradictions. First, there are those professionals who want more convergence and standardization used in the various terms, definitions, and categories regarding the assessment of reserves. Yet, the engineering and accountancy professions both seek to maintain inherently ambiguous scopes of practice connected to what they see as their superior access to specialist knowledge. Thus, these professions attempt to mutually reinforce their jurisdictions while protecting themselves from being usurped by the other. Second, while the SEC revised its rules to improve the transparency and reliability of reserves reporting, there are companies who prefer to maintain and even increase ambiguity by creating their own terms, since more and vaguer terms enable more room for manoeuvering. In making sense of professionalization and inter-professional collaboration and competition, we contribute to an enriched understanding of the role of ambiguity and contradiction in the categorization literature.

FRRF02

Chair : Christoph Pelger Room : **A405**

Forecast Reporting - Empirical Evidence From The Largest Banks In Europe

Author : *JANE FEHR,*

CF = Case / Field Study

Co-authors : *Edgar Löw, Ernst & Young*

According to principal-agent-theory forecast reporting is of great importance for reducing information asymmetries between entities and users of financial statements, thereby, lowering cost of capital. Prior research, however, has provided evidence that entities from different industries listed on various indices are reluctant to disclose entity-specific, quantitative, and medium-term forecasts. We extend this research by analyzing forecast reporting of European largest banks exclusively since we are not aware of any study having such focus. Our analysis reveals that banks concentrate mainly on macroeconomic and industry-specific issues, but less so on bank-specific issues when providing forecasts. All banks of the sample provide forecasts for the next fiscal year, but only a minority of banks provides medium-term forecasts. In this context qualitative and comparative forecasts prevail. Since our sample comprises of banks that apply IFRS as accounting system we find that voluntary forecast reporting does not provide users with decision useful prospective information. This result may also affect the reliability of financial reporting according to IFRS in general since major recognition and measurement rules base on expectations about future development. In that respect our findings seem particularly policy-relevant as requested by Schipper (1994). Finally, we provide a suggestion for improving quality of forecast reporting.

WEDNESDAY 9:00-10:30

FRRF02

Chair : Christoph Pelger Room : **A405**

Narrative Reporting In The Uk: A Study Of The Changes In Business Review Disclosures

Author : *MAGDA ABOU-SEADA, UNIVERSITY OF ESSEX*

CF = Case / Field Study

Co-authors : *Maysoon Khojah, University of Essex*

Narrative reporting in annual reports refers to all reports excluding the financial statements and accompanying notes. Narrative reporting, especially the business review, has undergone a number of recent changes in the UK. Several surveys have reported an increase in the size of narrative reports over the years. Deloitte's (2007) survey found the average length of the annual report to be 89 pages with the narratives making up 54% of it. In 2010, the average length of the annual report increased to 101 pages with narrative disclosures making up 51% of it (Deloitte, 2010). Interestingly, Campbell & Slack (2008) survey shows that financial analysts do not see the usefulness of narrative disclosures. The survey, however, reveals that analysts still prefer to have the narrative disclosures even if they do not read such disclosures. This study aims to look at the development, in terms of size and content, of narrative reporting in the UK in the period 2006-2011 focusing, in particular, on the overall business review and the risks and uncertainties section in two industry sectors: supermarkets and telecommunications. The findings show that the average length of the business review section has increased over the years. The information, however, appears to be better organised in appropriate headings.

WEDNESDAY 9:00-10:30

FRRF02

Chair : Christoph Pelger Room : **A405**

An Investigation Into Short-Termism: The Case Of R&d Policy

Author : *HERVE STOLOWY, GROUPE HEC, GRADUATE BUSINESS SCHOOL*

CF = Case / Field Study

Co-authors : *Yuan Ding, CEIBS*
Thomas Jeanjean, ESSEC Business School

In this paper, we investigate the forms of short-termism. In other words, how can managers deliberately pursue short-term benefits to the detriment of long-term value? We analyze the R&D policy of Renault, one of the largest carmakers in Europe, over ten years (from 2002 to 2011). Based on document analysis (annual reports, presentations to analysts, conference calls transcripts), we distinguish two types of short-termism. Past literature concentrates on real activity short-termism, that is, a reduction in discretionary expenses to meet short-term goals even if this means lower long-term growth (labeled "Type A short-termism"). This study also finds a second type of short-termism: accounting short-termism, in which managers prefer a temporary increase in earnings in the short-term, to the detriment of future earnings ("Type B short-termism"). Capitalization of expenses epitomizes this second type of short-termism. We suggest that manager preference for Type A or Type B short-termism is a function of the manager's background. We also find that these two types of short-termism are substitutes in the short term but complementary in the long term. In other words, Type B short-termism may lead to Type A short-termism over the long run. Finally, we show that firms may support Type B short-termism by developing impression management tactics in the company's communication.

WEDNESDAY 11:00-12:30

FRRF03 *Chair : Mohammad Alhadab* Room : **A405**

The effects of IFRS adoption: Analysing the evidence

Author : *ELISABETTA BARONE, HENLEY BUSINESS SCHOOL AT THE UNIVERSITY OF READING*

Co-authors : *McLeay Stuart, University of Sydney*

EA = Empirical Archival

WEDNESDAY 11:00-12:30

FRRF03 *Chair : Mohammad Alhadab* Room : **A405**

The Relation Between Segment Disclosure And Earnings Quality

Author : *BELEN BLANCO, UNIVERSITY OF NAVARRA*

Co-authors : *Belen Blanco, University of Navarra*
Juan Manuel Garcia Lara, Carlos III University
Josep Tribo, Carlos III University

EA = Empirical Archival

We investigate the relation between earnings quality and segment disclosure. Using a US sample for the period 2001-2006, we find a positive relation between earnings quality and the quantity of segment disclosures. We use lead-lag tests to examine the flow of causality, and our results show that current segment disclosure is positively related to prior levels of earnings quality, while current earnings quality scores are not related to prior levels of segment disclosure. Our results hold for both business and geographic segment disclosure.

WEDNESDAY 11:00-12:30

FRRF03 *Chair : Mohammad Alhadab* Room : **A405**

The Association Between Disclosure Quality Of Forward-Looking Information And Corporate Governance Mechanism

Author : *SUZAN ABED, APPLIED SCIENCE PRIVATE UNIVERSITY*

Co-authors : *Clare Roberts, University of Aberdeen*

EA = Empirical Archival

In recent years regulatory bodies have disseminated corporate governance requirements in order to enhance transparency and to boost investor confidence to improve integrity of the capital market. This paper witnesses the importance of corporate governance mechanisms and investigates the relationship between the quality of disclosure of forward-looking information in the narrative sections of annual reports and governance mechanisms of British companies. Computerized content analysis using QSR NVivo 8 is used to measure the extent of forward-looking information in the narratives of the annual reports. The result of regression analysis of 238 UK non-financial companies shows that board size and the independence of the audit committee are associated with the level of voluntary disclosure of forward-looking information. Additionally, the results document that corporate disclosure is significantly related to a company's size, performance, cross-listing status and operating cash flow.

WEDNESDAY 11:00-12:30

FRRF03 *Chair : Mohammad Alhadab* Room : **A405**

The Impact Of Financial Crisis On Management Report Disclosure. Some Evidence From Spain.

Author : *AMERICA ALVAREZ, UNIVERSITY OF LA CORUÑA*

EA = Empirical Archival

Co-authors : *Oscar Suarez, Universidad de Santiago de Compostela*
Mª Rosario Babíoarcay, Universidad de Santiago de Compostela
Rosario Vidal Lopo, Universidad de Santiago de Compostela

In this paper we analyze the possible impact of the economic crisis and the changes in results of continues operations on the narrative disclosure from a sample of Spanish listed companies over the period 2005-2009. The results suggest that the general economic crisis has a significant effect on the information narrative and in particular that relating to risks, intangibles and forward looking information. It should also be noted the existence of a relationship between the information disclosed and the deterioration in the results obtained by the company but limited to information relating to the future and intangibles. These findings are in line with the idea that company managers consider narrative information in general and, particularly, the information contained in management reports, as a suitable tool for communication with investors and other users of these reports and recur to this information to create a certain image of the company.

WEDNESDAY 11:00-12:30

FRRF03 *Chair : Mohammad Alhadab* Room : **A405**

Impression Management And Annual Report Narratives: The Effects Of Internal And External Control Mechanisms In A Non-Anglo-Saxon Context

Author : *LAURA BINI, UNIVERSITY OF FLORENCE*

EA = Empirical Archival

Co-authors : *Laura Bini, University of Florence*

This study extends impression management literature by testing whether internal control mechanisms and other external control mechanisms are effective in controlling potentially misleading disclosure in management reporting. Because agency conflicts depend on environmental settings, impression management mechanisms can differ among countries. This study enlarges previous evidence by focusing on non-Anglo-Saxon countries. Italy is worth studying due to the similarities that Italian institutional environment shows with many other countries, at least in Continental Europe. Moreover, management reporting disclosure in Italy is essentially voluntary and potentially highly discretional. I develop a composite measure of disclosure bias, based on four different techniques of impression management, to assess the level of misleading disclosure included in the area of management reporting devoted to the analysis of firm performance. The findings, based on a sample of 56 Italian listed companies, confirm the presence of self-serving disclosure in management reporting. Moreover, I find that the proportion of independent directors and the degree of foreign activity are significantly and negatively correlated with disclosure bias scores. Relevant operative implications involving the quality of management reporting disclosure in non-Anglo-Saxon countries are discussed.

WEDNESDAY 14:00-15:30

FRRF04 *Chair : Paul André* Room : **A405**

Own Credit Risk In Liability Measurement: Evidence On Accounting Effects From International Reporting Practice

Author : *ULF BRUGGEMANN, HUMBOLDT UNIVERSITY OF BERLIN*

EA = Empirical Archival

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

This paper provides empirical insights related to the standard-setting debate on the inclusion of credit risk into fair value measurement of liabilities. Using a comprehensive global sample, we present four main findings. First, merely 9.9% (4.4%) of our sample banks choose to apply the fair value option for assets (FVOA) or liabilities (FVOL). Second, disclosures of credit-related fair value changes are missing in more than half of the annual reports of IFRS-adopting banks that apply the FVOL. Third, debt value changes due to own credit risk have generally little impact on net income and various accounting ratios. However, in some firm periods – particularly during the financial crisis – own credit risk changes lead to substantial gains that can even turn a negative net income into a profit. Finally, the inclusion of own credit risk is nonetheless responsible for accounting mismatches in a substantial number of firm periods because the effect of own credit risk is typically not accompanied by simultaneous changes in asset values due to changes in customer credit risk, either because the FVOA is not used or because the relevant disclosures are missing. This finding suggests that accounting mismatches are due to limitations of current reporting practice (mixed measurement model, lack of disclosures) rather than to the recognition of own credit risk per se.

FRRF04

Chair : Paul André Room : **A405**

The Value Of Reported R&d Figures: The Impact Of Ownership Concentration In Insider Versus Outsider Countries

Author : *MATTHIAS BREUER, WHU - OTTO BEISHEIM SCHOOL OF MANAGEMENT*

Co-authors : ,

EA = Empirical Archival

This study investigates the differential agency effects of controlling owners on the valuation of R&D investments in 'insider' versus 'outsider' oriented economies. On the one hand, R&D investments are key determinants of a firm's future growth and present value. On the other hand, they are plagued by high degrees of uncertainty and information asymmetries. High quality financial reporting is seen as a means to bridge these informational gaps. However, in order to be useful for investors to assess the value of a firm's R&D investments, the management has to have incentives to depict the true economic value of the firm via external reporting. Blockholders can provide such incentives by monitoring the management and aligning it with the shareholders' interests. This, however, also depends on the blockholders' incentives which are shaped by the institutional setting. Accordingly, this study shows that the existence of a blockholder increases the valuation attached to research spending and even more so the value attributed to capitalized development costs in 'outsider' systems. On the contrary, the existence of a blockholder in an 'insider' economy appears to deteriorate the valuation attached to research expenditures and especially the value attributed to capitalized development costs. In an 'insider' system, the blockholders' incentives to monitor seem to be outweighed by their desire to extract private benefits and expropriate minority shareholders.

FRRF04

Chair : Paul André Room : **A405**

First Voluntary Disclosure: Is It Less Opportunistic?

Author : *YOUNG-SOO CHOI, SUNGKYUNKWAN UNIVERSITY*

Co-authors : *Steven Young, Lancaster University*

EA = Empirical Archival

Financial Reporting Standard No. 3: Reporting Financial Performance allows UK firms the option of reporting customized earnings per share (EPS) constructs alongside GAAP EPS on the face of their income statement. We focus on the first voluntary non-GAAP EPS disclosure due to possible noise in subsequent disclosures because firms are required to disclose non-GAAP EPS in a consistent basis once they start to disclose it. Consistent with our predictions, we find that the duration of the adjusted EPS disclosure is not more sensitive to negative transitory items and operating transitory items, after controlling for the incidence and magnitude of losses, earnings changes, and earnings surprises together with some other firm-specific characteristics. Our findings indicate that management's opportunistic incentives are not the dominant drivers for the first disclosure of non-GAAP EPS. However, firms seem to disclose non-GAAP EPS more opportunistically in the practice of subsequent disclosure.

FRRF04

Chair : Paul André Room : **A405**

Integrity Of Financial Information As A Determinant Of The Outcome Of A Bankruptcy Procedure

Author : *DOMENICO CAMPA, UNIVERSITY OF DUBLIN, TRINITY COLLEGE DUBLIN, SCHOOL OF BUSINESS*

Co-authors : *María-Del-Mar Camacho-Miñano, Complutense University of Madrid*

EA = Empirical Archival

The outcome of a bankruptcy procedure – 'liquidation' or 'reorganization' – has many legal, economic and social consequences for stakeholders of financial distressed companies. The objective of this paper is to show whether financial information integrity is a determinant for a 'liquidation' or 'reorganization' decision. Two measures of earnings management as proxies for financial reporting integrity are used on a matched sample of 2,064 Spanish bankrupt and healthy companies. The results indicate that only firms which receive a 'liquidation' decision manipulate earnings mo??_??

FRRF04 *Chair : Paul André* Room : **A405**

Bifurcation Of Compound Financial Instruments In The Brazilian Financial Market

Author : *FERNANDO CHIQUETO DA SILVA, UNIVERSITY OF SAO PAULO* EA = Empirical Archival

Co-authors : *Estela Maris Vieira De Souza, University of São Paulo*
L. Nelson G. Carvalho, University of São Paulo

In the last decade, Brazilian companies raised BRL390 and BRL340 billion through stock and debenture markets, respectively. However, in 2011 stock and debenture transactions moved, respectively, BRL1.6 and BRL0.07 trillion in the secondary market (SM). The objective is to analyze the low liquidity effects when applying the residual amount method at initial recognition of compound financial instruments, as established by IAS32. The sample represents 97% of the Brazilian debt SM in 2011. The regression model in panel data has an adjusted R-squared of 0.5865. The credit spread was regressed based on rating, type of guarantee, industry sector, size and indebtedness (all statistically significant at the 0.05 significance level). The results show that the debenture SM is essentially concentrated on AAA-rated financial institutions. The key parameters of option pricing models can be obtained from stock markets with high liquidity, as the Brazilian stock market. The true and fair view override (TFVO) allows entities to depart from compliance with a requirement in the rare circumstances. As the application of IAS32 may contradict the economic logic of granting a call option in exchange for lower offer rate – leading to results such as a negative equity component (EC) or the EC equals to zero, as some Brazilian companies has disclosed – it is concluded that, in these extreme cases, the use of option pricing models to measure the EC could be consistent with the TFVO concept.

FRRF09 *Chair : Francesco Bova* Room : **A407**

Tax-Induced Conservatism – Evidence From The German Corporate Tax Reform 2008

Author : *CHRISTIAN LASCHEWSKI, UNIVERSITY OF PASSAU* EA = Empirical Archival

Co-authors : *Katrin Hohler, University of Regensburg*

In this paper, we contribute indirectly to the current debate ensuing around whether prudence and or conservatism are desirable accounting qualities and examine taxation as a determinant of conditional conservatism. In line with recent studies (Lara et al., 2009; Karjalainen, 2011) and in contrast to prior studies (Qiang, 2007; Kim and Jung, 2007), we find that taxation induces conditional conservatism in German firms. Using the unique setting of the German corporate tax reform in 2008, we exploit a natural setting where taxation creates different incentives for small and large firms reporting in the same GAAP. Our results confirm that conditional conservatism decreases with lower tax costs. Therefore, our results are not only addressing the debate around accounting conservatism, but can also be insightful for the "race to the bottom" trend seen in corporate taxation.

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

FRRF09 *Chair : Francesco Bova* Room : **A407**

Earnings Smoothing And Future Cash Flow Volatility

Author : *LAURA LI, UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN* EA = Empirical Archival

Co-authors : *Mei Cheng, university of arizona*

While prior literature focuses on the informativeness of accrual level on future cash flow level ("first moment" accrual usefulness), we investigate the "second moment" usefulness of accruals: the informativeness of earnings smoothing through accruals on future cash flow volatility. We find strong evidence that on average higher current earnings smoothing is associated with lower future cash flow volatility. We also find that this signaling ability of smoothing is higher when firms operate in a more certain environment, are not under financial distress or have more external monitoring. We also model and test the relation between the second and the first moment accrual usefulness. Supporting our theoretical predictions, we find that when cash flows are more persistent, accruals' second moment usefulness is more positively correlated with accruals' first moment usefulness.

WEDNESDAY 9:00-10:30

FRRF09 *Chair : Francesco Bova* Room : **A407**

Determinants of Financial Statement Presentation of Cost Items: An Analysis Using Cost of Goods Sold, and Selling, General and Administrative Costs

Author : *LIIVAR LEPPIK, HEC PARIS* EA = Empirical Archival

Co-authors : *,*

This paper investigates the relationship between the financial statement presentation of main operating expenses, firm current performance and other relevant factors by examining public UK companies, which have the option to not report the Cost of Goods Sold and Selling, General and Administrative costs within separate line items on the income statement of annual accounts. We find that: (1) annual reports of the companies with higher (lower) profit margins tend to have the main operating expenses recognized on the income statements (disclosed only in the notes). We interpret it as a proof of managers' strategic-opportunistic presentation and reporting decisions. Moreover, we also find that income statement recognition of main operating expense is more likely among firms: (2) reporting a loss, (3) applying IFRS accounting standards (4) that are younger (5) are quoted on US stock market; and (6) in healthcare, medical equipment, and drugs industries. This is consistent with the findings of disclosure literature of managers' being more transparent in their reporting choices in response to investor demand for information.

WEDNESDAY 9:00-10:30

FRRF09 *Chair : Francesco Bova* Room : **A407**

The Quality Of Comprehensive Income As Performance Measure: Evidence From Italian Listed Companies

Author : *FERDINANDO DI CARLO, BASILICATA UNIVERSITY* EA = Empirical Archival

Co-authors : *Alberto Incollingo, Second University of Naples*
Manuela Lucchese, Second University of Naples

The issue of the IAS 1 revised has introduced in the financial statement a new measure of the firm performance: the comprehensive income. This kind of measure has always been intended by the literature as more predictable of future performances than the simple net income, as its components represent part of the next firm earning, giving it a role of guide for investors. At the same time it should be a more volatile index than the net income and all the ratios built with it should suffer the short term variation of its components, often dependents on the fluctuation of the market. For these reasons, in this study, firstly we investigate empirically whether comprehensive income and its components are able to predict future cash flows. Secondly, we observe if there is a relationship between single OCI components and future cash flows of Italian listed companies. At the same time it's important to underline that comprehensive income has been considered since its born strongly subject to a high volatility and as the later part of the research we try to understand if there is a real higher volatility of comprehensive income, compared to the simple net income, using the standard deviation of the two measures during the period examined in the sample. The sample analyzed includes financial statements of Italian listed companies for the years 2007-2010, excluding financial institutions.

WEDNESDAY 9:00-10:30

FRRF09 *Chair : Francesco Bova* Room : **A407**

The Incremental Value Relevance Of Us Banks' Statements Of Cash Flows

Author : *WEIJIA LI, LANCASTER UNIVERSITY / MANAGEMENT SCHOOL* EA = Empirical Archival

Co-authors : *John O'Hanlon, Lancaster University*
Zhan Gao, Lancaster University

Despite the long-standing disagreement between accounting standard-setters and banks regarding the usefulness of banks' statements of cash flows (SCFs), little prior research on this matter exits. This paper empirically investigates the usefulness of banks' SCFs by examining the incremental value relevance of information in banks' SCFs beyond information in other financial statements. In a sample of US banks, we examine the association between market value of equity (returns) and the three SCF categories under the standard classification. we find limited evidence that banks' SCF categories are incrementally value relevant in the presence of book value of equity and net income, which is in contrast to nonfinancial firms' SCFs. Using individual SCF items in lieu of SCF categories does not improve their value relevance. Overall, the results are in line with banks' claim that information in banks' SCFs is of limited use.

FRRF11 *Chair : Ulf Bruggeman* Room : **A407**

Disclosure Of Cash Flow Information In Earnings Announcements

Author : BIN MIAO, NATIONAL UNIVERSITY OF SINGAPORE

EA = Empirical Archival

Co-authors : Zinan Zhu, National University of Singapore

This paper examines the capital market consequences of voluntary disclosures of statement of cash flow (SCF) information in quarterly earnings announcements. We find strong evidence that SCF disclosure enables the market to more efficiently price reported earnings. More importantly, we find this effect is only present for firms widely held by individual investors and institutions holding small stakes. Further investigation of the intraday trading activities surrounding earnings announcements suggests only small traders respond to disclosure of SCF information. The results are robust to standard procedures for correcting self-selection bias. These findings are consistent with the notion that voluntary disclosure of statement cash flow information at earnings announcements benefits retail investors more than sophisticated institutions, and have direct implications for the existing disclosure rules, which do not mandate disclosure of detailed financial statements at earnings announcements.

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

FRRF11 *Chair : Ulf Bruggeman* Room : **A407**

Experts Or Rivals: Mimicry And Voluntary Disclosure

Author : MANUEL NUNEZ-NICKEL, CARLOS III UNIVERSITY, MADRID

EA = Empirical Archival

Co-authors : Gilberto Marquez-Illescas, Universidad Carlos III de Madrid
Manuel Núñez-Nickel, Universidad Carlos III de Madrid
Manuel Cano-Rodríguez, Universidad de Jaén

We explore how the decision of revealing information of a particular firm maybe influenced by the previous disclosure behavior of other organization in the same industry. Specifically, we verify the existence of this pattern and explore two possible factors motivating it: uncertainty and competition. These two factors simultaneously determine if the organizations imitate expert players or rivals. We empirically disentangled these two effects, identifying their relative influence on the disclosing behavior of firms in the newspaper industry in Spain during the period 1966.1993. To pursue this task, we used a multi-failure Cox's model. Our results show that imitation exists in this setting, and firm's disclosure is driven by the disclosing behavior of expert firms and not by the actions of competitors. We conclude that the imitation of disclosure practives is seen by firms as a mechanism to deal with uncertainty instead of as tool to face competition in the market.

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

FRRF11 *Chair : Ulf Bruggeman* Room : **A407**

The Integrated Report In The South Africa Mining Companies Listed On The Johannesburg Stock Exchange (jse): Analysis Of Non-Financial Information And Impacts On External Disclosure

Author : FEDERICA DONI, UNIVERSITY OF MILANO-BICOCCA

EA = Empirical Archival

Co-authors : Andrea Gasperini, EFFAS CIC, WICI Europe, AIAF Milan
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The aim of this study is to check the elaboration of a new report, called Integrated Report, which is able to link financial information to the nonfinancial one disclosed by the companies, with a particular focus to the items of environmental and social sustainability and to corporate governance. We have analysed the nature and extent of non-financial disclosures in the Integrated Reports of 20 mining companies listed on the JSE. The choice of the sample is justified by the obligation (2011) of the adoption of the Integrated Report. The methodology approach is the content analysis and the lexical/textual analysis of the Corpus of data that have been carried out through the TaLTaC2 software (Bolasco, 2010). We have selected 9 semantic categories about the key components of the integrated report (Deloitte, 2012), for example: group profile, scope and boundary, key features, strategy vision values, etc. The purpose is to point out a benchmarking analysis between the mining companies referring to both the quantity and the quality of the non-financial information disclosed. The results obtained do not allow us to highlight positions of absolute importance: the overall judgement does not detect a homogeneous behavior among companies: nevertheless it can be noted that the higher incidence of particular issues may be due to the correspondence with some areas pointed out in the criteria themes of the SRI index.

FRRF11 *Chair : Ulf Bruggeman* Room : **A407**

The Cost Of Debt Implications Of Financial Reporting Quality Among Privately Owned Swedish Smes

Author : *MARI PAANANEN, UNIVERSITY OF EXETER*

EA = Empirical Archival

Co-authors : *Mari Paananen, University of Exeter*
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Using a unique database and manually collected data we analyse and document accounting choices made by Swedish SMEs between 2005 and 2008. We find that given an option to report under Swedish GAAP or a translation of IFRS (SFASC/IFRS), only 5 firms out of 1,500 opted to do so. Further analysis of choices of picking individual standards of SFASC/IFRS shows no significant difference across Gazelles and Non-Gazelles. Among firms that select individual SFASC/IFRS standards most opt to use the percentage-of-completion method for long-term contracts. We also investigate differences in quality of financial reporting across Gazelles and Non-Gazelles and find that the financial reporting quality is consistently higher among Gazelles compared to Non-Gazelles. Test of cost of debt implications show that creditors find Gazelles' financial reporting more useful to assess the credit risk resulting in lower cost of debt for this group of firms. Thus, SMEs seem to have little incentive to switch to SFASC/IFRS, which may be an indication of their attitude to future adoption of IFRS for SMEs as well. Furthermore, the results suggest that SMEs with an incentive to produce high quality financial reporting to raise capital, Gazelles, are able to do so using Swedish GAAP. These findings raise the question whether the IFRS for SMEs project is worthwhile.

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

FRRF11 *Chair : Ulf Bruggeman* Room : **A407**

Earnings Management In Family Firms

Author : *INNA PAIVA, LISBON UNIVERSITY INSTITUTE (ISCTE)*

EA = Empirical Archival

Co-authors : *Isabel Lourenço, ISCTE-IUL Business School*

Our study investigates the earnings management in publicly listed family firms. We also examine whether the incentives of earnings management are likely to be different in large family firms, small family firms, highlighting the differences from nonfamily firms. This study relies on United Kingdom firms on the London Stock Exchange and on their level of discretional accruals. Our findings demonstrate that large family firms have lower earnings management, whereas small family firms have higher earnings management as both compared to nonfamily firms. They confirm broad findings from US literature which indicate that large family firms face less severe type II agency problems than nonfamily firms, as well as findings in European literature which suggest that small family firms face more severe type II agency problems than nonfamily firms. This study fills a gap in the literature, suggesting that not only the level of family ownership, but also the family firm size should be considered when addressing the incentives for earnings management.

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

FRRF12 *Chair : Stefano Cascino* Room : **A407**

Asymmetric Earnings/return Relationship: Further Evidence

Author : *TOMOMI TAKADA, KOBE UNIVERSITY*

EA = Empirical Archival

Co-authors : *Katsuhiko Muramiya, Kobe University*

We examine the relation between the content of management earnings forecast for the next year and the asymmetric timeliness of earnings for current year. Accounting conservatism based on Basu [1997] implicitly assumes that the timeliness of stock price reflecting firm's future performance is equivalent across firms. Actually, however, the timeliness differs from one firm to another. Given this, asymmetric earnings/return relationship, which is interpreted as implying earnings conservatism, may be caused by asymmetric timeless of stock prices. Since previous studies show that the bad news forecasts are more readily impounded into stock price than good news forecasts, firms reporting bad news forecasts might represent asymmetric earnings/return relation, not because of asymmetric earnings timeliness but because of asymmetric return timeliness. The results, however, indicate that earnings/return relationship for bad news forecast firms is certainly asymmetry, but such relation is likely to be caused by low asymmetric earnings timeliness.

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

FRRF12

Chair : Stefano Cascino Room : **A407**

Ownership Structure, Accounting Method Choice And Disclosure Quality: A Study Of European Real Estate Companies

Author : *STEFAN SUNDGREN, UNIVERSITY OF VAASA* EA = Empirical Archival

Co-authors : *Juha Mäki, University of Vaasa*
Antonio Somoza-Lopez, Barcelona University

Companies can under IAS 40 choose between the fair value model and the cost model. Furthermore, the use of an independent valuer for the valuation of property is optional. The fair value model arguably result in more relevant information for investors but the model is also likely to be more costly to use. Based on prior studies suggesting that financial reports are a more important medium for communication with investors in companies with dispersed ownership than in companies with concentrated ownership (e.g., Ball and Shivakumar 2005; Givoly et al. 2010), we hypothesize that the use of the fair value model is positively associated with ownership dispersion. We find strong support for this prediction. Furthermore, based on the notion that companies with dispersed ownership have stronger incentives to signal the credibility of fair values to investors than companies with concentrated ownership, we predict a positive association between the use of an external valuer and ownership dispersion. Our multivariate results also support this prediction. A further contribution of the study is that it shows there is considerable cross country variation in the choice of between the methods and the use of an external valuer.

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

FRRF12

Chair : Stefano Cascino Room : **A407**

Earnings Management Of German Smes Prior To Raising Bank Debt

Author : *ALEXANDRA SCHINDELE, WUERZBURG UNIVERSITY* EA = Empirical Archival

Co-authors : ,

Premised on a comprehensive sample of German private small and medium-sized enterprises (SMEs) in the period of 2003 to 2010, our paper examines whether SMEs use measures of earnings management prior to raising new bank debt. Besides internal financing, bank debt is the major (external) financing source of German SMEs. As loan interest rates account for a significant proportion of the companies' cost of capital, the incentive for SMEs to optimize loan conditions is obvious. Under the assumption that banks base their loan condition assessment on financial statement analysis and that loan conditions are determined at the beginning of the loan contract we expect that German SMEs have a great incentive to use income-increasing measures of earnings management prior to raising new bank debt. Our results confirm this hypothesis. Moreover, we investigate whether German SMEs that make use of income-increasing accruals management are finally rewarded by banks in terms of lower costs of debt. We suppose that banks are rational investors and are able to detect accrual management in general. However, the asymmetric information distribution between bank and company leads to an adverse decision situation for the bank where it is not able for the creditor to distinguish between companies that do and do not manipulate earnings within a certain range. We find that companies successfully make use of their asymmetric information advantage. Our results indicate that companies with high positive total accruals have the lowest costs of debt.

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

FRRF12

Chair : Stefano Cascino Room : **A407**

Revenue Surprises: Growth Versus Value Firms

Author : *DONG HYUN SON, RUTGERS UNIVERISTY* EA = Empirical Archival

Co-authors : *Dan Palmon, Rutgers University*
Ari Yezegel, Bentley University

This study examines whether certain firms' characteristics, especially growth properties, are associated with the likelihood of achieving the market expectations for revenues. We hypothesize that firms' growth properties increase incentives to avoid negative revenue surprises because the importance of revenue information in valuation is higher for growth firms relative to non-growth (value) firms. Consistent with our conjecture, results show that growth firms are more likely to meet or exceed analysts' revenue forecasts than are non-growth firms. In addition, we test the effectiveness of two potential mechanisms for firms to avoid negative revenue surprise news: 1) revenue manipulation, and 2) expectation management. We find that revenue manipulation (expectation management) is a more (less) effective tool for growth firms to meet or beat analysts' revenue forecasts than it is for non-growth firms. Finally, given the different effectiveness of two available tools for growth firms, we also investigate whether the likelihood of using revenue manipulation (expectation management) to meet or exceed the revenue expectations is associated with a firm's growth property. Results suggest that growth firms are more (less) inclined to use positive discretionary revenues (downward revenue forecasts) to avoid negative revenue surprises relative to value firms.

WEDNESDAY 14:00-15:30

FRRF12 *Chair : Stefano Cascino* Room : **A407**

A Study Of Discretionary R&d Reporting

Author : *HOLLIS SKAIFE, UNIVERSITY OF WISCONSIN-MADISON*

EA = Empirical Archival

Co-authors : *Hollis Skaife, University of Wisconsin-Madison*
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Daniel Wangerin, Michigan State University

U.S. generally accepted accounting principles (GAAP) requires firms to expense all costs incurred in their research and development (R&D) activities and to disclose R&D expense in their financial statements when material. U.S. GAAP, however, allows managers substantial discretion in deciding what period costs reported on the income statement are classified as R&D expense. Our study investigates the factors that contribute to and the market consequences of managers' discretionary R&D reporting. We use firm-specific residuals from a R&D expectation model to proxy for firms' discretionary R&D reporting. We predict and find evidence consistent with our conjecture that managers engage in discretionary R&D reporting in order to obtain R&D tax credits. We also find evidence consistent with our conjecture that managers engage in discretionary R&D reporting to justify not meeting earnings expectations. Turning to our market reaction tests, results indicate that the penalty associated with missing analysts' forecasts is mitigated for firms most likely to be engaging in discretionary R&D reporting relative to firms most-likely to be over-investing in R&D and other projects. Our research provides new insights into how managers can report biased financial information and how investors respond to discretionary expense classification.

WEDNESDAY 9:00-10:30

FRRF19 *Chair : Brigitte Eierle* Room : **A409**

The Route Of Accounting Convergence In Australia: A Journey Of Triumph Or Gripes?

Author : *PARMOD CHAND, MACQUARIE UNIVERSITY*

SU = Survey

Co-authors : *Yingying Han, Macquarie University*

We conducted a survey on accounting practitioners in Australia to reveal the problems they still encounter in applying the current suite of International Financial Reporting Standards (IFRS). The attitudes expressed by accountants could highlight new dimensions to the inherent problems in IFRS. We included 25 statements regarding various anomalies in the interpretation and application of the Australian equivalents of IFRS and accountants were asked to express their opinions on each statement. The accountants indicated that there are several innate problems in IFRS and referred to the fact that the IFRS do not provide ample and apposite guidelines for interpreting and applying the standards in an unswerving manner. Scant attention has been given to this issue so far, hence the empirical evidence provided by our study has many implications for the practice of accounting and likewise for the quality of the current suite of IFRS.

WEDNESDAY 9:00-10:30

FRRF19 *Chair : Brigitte Eierle* Room : **A409**

The Impact Of Gender Difference On The Interpretation Of Uncertainty Expressions: The Case Of Chinese Auditors

Author : *ANDREAS HELLMANN, MACQUARIE UNIVERSITY*

SU = Survey

Co-authors : *Wenqi Han, Macquarie University*
Meiting Lu, Macquarie University

This study is an empirical examination of Chinese auditors' interpretation of selected key uncertainty expressions, namely virtually certain, probable and unlikely, included in Chinese Accounting Standards. It examines the impact of gender difference on the interpretation of uncertainty expressions. The results show two major findings. First, there are significant differences between female and male auditors in the interpretation of virtually certain and probable with female auditors interpreting them more conservatively. Second, both female and male auditors' interpretation of unlikely is similar across the various contexts in which the term is used. The results of this study suggest that gender difference can affect the numerical probability that auditors' assign to uncertainty expressions used in Chinese Accounting Standards. This may lead to different application of professional judgments between male and female auditors. To avoid this possibility, Chinese Accounting Standards should provide more specific guidance as to how uncertainty expressions have to be interpreted.

FRRF19

Chair : Brigitte Eierle Room : **A409**

Analysis Of Manipulation In Corporate Prediction Markets Applied To Forecasting: A Multi-Agent Simulation Model

Author : *MATTHIAS MEYER, HAMBURG UNIVERSITY OF TECHNOLOGY* EX = Experimental

Co-authors : *Frank Klingert, Hamburg University of Technology*

Prediction markets are a promising instrument for drawing on the "wisdom of the crowds". For example, in a corporate context they have been used successfully to forecast sales or project risks by tapping into the heterogeneous information of decentralized actors in- and outside of companies. Manipulation constitutes an important aspect of prediction markets as it can negatively affect prediction market accuracy. Current research on manipulation in prediction markets is inconclusive. On the one hand empirical research is regularly not able to identify a significant effect on prediction market accuracy. On the other hand, exceptions are reported in small size prediction markets about sport events as well as large scale prediction markets about elections. We contribute to this discussion by introducing an agent-based simulation model derived from laboratory experiments of Hanson et al. (2006). While this experiment is not able to find successful manipulation, the simulation model shows that increasing the manipulation strength of manipulators leads to an increase of the accuracy error. Furthermore, an increased amount of traders does not generally lead to lower manipulation. However, the manipulation influence decreases, when manipulation is considered as a public good game. Finally, the logarithmic market scoring rule is shown to be more more robust against manipulation than the continuous double auction.

WEDNESDAY 9:00-10:30

FRRF19

Chair : Brigitte Eierle Room : **A409**

Does Goodwill Reporting Matter To Financial Analysts? Two Experimental Studies On The Impact Of Corporate Acquisitions Under Ifrs Accounting On Financial Analysts' Equity Valuation Judgments

Author : *NICLAS HELLMAN, STOCKHOLM SCHOOL OF ECONOMICS* EX = Experimental

Co-authors : *Niclas Hellman, Stockholm School of Economics*
Patric Andersson, Stockholm School of Economics
Emelie Palm, Stockholm School of Economics

The accounting for business combinations changed dramatically about a decade ago, first under U.S. GAAP and subsequently under IFRS. Weaker recognition criteria for identifiable intangibles were introduced so that less of the acquisition premiums would be allocated to goodwill. This was expected to enhance the decision-usefulness to users of financial statements. Adopting an experimental approach, this paper investigates how professional financial analysts evaluate the effects of corporate acquisitions under the new accounting regime. The results from Stage 1 of the experiment are consistent with the idea that analysts take the reported IFRS numbers into account, but treat the information in a potentially misleading way. Allocation of the premium to goodwill was interpreted as value-enhancing by the analysts, whereas allocation to identifiable intangibles decreased their equity value judgments. In Stage 2, the analysts were exposed to a discounted cash-flow (DCF) analysis where pre- and post-acquisition values were identical. As predicted by finance theory, the difference between analysts from Stage 1 then disappeared. However, 62.5 % of the analysts kept their initial assessment in Stage 2. They considered fewer information screens and used less time to solve the task compared to the analysts who changed their opinions in Stage 2. The research design also includes a follow-up study on actual analysts of the acquirer in the case used, which adds further insight and validity.

WEDNESDAY 9:00-10:30

FRRF19

Chair : Brigitte Eierle Room : **A409**

The Impact Of National Culture On Impairment Test Practices Under Ifrs – Empirical Evidence From France And Germany

Author : *PETER KAJUTER, MUENSTER UNIVERSITY* EX = Experimental

Co-authors : *Christina Voets, Muenster University*
Christopher Hossfeld, ESCP Europe

Prior research provides evidence for differences in the application of IFRS across countries. This study explains the observed differences by varying accounting judgements of individuals from different nations. Individual risk aversion and overconfidence are used as proxies for characteristics which influence accounting-related decision making. The study focuses on impairment decisions under IAS 36 and examines in how far parameter estimates for the value in use determination differ across countries due to different levels of risk aversion and overconfidence. Based on experimental data collected in France and Germany, the results show that French decision makers react more strongly to a triggering event because of their higher risk aversion and their lower overconfidence compared to their German counterparts. Moreover, we reveal that risk aversion mediates the direct effect of nationality on parameter estimates. Various implications of these findings for users of financial statements and stan-dard setters are discussed.