

Session 1.01: ACCOUNTING INFORMATION NEWS DISSEMINATION
STRATEGIES
DATE: FRIDAY, JANUARY 24, 2020
TIME: 10:00 AM - 11:30 AM

Active Funds and Bundled News

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ABSTRACT: We use trade-level data to examine the role of actively managed funds (AMFs) in earnings news dissemination. AMFs trade 170 percent more on earnings announcement (EA) days than on non-EA days. Abnormal AMF participation is disproportionately higher when earnings news is bundled with management guidance about future earnings. When the two pieces of information are directionally inconsistent, AMFs trade in the direction of guidance news rather than current earnings news. They exhibit an ability to discern, and adapt their trading to, the bias in managerial guidance. Further, we find that increased AMF trading during EAs reduces post-guidance price drift and leads to faster price adjustment. Collectively, our findings suggest AMFs are relatively sophisticated processors of bundled EA news, and their trading generally improves market price discovery.

Session 1.01: ACCOUNTING INFORMATION NEWS DISSEMINATION
STRATEGIES
DATE: FRIDAY, JANUARY 24, 2020
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*Effective Defense Tactic or Obstacle to Change? The Role of Investor Relations in
Activism Campaigns*

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Hanken School of Economics

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Fordham University

ABSTRACT: An effective investor relations (IR) strategy could be a valuable intangible asset for a firm when it is targeted by hedge fund activists. Targeted firms who engage the services of an external IR consultant are able to better deflect the negative media attacks by the hedge funds and to positively influence the tone and the volume of the daily news coverage. Consequently, the activists are able to impose fewer of their demands on the firms and the CEOs are more likely to retain their positions without major cuts in compensation. This short-term success in investor relations has long-term implications for the firm shareholders, as the economic and managerial weaknesses that made the firm a target are not “fixed.” Thus, IR consultants’ involvement during the activism campaigns can elongate and exacerbate the managerial agency problems between the shareholders and the management.

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STRATEGIES
DATE: FRIDAY, JANUARY 24, 2020
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Public Peer Firm Information in Mergers and Acquisitions of Privately Held Targets

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ABSTRACT: M&A due diligence provides acquirers with access to seemingly unlimited amounts of firm-specific information about targets. Given this, we examine whether public peer information in a target's industry remains useful to acquirers of privately-held targets. We show that public peer information helps acquirers of private targets make more efficient acquisitions. We also find that the benefit of public peer information is greater when acquirers have more time- and/or resource constraints that limit their access to firm-specific information in the due diligence process. Furthermore, public peer information is more useful when the acquirer faces greater pre-acquisition uncertainty about the target and when information asymmetry between the acquirer's managers and shareholders is more acute. Finally, we find that peer information continues to be useful in acquisitions of publicly-listed targets, but only when the public target is relatively young. Overall, our evidence is consistent with public peer information being useful for acquisition decisions.

Session 1.02: ANOMALIES AND RISK
DATE: FRIDAY, JANUARY 24, 2020
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Explaining the Profitability Anomaly

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ABSTRACT: We provide a new explanation for the profitability anomaly. Our explanation is based on the observation that investors frequently value stocks by assigning similar price-to-earnings multiples to firms with similar expected growth. We show that this naive approach to valuation results in lower future stock returns for less profitable firms and that this relation is concentrated in firms with higher expected growth. The relation arises because less profitable firms must issue additional equity in the future to finance growth, thus diluting the claims of existing stockholders to future cash flows. Using a battery of empirical tests, we show that investors and analysts do not appear to anticipate the higher future dilution in less profitable growth firms and that this appears to explain the profitability anomaly.

Session 1.02: ANOMALIES AND RISK
DATE: FRIDAY, JANUARY 24, 2020
TIME: 10:00 AM - 11:30 AM

Sifting Through Earnings per Share Distortion

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ABSTRACT: We document a market failure to fully process the implications of denominator-driven changes to earnings per share (EPS) at earnings announcements. Simple hedge portfolio sorts based on the absolute difference between reported EPS and would-have-been EPS (absent any denominator changes) result in abnormal returns of 9.5 percent in the year following the earnings announcement. This anomaly is significantly more pronounced for loss firms (13 percent hedge return) than for profit firms (4 percent hedge return) and is incremental to other accounting-based trading strategies (e.g., post-earnings-announcement drift, book-to-market, accruals) and also incremental to firm financing-based trading strategies (share issuances and repurchases). Furthermore, a disproportionate amount of the hedge portfolio return occurs at subsequent earnings announcement dates, suggesting the anomaly is more likely the result of mispricing rather than omitted risk factors.

Session 1.02: ANOMALIES AND RISK
DATE: FRIDAY, JANUARY 24, 2020
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Using Accounting Earnings and Aggregate Economic Indicators to Estimate Firm-Level Systematic Risk

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ABSTRACT: We revisit the literature on using accounting earnings to estimate firm-level systematic risk. We use macroeconomic indicators to measure undiversifiable aggregate risk; conventional listed-firm indexes reflect an unrepresentative subset of aggregate assets and are expected to substantially mismeasure risk (Roll, 1977). Earnings and macroeconomic indicators are realized annual outcomes that are well aligned for capturing the contemporaneous co-movements that underlie systematic risk, whereas stock returns incorporate changes in expected future outcomes. The macroeconomic indicators we use reflect changes in aggregate supply and demand, providing a parsimonious model incorporating the two fundamental determinants of aggregate outcomes. We find that firms earnings-based sensitivities (betas) to aggregate supply and demand shocks are negatively correlated, and explain twice the cross-section of returns as conventional index betas. They are correlated with firm characteristics employed in empirical asset pricing models, and explain one third of the explanatory power of those characteristics, suggesting that at least part of firm characteristics predictive ability is due to their correlation with systematic risk. These results provide a theory-based equivalent to the empirically-based Ball, Sadka and Sadka (2009) results that principal components of earnings are correlated with principal components of returns, and explain a significant portion of the returns cross-section.

Session 1.03: BANK PERFORMANCE AND LOAN LOSS
DATE: FRIDAY, JANUARY 24, 2020
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*An Information Quality-Based Explanation for Delayed Loan Loss Provisioning
During the 2008 Financial Crisis*

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ABSTRACT: I study whether bank managers delayed loan loss provisioning during the 2008 financial crisis because they relied on low-quality information to estimate loan losses. To measure the quality of information collected on bank-held mortgages prior to the crisis, I create a bank exposure-to-mortgage fraud risk index (EFI) that captures overstatement of borrower income in mortgage applications. I find banks that originated more loans in high-risk neighborhoods delayed loan loss provisioning more during the crisis. The effect is consistent with the hypothesis that fraudulent borrower information negatively affected loan loss provisioning. Information quality is an important factor in ensuring reporting transparency of banks.

Session 1.03: BANK PERFORMANCE AND LOAN LOSS
DATE: FRIDAY, JANUARY 24, 2020
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Regulatory Discretion in Assessing Performance: Evidence from Bank Supervision

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ABSTRACT: Using proprietary data from bank regulatory assessments, we provide the first large-sample evidence that the soft information embedded in regulators' bank examinations is a leading indicator of bank performance. First, we show that regulators' overall assessments forecast nonperforming loans and bank failures, even after controlling for several measures of hard information. Notably, these effects are strongest for the component where the potential for regulatory discretion is likely to be highest, i.e. the management component. We further find that the predictive power of bank assessments for future fundamentals is stronger for the largest banks in the economy, but weaker during periods of greater market uncertainty. Further, regulatory assessments better forecast future fundamentals for banks with less transparent financial reporting, suggesting that regulatory monitoring is increasing in reporting opacity. Overall, our findings suggest that regulatory discretion improves bank supervision, inconsistent with the view that regulatory discretion harms bank monitoring due to captured regulators.

Session 1.03: BANK PERFORMANCE AND LOAN LOSS
DATE: FRIDAY, JANUARY 24, 2020
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Incremental Usefulness of the Parent-Only Balance Sheet to Debt Holders: Evidence from Banks

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ABSTRACT: Under U.S. GAAP, general-purpose financial statements are prepared for a consolidated reporting entity, aggregating the information of a parent company and any subsidiaries over which the parent has control. In this study, we examine whether the parent-only balance sheet is useful to a parent's debt holders beyond the consolidated balance sheet. We obtain evidence from bank holding companies, which provide parent-only financial statements to comply with bank regulations. We find that the parent-only leverage is positively associated with the premium of credit default swap (CDS)—the price of protection against the parent's default risk—after controlling for the consolidated leverage. We also test the relation between the parent-only leverage and the pricing of credit risk in a substantially large sample of banks with bond issuances and draw a similar conclusion. Our evidence raises the question of whether debt holders' information needs are better served if consolidated financial statements are supplemented with parent-only statements.

Session 1.04: COMPENSATION
DATE: FRIDAY, JANUARY 24, 2020
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Executive Compensation, Insider Trading Profitability, and Individual-Level Tax Rates

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ABSTRACT: Prior studies suggest that executive compensation is unresponsive to changes in individual-level tax rates. We consider the use of private information in insider trading as an alternative means for executives to shift the impact of changes in individual-level tax rates to shareholders. We examine insider trading profitability around the enactment of three recent individual-level tax rate changes in the U.S. For each of these events, we find that the insider trading profitability is positively associated with changes in individual-level tax rates and that the economic magnitude of the effects varies between 170 and 290 basis points. Using a difference-in-differences analysis, we show that our findings apply to executives who are subject to taxation in the U.S., and not to executives in foreign firms, who are not subject to the U.S. tax laws. Our findings are stronger for firms with higher information asymmetry, where insiders likely have more private information to trade on, and for insiders with relatively low compensation, whose marginal utility from an additional dollar of compensation is likely higher. We conclude that executives implicitly adjust their compensation when tax rates change, and hence pass a significant portion of the tax effects onto shareholders.64558

Session 1.04: COMPENSATION
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The Cyclicalities of CEO Turnover

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ABSTRACT: CEO turnover is highly pro-cyclical. This paper examines whether contracting incentives encourage CEOs to depart when the economy is doing well. We find robust evidence that pro-cyclical turnover is largely driven by CEOs who time their retirements in order to maximize the values of their Supplemental Executive Retirement Plans (SERPs). Since CEO pay is pro-cyclical and SERP payouts are based on pay in the final years of tenure, CEOs have the incentive to retire when the economy is doing well. SERP-driven pro-cyclical retirement is particularly present in firms with strong corporate governance, which suggests retirement cyclicalities is a tool firms use to convey incentives and effectively manage retention. To our knowledge, our paper is the first to empirically test determinants of pro-cyclical turnover. In doing so, we provide needed evidence on the predictors of voluntary retirement, a common but rarely studied type of CEO departure.

Session 1.04: COMPENSATION
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Why Do Employees Exercise Stock Options Early?

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ABSTRACT: Using the entire history of stock option grants and a 10-year panel of option exercises from 3,618 employees in five companies, we analyze the empirical validity of several of the prevailing theories of why employees exercise options early, including diversification, liquidity, and inside information about future stock prices. Unique aspects of our data include employee locations at the Zip Code level and comprehensive information on stock as well as option grants. We use changes in home prices as a proxy for illiquid non-firm-related wealth, and distance to headquarters as a proxy for access to inside information. These features of our data allow for novel tests of alternative theories. We find evidence supporting the liquidity hypothesis over the diversification hypothesis for option exercises, and also evidence suggesting that information is diffuse across the organization, but that actual trading for top executives and headquarter-based employees are affected by implicit or explicit trading restrictions.

Session 1.05: POLITICAL PRESSURE AND DISCLOSURES
DATE: FRIDAY, JANUARY 24, 2020
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Silence is Golden: Political Connection and Corporate Disclosure of Government Subsidies

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ABSTRACT: This paper examines the association between firms' political connection and their voluntary disclosure on government subsidies using a sample of Chinese non-state-owned enterprises. We find that politically connected subsidy-receiving firms provide a lower amount of subsidy disclosures through annual reports than unconnected ones. This association is mainly driven by connected firms whose subsidies are difficult to justify, is stronger for firms registered in provinces with a higher level of corruption and firms with higher media attention, and becomes weaker following the anti-corruption campaign starting in late 2012. These findings suggest that politically connected subsidy recipients tend to withhold subsidy information to reduce the costs for the politicians they connect to and themselves from the public scrutiny of subsidies granted through relationships. Consistent with this interpretation, we further show that politically connected firms are granted more subsidies and this association is stronger when the government is more corrupt.

Session 1.05: POLITICAL PRESSURE AND DISCLOSURES
DATE: FRIDAY, JANUARY 24, 2020
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The Disciplinary Effect of Social Media: Evidence from Workplace Practices in Response to Glassdoor Reviews

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ABSTRACT: We examine the disciplinary effect of reviews about employers on Glassdoor.com on workplace practices. Leveraging the staggered timing of when firms are reviewed on Glassdoor for the first time, we use a difference-in-differences design and find that firms improve their workplace practices, measured by corporate social responsibility (CSR) scores on employee relation and diversity, after being reviewed on Glassdoor. The improvement is stronger when firms receive negative reviews, rely more on human capital, or have higher labor mobility. The results hold after propensity matching to account for differences in covariates between firms that are reviewed early and those that are reviewed later or never during the sample period. We also find that firms increase workplace-related disclosures in 10-Ks in response to the initiation of Glassdoor reviews. Overall, our findings suggest that the increased transparency and dissemination of employee experiences on social media have a disciplinary effect on firms' workplace practices.

Session 1.05: POLITICAL PRESSURE AND DISCLOSURES
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The Real Effects of Geographic Lending Disclosure on Banks

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ABSTRACT: The Community Reinvestment Act requires banks to disclose the geographic distribution of their small business lending, which informs the public about their performance in meeting the credit needs of local communities. We investigate whether such disclosures increase public pressure and thus have real effects on reporting banks. We exploit the 2005 reform that exempted the geographic disclosure requirement and thus allowed banks perceiving high disclosure costs to stop doing so. Using a large sample of exempt banks, we find that after the exemption, non-disclosing banks, relative to those that continue to disclose lending distribution, experience a decrease in non-performing commercial loans but not for other types of loans. The decrease is stronger for banks under more scrutiny by community organizations prior to the exemption. Together, the findings suggest an improvement in loan underwriting quality of non-disclosing banks due to reduced public pressure.

Session 1.06: COSTS AND BENEFITS OF DISCLOSURE
DATE: FRIDAY, JANUARY 24, 2020
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Breaking it Down: Competitive Costs of Cost Disclosures

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ABSTRACT: Does decomposing cost of goods sold entail significant competitive costs? We examine this question using a relaxation of disaggregated manufacturing cost disclosure requirements in Korea. Our survey evidence indicates managers perceive these disclosures to provide a competitive edge to competitors. Using archival data, we find firms with distinctive cost structures and high market shares are less willing to disclose, consistent with a desire to protect cost-leadership advantages embedded in production and sourcing. Firms experience higher gross profits and lower liquidity after withholding manufacturing cost details, suggesting these disclosure decisions involve trading off competitive costs (and not managers' self-interests) against capital market benefits. At the aggregate level, industries with more nondisclosing firms subsequently experience greater profitability dispersion, suggesting uncertainty about competitors' cost of goods sold helps drive the widely studied performance dispersion observed within industries.

Session 1.06: COSTS AND BENEFITS OF DISCLOSURE
DATE: FRIDAY, JANUARY 24, 2020
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Economic Downturns and the Value of Management Earnings Forecasts

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University of Washington

ABSTRACT: We examine how the state of the economy affects the extent to which investors value management earnings forecasts. We find that stock price reactions to news conveyed in management earnings forecasts are larger during economic downturns, as measured by quarters of negative U.S. GDP growth, NBER recession periods, and periods following negative market-wide stock returns. We also find that analysts make larger revisions to their forecasts in response to news in management earnings forecasts during downturns. Supporting the notion that the higher value investors and analysts place on management forecasts in downturns is justified, we show that management forecasts become even more accurate relative to analyst forecasts during these periods. Overall, these results are consistent with the hypothesis that because adverse economic conditions lower the precision of market participants' beliefs about a firm's value, investors and analysts value management-provided information more in downturns.

Session 1.06: COSTS AND BENEFITS OF DISCLOSURE
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Relative Disclosure Efficiency

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ABSTRACT: This paper develops a measure of relative disclosure efficiency using Data Envelopment Analysis (DEA) to apply a production formulation to firms' investments in mandatory and voluntary disclosures. Conceptually, the "disclosure production" of a firm consists of a variety of disclosure choices (as the production inputs) corresponding to a variety of outcomes of disclosure (as the production outputs). In our setting, the primary advantage of DEA is that it allows us to incorporate multiple disclosure inputs in the estimation (e.g., press releases, earnings forecasts), allowing firms to select a portfolio of disclosures that maximizes the aggregate benefits of those disclosures on their information environment. We find that the resulting measures of disclosure efficiency vary predictably with measures reflecting both costs and capital market benefits of disclosure. In tests focusing on equity issuances, we find that voluntary disclosure efficiency is higher (lower) in the year prior to a seasoned equity offering (private placement), consistent with firms' cost of issuing equity in the public market displaying greater sensitivity to the external information environment. Further, we find that voluntary (mandatory) disclosure efficiency markedly decreases (is stable) in periods with either seasoned equity offerings or private placements consistent with less efficient investment in voluntary disclosures during offering periods.

Session 1.07: DEBT AND DISCLOSURE
DATE: FRIDAY, JANUARY 24, 2020
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Do Banks Rely on the Secondary Corporate Bond Market for Borrower Monitoring?

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University of Missouri-Columbia

Hoyoun Kyung
University of Missouri-Columbia

ABSTRACT: We exploit the implementation of the Trade Reporting and Compliance Engine (TRACE) system to study the effect of the secondary corporate bond market transparency on covenant intensity in private loan agreements. Using a difference-in-differences research design, we find that treatment firms have fewer covenants in syndicated loan issues than control firms following enhanced bond market transparency. The treatment effect is less pronounced for firms with CDS trading, suggesting that banks value the information aggregation and dissemination role of bond prices. The effect is more pronounced for firms with higher growth opportunities, consistent with banks valuing the disciplinary role of the secondary bond market in mitigating debt-equity agency conflicts. The inferences are robust to a battery of sensitivity tests. To the best of our knowledge, this study is the first to provide evidence that banks can rely on bond investors for borrower monitoring.

Session 1.07: DEBT AND DISCLOSURE
DATE: FRIDAY, JANUARY 24, 2020
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Do Lenders Influence Mandatory Disclosures? Evidence from Redacted Credit Agreements

Daniel A Saavedra
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ABSTRACT: I examine whether lender incentives are related to the redaction or non-disclosure of potentially material information from credit agreements of public firms. Using a novel dataset, I find some evidence that when lenders invest more in screening and monitoring the borrower or when lenders earn abnormal profits from the loan, credit agreements are more likely to have potentially material information redacted. Furthermore, consistent with the notion that the withholding of information from credit agreements increases adverse selection, I find that borrowers with redacted credit agreements face higher financing costs for subsequent loans. Finally, a detailed analysis of credit agreements suggests that firms often withhold potentially material information without the Security and Exchange Commission's granting a request for confidential treatment.

Session 1.07: DEBT AND DISCLOSURE
DATE: FRIDAY, JANUARY 24, 2020
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Mandatory Management Forecasts and Lender Expectations Management

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ABSTRACT: The objective of this study is to broaden the existing literature on management forecasts by examining how managers respond in terms of forecast characteristics once they are subject to debt monitoring after project finance (PF) approval. Examining a large sample of mandatory management forecasts of quarterly expenditure disclosed by early stage mining companies, we find PF approval results in managers increasing overestimates of cash outflows or creating 'budget slack'. This is consistent with forecasts serving to manage expectations of lenders, signalling lower risk of cost-overruns during the mine development and construction phase.

Session 2.01: DEBT MARKETS
DATE: FRIDAY, JANUARY 24, 2020
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*Rating Coarseness and the Information Environment: A Further Examination of
Moody's 2010 Recalibration*

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Dartmouth College

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Lehigh University

ABSTRACT: We examine Moody's 2010 municipal bond recalibration to test the effects of an increase in rating coarseness. While the recalibration shifted ratings higher for most municipalities, it also compressed the scale for municipal bond ratings and changed the methodology for rating municipal bonds. The increase in rating coarseness provides a natural setting to examine whether the cheap-talk model can describe the institutional environment in which the credit rating agencies communicate with investors. We find that this coarseness has several effects on the information environment. First, the recalibration created greater dispersion in yields for a given rating category and more price volatility. Consistent with the properties of the cheap-talk model, we find that dispersion in yields and price volatility is stronger in the higher rating categories. Furthermore, we find that issuers originally rated triple A experience an increase in bond yields.

Session 2.01: DEBT MARKETS
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Separation in the Municipal Debt Market: Evidence from GASB 34

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ABSTRACT: Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB 34), issued in 1999 with implementation beginning in 2002, comprehensively changed financial accounting and disclosure practices of US state and local governments. We posit that GASB 34 addressed a collective action problem in municipal debt markets, which prevented governments from credibly communicating financial quality. We consider whether governments responded to GASB 34 by: (1) modifying public debt issues; (2) shifting new public debt among affiliated government units; and (3) delaying or accelerating public debt issuances in anticipation of GASB 34 implementation. Because GASB 34 potentially affects governments differentially, we employ methods designed to investigate changes in higher moments of distributions of these new debt characteristics. Results are consistent with the notion that GASB 34 encourages separation in public municipal debt markets on the financial quality dimension.

Session 2.01: DEBT MARKETS
DATE: FRIDAY, JANUARY 24, 2020
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The Role of Capital Expenditure Forecasts in Debt Contracting

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ABSTRACT: This study examines whether firms issue capital expenditure forecasts as a commitment to not engage in expropriation of lenders through opportunistic investment activities. We find that firms with higher leverage and lower credit quality are more likely to issue capital expenditure forecasts and to deviate less from the forecasts. Furthermore, for firms that issue capital expenditure forecasts, investment efficiency is greater and loan spreads are lower, and these associations are stronger when the forecasts are more credible. We do not find similar results for earnings forecasts. These results suggest that firms use capital expenditure forecasts as a commitment mechanism to reduce contracting costs with creditors.

Session 2.02: DETERMINANTS OF DISCLOSURE I
DATE: FRIDAY, JANUARY 24, 2020
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Beating Burnout: Evidence on the Effect of Employee Distraction on Corporate Information Production Quality

Chen Chen
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ABSTRACT: Using influenza epidemics data in a firm's headquarter state as a source of exogenous change to employee distraction, this study examines the effect of employee distraction on the quality of corporate information production. We find a significant decrease in forecast accuracy for firms headquartered in states that have higher flu activity. We also present suggestive evidence that flu activity affects forecast quality by increasing employee workplace absence, deteriorating employee productivity, rising forecast difficulty perceived by employees, reducing employee learning effectiveness, and subsiding internal communication quality. Our findings are robust to a battery of tests to address measurement error and endogeneity.

Session 2.02: DETERMINANTS OF DISCLOSURE I
DATE: FRIDAY, JANUARY 24, 2020
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Do Managers Bias their Forecasts of Future Earnings in Response to their Firm's Current Earnings Announcement Surprises?

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John L. Campbell
University of Georgia

Patrick Woong Ryu
University of Georgia

James Daniel Warren
University of Georgia

ABSTRACT: Managers issue nearly 90 percent of their earnings forecasts simultaneously with their firm's current earnings announcement – a practice referred to as the “bundling” of earnings information. We examine whether managers insert bias into these forecasts conditional on the news conveyed in current earnings, and offer three findings. First, managers release optimistically biased earnings forecasts to offset simultaneously released negative current earnings news. Second, managers release pessimistically biased earnings forecasts to offset simultaneously released large positive current earnings news. Third, these results are stronger (1) when managers have more flexibility to bias their forecasts and (2) when managers face greater incentives to alter current earnings perceptions. Additional analysis suggests that initially, market participants are unable to fully identify the bias that managers insert into their bundled forecasts, but that investors unravel the bias subsequently as it is revealed. Overall, our evidence suggests that managers issue biased management forecasts with the earnings announcement to influence perceptions of their firm's current earnings news.

Session 2.02: DETERMINANTS OF DISCLOSURE I
DATE: FRIDAY, JANUARY 24, 2020
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Institutional Lenders and Corporate Disclosure: A Natural Experiment

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Qiang Cheng
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Arizona State University

Yuzhi Yan
University of Arizona

ABSTRACT: This study examines the influence of institutional lenders, whose portfolios hold both loans and equity securities, on firms' public and private disclosures. Using mergers between an institutional shareholder and a lender of the same firms as an exogenous shock to the existence of institutional lenders, we document that after the mergers, firms are less likely to provide management forecasts and disclose fewer voluntary 8-K items. Meanwhile, through contractual provisions, these firms provide more private disclosures such as internal projections and monthly financial statements to their institutional lenders. In cross-sectional analyses, we find that the results are more pronounced for firms whose stocks are more actively traded by their institutional lenders. In addition, we document greater reduction in public disclosures for non-transient institutional lenders who have greater monitoring incentives. Overall, our results suggest that institutional lenders' influence on corporate disclosure is driven by both of their trading and monitoring incentives.

Session 2.03: DISCLOSURE QUALITY
DATE: FRIDAY, JANUARY 24, 2020
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Accounting Information Quality, Employment Risk, and Employee Pay

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Xinghua Gao
Washington State University

Xiumin Martin
Washington University in St. Louis

ABSTRACT: Poor accounting information quality increases employees' uncertainty about the true financial health of employers and can also be indicative of serious accounting problems, thus increasing the expected employment risk. This study investigates whether employees price the employment risk associated with poor accounting information by demanding compensating wage differentials. In the setting of external hires that is absent executive influence and close ties with board, we find that the total compensation of externally hired CEOs (CFOs) is positively associated with poor accounting quality in years prior to their appointment. In panel regressions with controls for firm characteristics and year and industry or firm fixed effects, we also find a positive relation between average employee pay and poor accounting quality. We conduct several robustness checks. Our results are consistent with employees demanding pay premiums commensurate with the expected employment risk.

Session 2.03: DISCLOSURE QUALITY
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Going Concern: Who is Concerned?

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ABSTRACT: The going concern (GC) assumption forms the basis for preparing financial statements unless liquidation becomes imminent. ASU 2014-15 requires management to evaluate GC uncertainties quarterly and provide disclosures in the notes to the financial statements. I examine management GC disclosures under this new standard. I first show that the market reacts negatively to such disclosures overall. More importantly, by employing highly detailed textual analysis to extract and categorize mitigation-plan discussions, I find that certain types of management mitigation plans are interpreted positively by investors, thereby alleviating the negative market reaction. These plans include selling assets, increasing liquidity through debt, equity, and grants, and revenue-enhancing strategies. Further, I demonstrate that management GC disclosures are associated with corporate failures and that mitigation-plan discussions can indicate firms' future viability.

Session 2.03: DISCLOSURE QUALITY
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The Contract Disclosure Mandate and Earnings Management under External Scrutiny

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University of Hong Kong

ABSTRACT: This paper studies the effects of mandating compensation disclosure on executive incentive contracts, and the ensuing effects on earnings management, and shareholders' and social welfare. We develop a moral hazard model with multiple principal-agent pairs facing an external inspector who allocates resources across firms to uncover and penalize earnings management. Contract disclosure confers principals with a first-mover advantage, allowing them to design the contract anticipating the inspector's reaction. However, it may also exacerbate a coordination problem among principals, as they do not consider externalities on other principals caused by the effects of their contract choices on the inspector's scrutiny allocation. We find that, if the penalty the inspector imposes on executives is relatively harsher than that imposed on shareholders, contracts become more strongly contingent on reported earnings, earnings are more severely manipulated, and social welfare increases with contract disclosure. However, disclosure improves shareholders' welfare only if the scrutiny resources available to the inspector are not strongly constrained.

Session 2.04: EXECUTIVE COMPENSATION AND LABOR MARKETS
DATE: FRIDAY, JANUARY 24, 2020
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*Career Experience and Executive Performance: Evidence from Former Equity
Research Analysts*

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ABSTRACT: This study examines CEOs and CFOs who have prior work experience as equity research analysts. Consistent with backgrounds in forecasting and valuation, we find these executives provide earnings guidance that is more accurate than that of other executives, and their M&A transactions generate significantly higher announcement returns. For available CEOs and CFOs, we examine their track records as research analysts with respect to forecasting accuracy and stock recommendation profitability. We find a positive association between a record of past forecasting accuracy and more accurate earnings guidance, as well as a positive association between past stock recommendation profitability and M&A announcement returns. Beyond these traits, we find these executives provide greater certainty in their answers to analysts during conference calls, especially when answering forward-looking questions. Finally, these executives' firms exhibit superior accounting and stock return performance. Overall, our evidence suggests that early career skill sets can shape top executive performance outcomes.

Session 2.04: EXECUTIVE COMPENSATION AND LABOR MARKETS
DATE: FRIDAY, JANUARY 24, 2020
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Litigation Risk and the Independent Director Labor Market

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ABSTRACT: After decades of declining shareholder litigation risk, independent directors of U.S. public companies are viewed as effectively immune to material personal litigation costs. However, the unexpected *In re Investors Bancorp* decision in December 2017 by the Delaware Supreme Court lowered the liability threshold used only against directors in derivative litigation for director equity grants. The market, firms and directors all reacted promptly to this rare increase in director-only litigation risk. First, Delaware firms experienced significant negative short-window returns, concentrated in firms with high R&D spending and low operating cash flows, where equity compensation is most important. These results are consistent with investor concerns about attracting and/or retaining qualified directors. Further, relatively higher risk Delaware firms subsequently added more independent directors to the board and more qualified directors to the compensation committee. In contrast, lower risk Delaware firms responded by decreasing director equity compensation and their directors decreased insider trading activity. Overall, results are consistent with firms and directors differentially attempting to mitigate director-specific litigation risk.

Session 2.04: EXECUTIVE COMPENSATION AND LABOR MARKETS
DATE: FRIDAY, JANUARY 24, 2020
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Was Sarbanes-Oxley Costly? Evidence from Optimal Contracting on CEO Compensation

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ABSTRACT: This paper investigates the effects of the Sarbanes-Oxley Act (SOX) on CEO compensation, using panel data constructed for the S\&P 1500 firms on CEO compensation, financial returns, and reported accounting income. Empirically SOX (i) changes the relationship between a firm's abnormal returns and CEO compensation, (ii) changes the underlying distribution of abnormal returns, and (iii) significantly raises the expected CEO compensation in the primary sector. We develop and estimate a dynamic principal-agent model of hidden information and hidden actions to explain these regularities. We find that SOX (i) increased the administrative burden of compliance in the primary sector, but reduce this burden in the service sector, (ii) increased agency costs in most categories of the firms, and (iii) reduced the off-equilibrium loss from the CEO shirking.

Session 2.05: EXTERNAL GOVERNANCE MECHANISMS
DATE: FRIDAY, JANUARY 24, 2020
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Investor Stewardship Codes and the Rise of Global Shareholder Activism

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ABSTRACT: We find a rise in shareholder activism following the adoption of Investor Stewardship Codes (ISCs). Investigating staggered adoption across twelve countries, we show increased activism beginning at adoption and continuing over the subsequent three years. The effects are greater with investor led ISC's and in countries with weaker investor protection. Demands made by domestic, but not foreign, investors are more likely to be successful after ISC. Post-adoption vote participation increases as does support for shareholder proposals. Our findings suggest that ISC adoption reduces the free-rider problem of dispersed ownership and increases the probability of investors engaging in shareholder activism.

Session 2.05: EXTERNAL GOVERNANCE MECHANISMS
DATE: FRIDAY, JANUARY 24, 2020
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*The Role of External Regulators in Mergers and Acquisitions: Evidence from SEC
Comment Letters*

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Tao Shu
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Jasmine Wang
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ABSTRACT: This study examines the role of the Securities and Exchange Commission (SEC) in improving information transparency for mergers and acquisitions (M&As) involving publicly traded firms. Using hand collected M&A comment letter data, we document that the SEC issues comment letters on M&A filings for 31 percent of the deals announced between 2005 and 2017. We find that the SEC is more likely to issue a comment letter for more complex deals, deals with greater risk to target firm shareholder welfare, deals with weaker target firm corporate governance, and deals with weaker pre-transaction financial reporting quality. Further, we examine the real effects of SEC comment letters on deal outcomes and provide evidence that while the SEC comment letter process increases deal duration, it improves the likelihood of deal completion and increases the probability of positive deal price revision. Our results are robust to entropy balancing, and our Impact Threshold of a Confounding Variable (ITCV) analysis alleviates concerns about endogeneity. Overall, our paper suggests the SEC's comment letter review process protects M&A shareholders by improving information transparency.

Session 2.05: EXTERNAL GOVERNANCE MECHANISMS
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Wearing Out the Watchdog: SEC Case Backlog and Investigation Likelihood

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ABSTRACT: In the wake of corporate scandals, the SEC often provides a defense of being overworked. We examine this assertion using a novel comprehensive data set of closed investigations by SEC office. We show that high office case backlog materially decreases the likelihood that a new investigation is opened after several common investigation trigger events, and we find this association extends to cases with large shareholder implications. Further, we show that when office backlog is high the SEC is less like to open cases that are costlier to investigate (e.g., complex restatements, larger firms, less familiarity).

Session 2.06: FINANCIAL ANALYSTS AND FORECAST PROPERTIES
DATE: FRIDAY, JANUARY 24, 2020
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Analyst Coverage Overlaps and Interfirm Information Spillovers

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ABSTRACT: We investigate the role of financial analysts in facilitating the flow of relevant competitive information between firms. Using patent citations as a proxy for interfirm information spillovers, we find that firms are more likely to cite another firm's patent if that firm is covered by the same financial analyst. Difference-in-difference analyses exploiting exogenous shocks to analyst coverage overlaps over time suggest that the documented effect is not simply due to changes in firms' business models and corresponding changes in analyst coverage; consistent with a causal relationship between analyst coverage overlaps and interfirm information spillovers. The effect is stronger for analysts with a relatively higher industry-specialization, more experience, a larger coverage portfolio, and a higher forecast activity, as well as for firm pairs with a larger geographic or organizational diversity. Overall, our findings suggest that capital market relationships not only play an important role in reducing information asymmetries between firms and capital markets but also facilitate the production of business intelligence through feedback and interfirm information transfers.

Session 2.06: FINANCIAL ANALYSTS AND FORECAST PROPERTIES
DATE: FRIDAY, JANUARY 24, 2020
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First Impressions and Analyst Forecast Bias

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Pennsylvania State University

Thomas Ruchti
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ABSTRACT: We present evidence that equity analysts suffer from a first impression bias in forecasting future firm performance. If a firm does particularly well (poorly) in the year before an analyst follows it, the analyst tends to make optimistic (pessimistic) forecasts of its future performance relative to analysts covering the same firm at the same time. Negative first impressions have a stronger effect than positive ones and analysts with negative first impressions terminate their coverage earlier. We find similar effects of first impressions on analyst price targets and recommendations. Finally, we find that the market adjusts for analyst first impression bias.

Session 2.06: FINANCIAL ANALYSTS AND FORECAST PROPERTIES
DATE: FRIDAY, JANUARY 24, 2020
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The Effects of MiFID II on Sell-Side Analysts, Buy-Side Analysts, and Firms

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ABSTRACT: This paper provides early but comprehensive empirical evidence on a major new investor protection regulation in Europe, MiFID II, which requires investment firms to unbundle the costs they charge to clients. Specifically, MiFID II requires asset managers and broker-dealers to unbundle the cost of investment research and advisory services from other services they provide. We examine the effects of this new regulation in difference-in-differences matched-sample research designs with firm fixed effects and test for numerous potential outcomes. We find a decrease in the number of sell-side analysts covering European firms after MiFID II implementation. For example, 334 firms completely lose their analyst coverage. On average, the analysts who dropped coverage have higher lifetime forecast errors, higher forecast optimism, less experience on the job, and less experience covering the firm dropped. We do not find significant changes in consensus forecast errors or dispersion. However, the remaining analysts are more likely to make sell or hold stock recommendations, their recommendation revisions garner greater market reactions, and their recommendations are more profitable. In addition, sell-side analysts seem to cater more to the buy-side after MiFID II by providing industry recommendations along with stock recommendations. Importantly, we find evidence that buy-side investment firms turn to more in-house research after MiFID II implementation. Especially interesting, buy-side analysts increase their participation and engagement in earnings conference calls compared to the control group. Finally, we find some evidence that stock-market liquidity decreases post-MiFID II (after

taking into account firms' disclosure responses and changes in analyst coverage). Our findings have implications beyond Europe, as investors are currently pressuring the U.S. Securities and Exchange Commission to adopt a similar regulation.

Session 2.07: FINANCIAL REPORTING ATTRIBUTES
DATE: FRIDAY, JANUARY 24, 2020
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A Measure of Financial Statement Similarity

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ABSTRACT: We propose a measure of financial statement peer-to-peer similarity. The measure captures multiple dimensions of financial statements, considers both the presence and amount of a financial statement item, and therefore provides a holistic view to users who often need to compare a firm with its peers. The measure could be useful for screening firms for further scrutiny. One of such settings is regulatory enforcement of financial reporting. We find that firms with lower financial statement peer-to-peer similarity are more likely to receive comment letters from the SEC. This is even more the case after the SEC launched RoboCop in 2013. Overall, our study highlights the multidimensionality of financial statements and introduces a measure to capture such multidimensionality.

Session 2.07: FINANCIAL REPORTING ATTRIBUTES
DATE: FRIDAY, JANUARY 24, 2020
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Disengaged Owners and Financial Reporting: Evidence from Index Funds

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ABSTRACT: The amount of equity held by index funds is an increasingly important share of the U.S. stock market. This rise in ownership by passive investors that are, by construction, restricted from making trading decisions has the potential to dramatically impact firm decisions. We expect that compared to other owners, index funds have lower levels of engagement with portfolio firms, leading firm managers to make systematically different decisions as the percent of firm owners who are “disengaged” increases. Using fund-level stock holdings, we directly measure index fund ownership for each firm and examine its association with financial reporting. Consistent with lower engagement with financial reporting, we find that greater ownership by index funds is associated with fewer accruals, greater frequency of missing earnings expectations, and a greater likelihood of misstatements. Our findings are consistent with index funds engaging with firms less, leading to decreased managerial incentives to both bias earnings information and invest in financial reporting quality.

Session 2.07: FINANCIAL REPORTING ATTRIBUTES
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Does the Takeover Market Deter Opportunistic Non-GAAP Reporting?

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ABSTRACT: We exploit the Foreign Investment and National Security Act (FINSAs) to examine the effect of an important managerial disciplining mechanism, the takeover market, on the quality of non-GAAP reporting. FINSAs significantly reduced the likelihood of takeover for a large fraction of the CRSP-Compustat universe. We draw inferences using a difference-in-differences research design by contrasting non-GAAP disclosures by FINSAs-affected firms with those of unaffected firms, before and after FINSAs. We find that FINSAs-affected firms more often exclude recurring expenses, more often exclude expenses incremental to those excluded by analysts, and more often use non-GAAP earnings to convert a GAAP-based miss of an earnings forecast to a beat, after FINSAs. This effect accentuates predictably with the extent to which FINSAs-affected firms are susceptible to the takeover market in the pre-FINSAs period, and with the extent to which non-GAAP earnings determine manager compensation. We conclude by documenting a decline in non-GAAP earnings persistence and the value-relevance of non-GAAP earnings after FINSAs. Our evidence demonstrates the role of the takeover market in curbing opportunistic non-GAAP reporting.

Session 3.01: DETERMINANTS OF DISCLOSURE I
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*Hiding or Helping? Determinants and Consequences of the Timing of Earnings
Conference Calls*

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ABSTRACT: Open conference calls are an important information source because of their forward-looking discussion, interactive nature, and easy accessibility. Using Bloomberg data, we investigate why firms time earnings calls differently and how the stock market interprets and reacts to firms' timing choices. We measure news derived from conference calls by earnings surprise and the tone of forward-looking statements during a call and document that firms with more extreme news (both good and bad) are more likely to hold calls outside trading hours, especially in the evening. We also show that firms that release more uncertain information tend to hold after-market calls. To test whether the market understands firms' timing decision, we focus on firms that switch their call timing. We find a more volatile market reaction when investors are notified of an upcoming switching from during to outside trading hours, and vice versa. Overall, our results suggest that firms strategically time conference calls and investors infer news from the timing.

Session 3.01: DETERMINANTS OF DISCLOSURE I
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Investor-Management Disagreement and Qualitative Corporate Disclosure

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ABSTRACT: We examine how investor-management disagreement affects qualitative corporate disclosure measured by the yearly modification of Management's Discussion and Analysis (MD&A) section of 10-K reports. Controlling for confounding factors, we document that firms with higher investor-management disagreement modify their MD&A section more. We find a consistent result using the flow-induced mutual fund fire sales as an exogenous shock to firms' disagreement level. Additional tests show that MD&A modification generates (reduces) disagreement for firms with low (high) ex-ante investor-management disagreement. Capital market reacts to the MD&A modification differently as well. Furthermore, our cross-sectional tests indicate that firms with high investor-management disagreement disclose more due to management's concerns about firm undervaluation and access to financing resources, as well as due to shareholders' demand for information. Finally, we find consistent results using informativeness of earnings conference calls as an alternative proxy for qualitative corporate disclosure.

Session 3.01: DETERMINANTS OF DISCLOSURE I
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Why is Certified Financial Reporting Mandatory? A Real-Effects Perspective

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ABSTRACT: Previous justification for mandating certification of financial disclosure of publicly traded firms often focuses on the potential positive externalities such mandate may help to internalize (e.g., Leuz, 2010; Leuz and Wysocki, 2016; Minnis and Shroff, 2017). In this paper we offer an alternative explanation. We study a model where a manager chooses a project to maximize the firm's short-term stock price, which is a function of the manager's subsequent certification and disclosure decisions about the outcome of the selected project. We show that the manager always chooses the first-best project when certification is mandatory. However, when certification is voluntary, project choice is generally inefficient, unless the certification cost becomes very large so that there is no certification in equilibrium. In addition, a for-profit certifier always sets the certification fee at a level that leads to inefficient investments. We further discuss implications of our model.

Session 3.02: DISCLOSURE QUALITY II
DATE: FRIDAY, JANUARY 24, 2020
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Are Social Media Analysts Disrupting the Information Content of Sell-Side Analysts' Reports?

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ABSTRACT: We examine the impact of “social media analysts,” individuals posting equity research online via social media investment platforms, on the value-relevance of the forecasts of professional sell-side equity analysts. Using data from Seeking Alpha, we find that the market reaction to a sell-side analyst forecast is substantially reduced when preceded by the report of a social media analyst. We find some evidence that this effect is more pronounced when the social media analyst has greater expertise or when the investor base consists of more retail investors. Additional analyses reveal that social media analyst reports pre-empt the information content of sell-side analyst forecasts when the tenor of the report is consistent (i.e., either positive or negative) with that of the sell-side analyst. Finally, we find no evidence that social media analyst research is associated with inefficient noise trading following the release of sell-side analyst forecasts. Collectively, our results suggest that equity research posted online by social media analysts is disrupting the information content of sell-side equity research. Our findings thus have important implications for understanding how social media is influencing the evolving role of information intermediaries in capital markets.

Session 3.02: DISCLOSURE QUALITY II
DATE: FRIDAY, JANUARY 24, 2020
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Financial Reporting Comparability and Costs of Seasoned Equity Offerings

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ABSTRACT: We examine whether financial statement comparability mitigates costs of capital in the market for seasoned equity offerings (SEOs). We expect that underwriters experience less uncertainty and potential shareholders experience less adverse selection risk for firms with more comparable financial statements, thus lowering the costs of the SEO. We find that, controlling for information transparency, our comparability measure has negative relations with: SEO costs of capital, including underwriter fees, underpricing, and likelihood of SEO withdrawal; and market frictions, including information asymmetry and information uncertainty. These results support the inference that comparability enhances the decision-usefulness of financial statements in SEO capital markets.

Session 3.02: DISCLOSURE QUALITY II
DATE: FRIDAY, JANUARY 24, 2020
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Mandated Financial Reporting and Innovation

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The University of Chicago

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ABSTRACT: We investigate the impact of reporting regulation on firms' innovation activity. Exploiting thresholds in Europe's regulation and a major enforcement reform in Germany, we find that forcing a greater share of firms to publicly disclose their financial statements reduces firms' innovation activity at the industry level. At the same time, it increases firms' reliance on patenting to protect their innovations, to the extent they continue innovating. Our evidence is consistent with reporting mandates having significant real effects by imposing proprietary costs on innovative firms, which diminishes their incentives to engage in innovative activities. Importantly, we also examine and find that this decline in innovative activity is not fully compensated by positive information spillovers (e.g., to competitors, suppliers, and customers) within industries. Thus, our evidence implies that proprietary costs induced by reporting mandates are not purely private costs, but can also have costs to society.

Session 3.03: EXECUTIVES AND RISK-TAKING
DATE: FRIDAY, JANUARY 24, 2020
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Are CEOs Paid Extra for Riskier Pay Packages?

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ABSTRACT: A fundamental hypothesis in optimal contracting models is that incentive pay is expensive to the principal because risk averse agents require extra pay to hold riskier pay packages. We test this hypothesis on U.S. CEO compensation data using a variety of datasets and empirical approaches. We find that CEOs with riskier pay packages are paid more on average, but the additional pay appears to be economically small. This suggests that regulation and market pressures may have caused pay packages to be saturated with incentives. We also find that CEOs are willing to earn less on average when faced with pay packages that have positive skewness, e.g., packages with stock and option grants that offer the opportunity to avoid downside risk. Founder CEOs are compensated less for risk than non-founder CEOs and have lower preference for positive skewness in pay.

Session 3.03: EXECUTIVES AND RISK-TAKING
DATE: FRIDAY, JANUARY 24, 2020
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Does Writing Down Goodwill Imperil a CEO's Job?

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ABSTRACT: We find that accounting charges for goodwill impairment provide meaningful signals to corporate boards concerning CEO performance in selecting and conducting acquisitions. We examine 5,990 firms that completed acquisitions and investigate the relation between CEO turnover and goodwill impairment during 2002–2016. The results show that the amount of goodwill impairment recognized prior to the departure is positively associated with forced, but not voluntary, CEO turnovers. Pre-turnover goodwill impairment is higher for firms with forced CEO turnovers than for firms with voluntary turnover. This implies that goodwill impairment provides information before CEO changes occur. We find only the unexpected component of goodwill impairment is informative and associated with forced CEO turnover. Results also show that the association between goodwill impairment and forced CEO turnover varies as the audit quality changes, suggesting the reliability of accounting information influences the board's CEO retention decision.

Session 3.03: EXECUTIVES AND RISK-TAKING
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Managerial Risk-Taking Incentives and Economic Growth

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ABSTRACT: Using U.S. state-level data between 1993 and 2015, this paper examines whether aggregate executive risk-taking incentives are related to future state economic growth. We find evidence that an increase in state-level aggregate risk-taking incentives predicts lower future state economic growth, after controlling for the effect of aggregate pay-for-performance sensitivity. This result is robust to a battery of tests conducted to address concerns related to correlated omitted variables, reverse causality, and measurement errors. Consistent with the theory, which posits that lenders' screening is countercyclical, the negative relation is more pronounced during economic expansions and when credit supply is likely to be abundant. Further, subsequent total bank loan charge-offs are greater in states with high aggregate risk-taking incentives and a high level of credit supply. M&As consummated in states with both high aggregate risk-taking incentives and a high level of credit supply perform significantly worse than others. Finally, an examination of possible channels reveals that state-level growth in risk-taking incentives is associated with an increase in riskier corporate activities at the aggregate level.

Session 3.04: INFORMATION CONTENT OF ACCOUNTING
DATE: FRIDAY, JANUARY 24, 2020
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Common Ownership, Price Informativeness, and Corporate Investment

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In Ji Jang
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ABSTRACT: We find that stock prices of commonly held firms incorporate future earnings news more efficiently, and their price movements are less likely to be subject to activities of noise traders. In addition, the investment sensitivity to Tobin's Q for commonly held firms is higher, indicating that managers of such firms rely more on market prices for information. We use financial institution mergers as a source of exogenous shock to common ownership, and find supporting evidence. Our study suggests that common ownership by institutions enhances the overall level of information acquisition activities and affects real corporate decision by improving price informativeness.

Session 3.04: INFORMATION CONTENT OF ACCOUNTING
DATE: FRIDAY, JANUARY 24, 2020
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Measuring the Information Content of Accounting Disclosures

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ABSTRACT: Accounting research studies the impact of disclosure on different stakeholders, and relies on the ratio measure in Beaver (1968) to assess information content when the news disclosed is not easily determined. Variation in this ratio of return volatilities during disclosure event to non-event windows reflects variation in disclosure-related information. We develop a framework to show how the ratio also reflects variation in microstructure noise, normal information arrival, and mispricing, and suggest empirical proxies for these other determinants. To validate our framework, we exploit two plausibly exogenous shocks to microstructure noise and normal information arrival—the SEC’s Tick Size Pilot program and the 2004 amendments to Form 8-K filings. We also reexamine some prior results to show how inferences change when the ratio varies because of these other determinants. We find that much of the time-series variation in AVAR, and a considerable fraction of the cross-sectional variation, documented in prior work is due to these other factors, not incremental information arrival at earnings announcements. More generally, our framework and empirical proxies allow a more comprehensive understanding of the ways in which disclosure affects markets. If, for example, voluntary disclosure increases, our framework provides a structure to analyze the different ways in which return volatility might be affected. And the empirical proxies for the different components of volatility enable a determination of which components are affected.

Session 3.04: INFORMATION CONTENT OF ACCOUNTING
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The Pricing of Mismeasured EPS

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ABSTRACT: GAAP potentially mismeasures diluted EPS in two ways in the presence of convertible instruments - debt or preferred stock. First, GAAP treats certain convertible instruments that are not likely to convert as if they will convert. Second, GAAP treats certain convertible instruments that are likely to convert as if they will not convert. In both cases, GAAP understates diluted EPS. I examine whether and under what conditions investors incur the information costs necessary to reflect the accounting mismeasurement of diluted EPS in common equity prices. I provide evidence that suggests, on average, that investors do. However, the association between common equity prices and accounting mismeasurement of the economic conversion effects varies with the magnitude of the measurement error, as a proxy for benefit of information, and/or analyst coverage, as a proxy for the information environment. This evidence suggests investors partially process accounting mismeasurement of diluted EPS.

Session 3.05: INVESTORS' RESPONSE TO DISCLOSURE
DATE: FRIDAY, JANUARY 24, 2020
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Digital Insiders and Informed Trading before Earnings Announcements

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University of Melbourne

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University of Auckland

ABSTRACT: We use firm-specific measures of cybersecurity risk mitigation based on textual analysis of 10-Ks to proxy for the probability of trading with digital insiders – hackers who target corporations to obtain non-public corporate information for illegal trading. We find that prior to earnings announcements, a larger share of new earnings information is already incorporated into prices for firms with low cybersecurity risk mitigation scores. We also find that pre-announcement trading by short sellers is more predictive of earnings surprises for firms with low cybersecurity risk mitigation. Further, on days closer to earnings announcements, firms with relatively low cybersecurity risk mitigation scores experience a larger increase in bid-ask spreads, particularly the adverse selection component. These results suggest that weak cybersecurity risk mitigation provides opportunities for acquisition of private information and that trading by privately informed traders is more likely in stocks of firms with higher exposure to cybercrimes.

Session 3.05: INVESTORS' RESPONSE TO DISCLOSURE
DATE: FRIDAY, JANUARY 24, 2020
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Investor Reactions to Apologies for Financial Misconduct: The Effects of Self-Disclosure and Guilt

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Universiteit Antwerpen

An-Sofie Claeys
KU Leuven

ABSTRACT: We conduct two experiments to examine the implications of corporate apologies for investors' judgments following allegations of financial misconduct. In our primary experiment, we manipulate whether the firm apologizes or denies the allegations and whether the firm self-discloses the information or responds to third-party disclosure. We find that investors react more negatively to an apology compared to denial, but that this negative effect is attenuated by self-disclosing this information. When a firm self-discloses the allegations of financial misconduct, there is no difference in investment judgments whether the firm apologizes or denies the allegations. Further analysis reveals that perceived credibility mediates this effect. In our follow-up experiment, we separate between whether the apology includes an explicit acceptance of responsibility or not and whether there is subsequent evidence of guilt or evidence of innocence. We find that when there is subsequent evidence of innocence, investors react more negatively when the firm had previously apologized (with or without acceptance of responsibility) compared to having previously denied the allegations. Surprisingly, there is no difference in investor reactions to the firm response when there is subsequent evidence of guilt.

Session 3.05: INVESTORS' RESPONSE TO DISCLOSURE
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The Influence of Communication Channel Interactivity on Investors' Response to Managements' Linguistic Choices

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Bradley Bennett
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ABSTRACT: More firms are now disseminating financial information via the internet, and digital technology allows firms to communicate in a more interactive manner compared to traditional paper-based communication channels. Further, various levels of interactivity exist even within online communication channels. We conduct an experiment to examine how online communication channel interactivity affects investor information processing, as evidenced by investors' reactions to managers' linguistic choices within financial disclosures, i.e., term specificity (firm-specific versus general terms) and language extremity (moderately versus extremely positive language). We find that a more interactive channel causes investors to be more sensitive to managers' linguistic choices, and there is an interactive effect of term specificity and language extremity on investment willingness. Specifically, when managers use moderately (extremely) positive language, investors are more (less) willing to invest in a company with its financial disclosures containing firm-specific (versus general) terms. However, such an interactive effect is much weaker when the communication channel is less interactive. Our findings are important for investors, managers, and regulators to understand how investors' perceptions and investment decisions could be changed when information is communicated via a more interactive channel.

Session 3.06: LOAN MARKETS
DATE: FRIDAY, JANUARY 24, 2020
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Causes and Consequences of Cov-Lite Loans

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Eric Horne
University of Nevada-Reno

Kee-Hea Moon
University of Washington

ABSTRACT: Recent years have seen a new trend in commercial bank lending—loans with no financial covenants. These covenant light, or “cov-lite”, loans raise concerns about excessive risk to lenders due to lack of monitoring. In this study, we examine the causes and consequences of cov-lite loans. We find that the borrower’s information environment affects the likelihood of their issuing a cov-lite loan, but that other explanations such as agency conflicts and credit market access have no association with cov-lite. We further find that cov-lite loans issuance is strongly associated with institutional loans, suggesting securitization and standardization are motives for issuing cov-lite. In terms of consequences, cov-lite loans are more likely to have a payment default than loans with covenants, but these defaults occur later. Finally, we find minimal evidence that investment riskiness is different for cov-lite borrowers. The results collectively suggest a benefit to monitoring by lenders which is lost when they issue cov-lite loans.

Session 3.06: LOAN MARKETS
DATE: FRIDAY, JANUARY 24, 2020
TIME: 3:45 PM - 5:15 PM

Direct Lending: The Determinants, Characteristics and Performance of Direct Loans

Maria Loumioti
University of Texas at Dallas

ABSTRACT: I explore the determinants, characteristics and performance of direct corporate loans, that is, loans originated by nonbank institutional investors without banks' intermediation. In the aftermath of the financial crisis, direct lending has been the most rapidly growing credit market segment. I document that direct lending is particularly prevalent among informationally opaque borrowers with limited credit history and few financing alternatives as well as during periods of weak bank lending activity and low securitized debt issuance. Moreover, direct loans have higher interest rate, more flexible covenant structures and are more likely to be secured by borrower's capital stock compared to institutional loans issued by banks. I further show that direct loans experience similar or somewhat better post-issuance performance compared to bank-originated institutional loans. Overall, I provide evidence consistent with the view that direct lending expanded the credit space without giving rise to adverse selection costs.

Session 3.06: LOAN MARKETS
DATE: FRIDAY, JANUARY 24, 2020
TIME: 3:45 PM - 5:15 PM

Estimating the Cost of Control Rights in the Corporate Loan Market

Andrew Bird
Carnegie Mellon University

Stephen Adam Karolyi
Carnegie Mellon University

Thomas Ruchti
Carnegie Mellon University

ABSTRACT: Financial covenants transfer control rights to lenders when borrowers' metrics breach pre-set thresholds. Contingent control rights allow lenders to extract monetary concessions (e.g., fees and renegotiation) and behavioral concessions (e.g., CEO turnover and reduced investment, R&D, and payroll). We develop a simple tradeoff theory that allows us to estimate the cost of control. Our estimates suggest that the cost of control is 46.1 basis points. On average, control payments correspond to a 13.4% discount on the total cost of borrowing (Berg, Steffen, and Saunders 2016). This finding has implications for our understanding of loan pricing and the value of control rights in the private loan market.

Session 3.07: VALUE RELEVANCE OF ACCOUNTING INFORMATION
DATE: FRIDAY, JANUARY 24, 2020
TIME: 3:45 PM - 5:15 PM

CbCR Disclosure in the European Banking Sector. Does Foreign Cash Holding Really Matter?

Michele Fabrizi
University of Padova

Antonio Parbonetti
University of Padova

Sara Longo
Free University of Bolzano

ABSTRACT: Using Country-by-country Reporting (CbCR) disclosure at bank-level data on listed European banks, we examine first how investors react to the announcement of the disclosure about the exactly amount of foreign cash according to the country where it is held distinguishing between tax haven countries and not. Our results show cash is valued overall positively by investors every time they know exactly where and how much it is held in other countries different from the headquarters' country. However, every time investors know exactly where foreign cash is held, they have a different reaction. Foreign cash held in tax haven countries is not positively valued and the reasons can be found in tax considerations as well as in managerial benefits. Overall, our findings document that the new disclosure imposed by the CbCR assumes positive connotations according to the need to increase transparency in the banking industry. This study contributes to the literature in the way that thanks to the CbCR banks can facilitate information production by maintaining incentives for markets participants to specialize in analysing information about the bank.

Session 3.07: VALUE RELEVANCE OF ACCOUNTING INFORMATION
DATE: FRIDAY, JANUARY 24, 2020
TIME: 3:45 PM - 5:15 PM

Evolution in Value Relevance of Accounting Information

Mary E Barth
Stanford University

Ken Li
McMaster University

Charles G McClure
University of Chicago

ABSTRACT: We address how value relevance of accounting information evolved as the new economy developed. Prior research concludes accounting information—primarily earnings—has lost relevance. We consider more accounting amounts and find no decline in combined value relevance from 1962 to 2014. We assess evolution in each amount’s value relevance and find increases, most notably for amounts related to intangible assets, growth opportunities, and alternative performance measures, which are important in the new economy. The number of relevant amounts also increases. We also consider separately new economy, non-new economy profit, and non-new economy loss firms. The relevance trends are more pronounced for, but extend beyond, new economy firms. We base inferences on a non-parametric approach that automatically incorporates nonlinearities and interactions, thereby unconstraining the valuation relation. Taken together, our findings reveal a more nuanced, but not declining, relation between share price and accounting information that reflects the new economy.

Session 3.07: VALUE RELEVANCE OF ACCOUNTING INFORMATION
DATE: FRIDAY, JANUARY 24, 2020
TIME: 3:45 PM - 5:15 PM

The Role of Assurance in Equity Crowdfunding

Evisa Bogdani
University of Kentucky

Monika Causholli
University of Kentucky

W Robert Knechel
University of Florida

ABSTRACT: Equity crowdfunding (ECF) refers to the process of raising capital by selling securities through the internet to small, non-accredited investors. The ECF market is regulated by the SEC and the requirements include provision of assured financial statements. Assurance can be provided in one of three ways: certification by management, or an audit or review by an independent accountant. We utilize the ECF setting to examine whether assurance facilitates capital formation. We find that firms that provide either reviewed or audited financial statements are more likely to reach their target capital, attract a greater number of investors, and raise more capital relative to firms that only provide management-certified financial statements. We do not find evidence that equity crowdfunding campaigns accompanied by audited financial statements are more successful than those with reviewed financial statements. Our findings provide evidence on how assurance facilitates capital formation in a new type of capital market.

Session 4.01: NON-EARNINGS INFORMATION AROUND EARNINGS
ANNOUNCEMENTS

DATE: SATURDAY, JANUARY 25, 2020

TIME: 8:00 AM - 9:30 AM

Non-Answers During Conference Calls

Ian Drummond Gow
University of Melbourne

David F. Larcker
Stanford University

Anastasia Zakolyukina
The University of Chicago

ABSTRACT: We construct a novel measure of disclosure choice by firms. Our measure uses linguistic analysis of conference calls to flag a manager's response as providing an explicit "nonanswer" to an analyst's question. Using our measure, about 11% of questions elicit nonanswers, a rate that is stable over time and similar across industries. Consistent with extant theory, we find firms are less willing to disclose when competition is more intense, but more willing to disclose prior to raising capital. An important feature of our measure is that it yields several observations for each firm-quarter, which allows us to examine disclosure choice within a call as a function of properties of the question. We find product-related questions are associated with non-answers, and this association is stronger when competition is more intense, suggesting product-related information has higher proprietary cost. While firms are more forthcoming prior to raising capital, the within-call analyses for future-performance related questions shows firms are less likely to answer future-performance-related questions shortly before equity or debt offerings when legal liability is higher.

Session 4.01: NON-EARNINGS INFORMATION AROUND EARNINGS
ANNOUNCEMENTS

DATE: SATURDAY, JANUARY 25, 2020

TIME: 8:00 AM - 9:30 AM

*Reporting Misstatements as Revisions: An Evaluation of Managers' Use of
Materiality Discretion*

Rachel Thompson
University of Texas at El Paso

ABSTRACT: In recent years, firms reporting revisions of prior financial statements outnumber firms reporting restatements. Material misstatements are required to be transparently disclosed as restatements, whereas immaterial errors/irregularities can be reported as revisions. Based on SEC guidance and widely used materiality benchmarks, I find that 45 percent of revisions meet at least one materiality criterion. These “material” revisions elicit a significant negative market response, suggesting that the market perceives these misstatements as consequential. I further find that managers are more likely to revise rather than restate these material misstatements when they have a strong incentive to avoid restatements, namely compensation clawback provisions. Moreover, the impact of clawback provisions is even stronger when the misstatement allows for more materiality discretion. Overall, my results suggest that materiality discretion is being used opportunistically to conceal material misstatements as revisions.

Session 4.02: GOVERNANCE AND TRANSPARENCY
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

*Does Governance Convergence Lead to Accounting Harmonization? Evidence from
Worldwide Board Reforms*

Inder K Khurana
University of Missouri-Columbia

Rong Zhong
University of Illinois at Chicago

ABSTRACT: This study examines the impact of governance convergence on global accounting harmonization. Over the past two decades, a wide spectrum of countries have instituted board reforms to converge the practice of corporate governance toward a shareholder model. Using a difference-in-differences design, we find a significant increase in global reporting comparability following board reforms, with the larger increases observed for civil law countries, rule-based reforms and non-U.S. cross-listed firms. Further analyses reveal that board reforms improve managerial incentive to commit to comparable reporting, as evidenced by a significant increase in the likelihood of serious adoption of international financial reporting standards. Lastly, we provide evidence that accounting harmonization amplifies the positive impact of board reforms on financial market integration (e.g., increases in foreign institutional ownership, international business growth, and decreases in bilateral valuation differential). Overall, our findings suggest that convergence of corporate governance has a harmonizing effect on managers' financial reporting behavior, which, in turn, facilitates the globalization of the economy.

Session 4.02: GOVERNANCE AND TRANSPARENCY
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Mutual Fund Strategic Disclosure

Shawn X. Huang
Arizona State University - Tempe

Liwei Weng
Arizona State University

ABSTRACT: This study provides novel evidence that mutual funds use mandatory disclosure as an avenue to strategically disclose their ownership holdings. Specifically, we document that mutual funds act deliberately to meet the statutory holding thresholds of beneficial ownership disclosure, Schedule 13D/G filings. This finding is contrary to the widespread belief that mutual funds would avoid disclosing their holdings, as ownership disclosure reveals proprietary information of mutual fund trading strategies. Additional analyses suggest that beneficial ownership disclosure helps mutual funds raise the demand for the stocks involved in disclosure, resulting in higher stock prices and liquidity. To the extent that higher stock prices contribute directly to the size of assets under management, on which fund management fees are based, our evidence suggests that mutual funds reap significant economic benefits from this strategic disclosure behavior. Mutual funds also benefit from improved liquidity, as it reduces trading costs and the likelihood of fire sales. In addition, we show that mutual funds engaging in strategic disclosure are much larger and more active in trading than funds not engaging in strategic disclosure. Furthermore, we document that portfolio firms involved in strategic disclosure are smaller and less liquid, and have less analyst coverage than other portfolio firms around the holding thresholds, highlighting the incentive of mutual funds to use strategic disclosure to improve the demand for these stocks. Finally, we show that investors who follow mutual fund strategic disclosure and invest in companies involved in disclosure may suffer losses in the long run.

Session 4.02: GOVERNANCE AND TRANSPARENCY
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

*The Effectiveness of Stock Exchange Self-Regulation: Evidence from Corporate
Transparency and Stock Market Liquidity*

Mark Ma
University of Pittsburgh

Wenjia Yan
University of Hong Kong

ABSTRACT: This study examines how stock exchange self-regulation affect corporate transparency and stock market liquidity. Using a sample of 127,373 firm-year observations from 46 stock exchanges from 2001 to 2015, we find significant and robust evidence that stock exchange self-regulation is significantly associated with smaller analyst forecast errors, lower discretionary accruals and earnings management, fewer zero-return days and smaller bid-ask spreads. These findings are more pronounced when the stock exchange has a strong self-regulation model rather than a limited self-regulation model. Also, our results are robust in a different-in-differences test based on the Australian Securities Exchange's change from strong self-regulation model to a government regulation model. Overall, our study suggests that stock exchange self-regulation improves the efficiency of stock market regulation.

Session 4.03: FIRM DISCLOSURES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Negative Peer Disclosure

Sean Cao
Georgia State University

Vivian Fang
University of Minnesota

Lijun Lei
University of North Carolina-Greensboro

ABSTRACT: This paper provides evidence of negative peer disclosure (NPD), a trending corporate strategy to publicize adverse news about industry peers on social media. NPD propensity increases with product market rivalry, technology proximity, and information uncertainty. Consistent with firms issuing NPDs to signal quality, they experience an excess return of 1.6-1.7% over the market and industry during a two-day event window and exhibit superior operating performance in the following year. Such signaling suggests that firms are capable of internalizing information spillovers from peer firms' adverse news. Overall, these results rationalize peer disclosure and broaden the scope of the literature beyond self-disclosure.

Session 4.03: FIRM DISCLOSURES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

*Redact to Protect? Customers' Incentive to Protect Information and Suppliers'
Disclosure Strategies*

Gary Chen
University of Illinois-Chicago

Xiaoli Tian
Georgetown University

Miaomiao Yu
Louisiana State University

ABSTRACT: Protecting value-relevant information is becoming increasingly important and challenging as we move towards a knowledge-based economy and partners along the supply chain are more closely intertwined. We document three customer-supplier characteristics (i.e., customer R&D intensity, patent cross-citations, customer size) that vary directly with suppliers' likelihood of redacting mandated disclosures after controlling for supplier's own proprietary cost concerns. We further use customers' possession of trade secrets and nondisclosure agreements to capture customers' known preference for information withholding and find that their suppliers are more likely to redact. The increased likelihood of redaction is concentrated in supply chain and R&D-related information. Overall, our findings highlight that customers' incentive to protect information, particularly knowledge or value intensive information, can have a significant influence on suppliers' disclosure strategies.

Session 4.03: FIRM DISCLOSURES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

The Effect of Audience Size on Managers' Private Disclosures

Michael Thomas Durney
FASB

ABSTRACT: I use experimental and survey evidence to investigate how and why audience size affects managers' disclosure content in private meetings with investors. The experiment uses a 2x2 between-subjects design with 328 experienced managers. I predict and find that larger audiences decrease bad news disclosure because of increases in managers' self-focus. I provide evidence of self-focus as the causal mechanism using both experimental manipulation and measurement. The survey elicits responses from 114 investor relations officers on actual private disclosure experiences and provides (a) support for my experimental assumption about the variability of audience size in practice and (b) evidence consistent with the experiment suggesting managers are unaware of the effect of audience size. I contribute by (1) providing evidence on the determinants of content in managers' private disclosures, (2) demonstrating the effects of managers' self-focus as a previously unexamined determinant of voluntary disclosure, and (3) providing additional descriptive evidence on managers' private disclosures. My results may also provide increased understanding of the differences between private and public disclosures.

Session 4.04: LEARNING AND INFORMATION DISCOVERY
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Financial Reporting Frequency and Managerial Learning from Stock Price

Stephen A Hillegeist
Arizona State University - Tempe

Asad Kausar
American University

Arthur Kraft
Cass School of Business

You-il Chris Park
Nanyang Technological University

ABSTRACT: Using hand-collected data on changes in public firms' financial reporting frequency over the period 1951-1974, we provide evidence that increased reporting frequency enhances the extent to which stock price guides managers' investment decisions. Using a generalized difference-in-differences research design, we find the sensitivity of investment to stock price (measured by Tobin's Q) increased for treatment firms following an increase in reporting frequency, relative to control firms. The results are more pronounced among firms traded by more informed investors, measured by price nonsynchronicity and stock illiquidity. Consistent with managers making better investment decisions when stock prices provide more investment-relevant information, we find future operating performance of the treatment firms improves following the increase in reporting frequency. Our findings are consistent with the "crowding-in effect" theorized in Goldstein and Yang (2019). Our results are relevant to the ongoing regulatory debates in the United States and European Union regarding how frequently firms should be required to report their financial results.

Session 4.04: LEARNING AND INFORMATION DISCOVERY
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

*Setting Judicial Precedents: Circuit Court Rulings, Shareholder Litigation, and
Financial Misreporting*

Reeyarn Zhiyang Li
University of Mannheim

Allen Huang
The Hong Kong University of Science and Technology

Benedikt Franke
University of Mannheim

ABSTRACT: In this paper, we study the effect of judicial precedents on shareholder litigation and financial misreporting. We hand-collect a data set of 122 circuit court rulings between 1996 and 2018 that involve alleged violations of Generally Accepted Accounting Principles (GAAP). Using these rulings, we document that circuit court precedents differ in accepting GAAP violation as sufficient for pleading securities fraud, leading to discrepancies in their pleading standards across circuits. We conjecture and find that the deterrence effect of private litigation weakens when court precedents in the circuit have been lenient on GAAP violations. Accounting misstatements are 17.83% less likely to trigger shareholder litigation in circuits with precedents one-standard-deviation more lenient on GAAP violations, and average firms in these circuits are 4.2% more likely to misstate their financial reports. Our findings suggest that circuit court precedents induce within-country heterogeneity in private enforcement of securities laws, which, in turn, affects firms' financial reporting outcomes.

Session 4.04: LEARNING AND INFORMATION DISCOVERY
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Tick Size Tolls: Can a Trading Slowdown Improve Earnings News Discovery?

Charles M C M C Lee
Stanford University

Edward Michael Watts
Stanford University

ABSTRACT: This study examines how an increase in tick size affects algorithmic trading (AT), fundamental information acquisition (FIA), and the price discovery process around earnings announcements (EAs). Leveraging the SECs randomized Tick Size Pilot experiment, we show a tick size increase results in a decline across four commonly-used AT proxies. This decrease in AT is accompanied by a sharp drop in abnormal volatility and volume around EAs. More importantly, we find increased FIA in the preannouncement period. Specifically, we show: (a) treatment firms pre-announcement returns better anticipate next quarters standardized unexpected earnings; (b) these firms experience an increase in EDGAR web traffic prior to EAs; and (c) they exhibit a drop in price synchronicity with index returns. Taken together, our evidence suggests that while an increase in tick size reduces AT and abnormal market reaction after EAs, it also increases FIA activities prior to EAs.

Session 4.05: MANAGERIAL MISBEHAVIOR AND CLASSIFICATION SHIFTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Classification Shifting and Earnings Predictability

Kelly Ha
University of Oklahoma

Wayne B. Thomas
University of Oklahoma

ABSTRACT: The literature on classification shifting finds that managers reclassify certain core expenses as special items. One implication from this literature is that managers are attempting to manipulate financial statement users' perception of core performance to achieve self-motivated reporting objectives. However, an alternative possibility is that managers are attempting to signal which core expenses are less likely to persist. By reporting less persistent core expenses as nonrecurring special items, managers potentially improve investors' ability to predict future earnings. We find evidence consistent with this alternative explanation for classification shifting. Specifically, we find a positive relation between classification shifting and the extent to which prices lead earnings (i.e., the future earnings response coefficient). Further analysis reveals that managers, on average, are more likely to use classification shifting to increase earnings predictability when their firm faces greater uncertainty in future performance. This study provides new evidence of managerial incentives related to classification shifting—improved earnings predictability. More broadly, the results demonstrate that investors potentially benefit from managers' discretion in financial reporting.

Session 4.05: MANAGERIAL MISBEHAVIOR AND CLASSIFICATION SHIFTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

*Contagion of Financial Misconduct: Unethical Institutional Ownership and
Aggressive Financial Reporting*

Babak Mammadov
Clemson University

Blerina Bela Zykaj
Clemson University

Avishek Bhandari
University of Wisconsin- Whitewater

ABSTRACT: This paper contributes to the new stream of literature on contagious unethical corporate behavior. We examine how financial misconduct of institutional investors (i.e. their disciplinary history) affects managerial incentives to engage in aggressive financial reporting practices. Specifically, we conjecture that institutional investors who faced disciplinary actions themselves (i.e. unethical institutional investors) are less likely to provide monitoring and more likely to overlook or even nudge firms towards aggressive financial reporting to boost short-term performance. We find evidence that firms held by unethical institutional investors are more likely to engage in aggressive financial reporting practices, such as earnings management, which results in restatement or receiving accounting and auditing enforcement release (AAER) from the SEC. Next, we show that higher unethical institutional ownership positively affects the stock price crash risk, suggesting that unethical institutional ownership increases a firm's bad news hoarding behavior. Interestingly, we find evidence of ethical institutional investors impeding firm's aggressive financial reporting. The results continue to hold after implementing various statistical tests to address potential endogeneity issues (i.e., regression discontinuity analysis, two-stage least squares regression and propensity-score matched methodology). Our study is the first to investigate the implications of institutional investors' ethics on corporate governance.

Session 4.05: MANAGERIAL MISBEHAVIOR AND CLASSIFICATION SHIFTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Corporate Social Responsibility and Classification Shifting

Juhee Hwang
Sungkyunkwan University

Sunhwa Choi
Sungkyunkwan University

Yong Gyu Lee
Seoul National University

ABSTRACT: This study examines the relation between corporate social responsibility (CSR) and firms' behavior to misclassify core expenses as special items in the income statement to inflate core earnings (i.e., classification shifting). We find that firms with good CSR performance (i.e., CSR firms) are less likely to engage in classification shifting than firms with poor CSR performance (i.e., non-CSR firms). We also find that CSR firms' classification shifting is not affected by the incentives to meet or beat the analyst forecast while non-CSR firms' classification shifting is more pronounced when they have such incentives. Overall, our results are consistent with the notion that socially responsible firms behave in an ethical manner in financial reporting.

Session 4.06: METHODODOLOGICAL DEVELOPMENTS AND FAIR VALUE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

*Does the Threat of Recognizing Impairment Losses Enhance Firm Innovation?
Evidence from Regression Kink Design*

Seong Jin Ahn
Peking University

Yupeng Lin
National University of Singapore

Hojun Seo
National University of Singapore

ABSTRACT: This paper examines whether accounting regulation affects firms' innovations using regression kink design. We exploit the exogenous variation of asset impairment loss recognition instituted by SFAS 142 and 144. Focusing on a narrow window around a cutoff point where the book-to-market (BTM) ratio equals one, we show that the sensitivity of likelihood of impairment loss recognition to the BTM ratio increases when the BTM ratio exceeds the cutoff point. We further show that such exposure to the threat of impairment loss recognition leads to an increase in R&D, capital expenditures, and patent filings with increased per patent citations but a decrease in M&A activities. This evidence collectively suggests that those firms change growth policies from external acquisitions to internal developments. Overall, our paper provides evidence that accounting regulation disciplines and incentivizes managers to seek new growth engines.

Session 4.06: METHODODOLOGICAL DEVELOPMENTS AND FAIR VALUE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Fair Value Opinion Shopping or Unbiased Reporting?

Minjae Koo
University of Houston

Yuping Zhao
University of Houston

ABSTRACT: Insurers frequently change the pricing sources of their fixed income securities. We study the causes and consequences of the pricing switch. We hypothesize that pricing switch could be driven by both managerial opportunism to inflate fair value estimation (i.e., FV opinion shopping) and/or managerial effort to more faithfully report the value of assets (i.e., unbiased reporting). We categorize pricing switches as upward switches — where the firm switches to a new source that prices the security at a higher level than the current pricing source does, and downward switches — where the opposite occurs. We find that upward switches can be explained by both unbiased reporting and FV opinion shopping, whereas downward switches are mostly driven by unbiased reporting. Further, the manager is less likely to correct a prior upward bias than a downward bias, and is more likely to exacerbate a prior upward bias than a downward bias. Pricing switch exhibits a pattern more consistent with FV opinion shopping when it is engaged by insurers with strong concerns for regulatory capital and for securities with high probability of other-than-temporary impairments (OTTI). Next, we examine the consequences of pricing switch from three perspectives. First, pricing switch leads to a more favorable fair value estimation, especially for securities that are priced based upon level 1 and level 2 inputs. However, FV opinion shopping via upward switches is mitigated by the presence of regulatory financial examination and Big 4 auditors. Second, upward switch effectively reduces both the likelihood and the magnitude of OTTI recognition, especially for securities with high probability of impairment. Third, the auditor charges higher investment-related audit fees for upwardly switched securities. Such audit fee increases further depend on whether the pricing switch seems justified. Fourth, the credit rating agency assigns greater credit risks on upwardly switched securities. In sum, we provide evidence that the manager strategically changes the pricing source of fixed income securities in order to achieve certain reporting objectives, and that there are certain costs associated with FV opinion shopping.

Session 4.06: METHODODOLOGICAL DEVELOPMENTS AND FAIR VALUE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Is There a Confidence Interval for That? A Critical Examination of Null Outcome Reporting in Accounting Research

William M Cready
University of Texas at Dallas

Jiapeng He
University of Texas at Dallas

Wenwei Lin
Xiamen University

Chengdao Shao
Xiamen University

Di Wang
Xiamen University

Yang Zhang
University of Texas at Dallas

ABSTRACT: This study evaluates how accounting researchers analyze and report null outcomes based on an examination of recent accounting research publications. As null outcomes reflect an inability to reject a null they, unlike rejections, do not lend themselves to specifically conclusive interpretations. Rather, drawing useful inference from them requires fundamental descriptive analysis. In the 35 articles we identify as presenting substantive null outcomes, however, inappropriately conclusive interpretations of these outcomes are widespread while scant attention is given to providing the descriptive analyses needed to draw useful insights from them. The analysis also proposes and illustrates the use of descriptive techniques in the form of confidence intervals as a more appropriate approach for interpreting null outcomes.

Session 4.07: GOVERNING THE AUDIT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

*Does the PCAOB International Inspection Access Improve Voluntary Disclosure?
Evidence from Management Forecast Accuracy*

Lijun Lei
University of North Carolina-Greensboro

Sydney Shu
Miami University

Wayne B. Thomas
University of Oklahoma

ABSTRACT: We investigate the change in management forecast accuracy around the Public Company Accounting Oversight Board's (PCAOB) initial access to inspect auditors of U.S.-listed foreign firms. We expect that inspection access will increase auditors' scrutiny of their clients' financial reports and thereby improve the underlying information set used by managers to make forecasts. Consistent with these expectations, we find that managers make more accurate earnings forecasts following PCAOB inspection access. Furthermore, the improvement in forecast accuracy is more pronounced for firms whose reported earnings appear to have been affected most by inspection access (i.e., those with reduced abnormal accruals, corrected internal control material weaknesses, and non-fraud restatements). While prior research provides evidence that more stringent audits improve decisions of external stakeholders (e.g., investors and creditors), our study provides additional evidence on the decisions of another important stakeholder—managers.

Session 4.07: GOVERNING THE AUDIT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Fool Me Once, Shame on You; Fool Me Twice, Shame on Me: The Impact of Audit Partners' First-Hand Experience with Arthur Andersen's Demise on Their Style

Feng Guo
Iowa State University

Jeffrey Pittman
Memorial University of Newfoundland

Timothy Andrew Seidel
Brigham Young University

Ying Zhou
university of connecticut

Mi Zhou
Virginia Commonwealth University

Ling Lei Lisic
Virginia Tech

ABSTRACT: The increase in disclosure about the persons conducting audits has led to a steep rise in research examining the role that individual audit partner styles play in audit outcomes. Although recent evidence suggests that individual audit partner styles explain a substantial portion of the variation in audit quality proxies, much less is known about what determines an audit partner's style. Psychology and behavioral economics theories hold that an individual's experiences can have enduring impacts on subsequent behavior. We examine whether auditors' direct exposure to Arthur Andersen's collapse affects their auditing style. Our evidence implies that audit partners who experienced Andersen's demise first-hand impose stricter monitoring of the financial reporting process evident in their clients exhibiting a lower propensity for misstatements and small profits, and paying higher audit fees. Additional analyses suggest that both conservative auditing style and client screening play a role in explaining the higher audit quality of partners who directly experienced Andersen's demise.

Session 4.07: GOVERNING THE AUDIT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 8:00 AM - 9:30 AM

Overseeing the External Audit Function: Evidence from Audit Committees' Reported Activities

Brian Bratten
University of Kentucky

Monika Causholli
University of Kentucky

Valbona Sulcaj
University of Kentucky

ABSTRACT: Although one of the most crucial responsibilities of audit committees is overseeing the audit process, we know very little about how audit committees fulfill this role, whether audit committee oversight impacts the financial reporting process and how their oversight is perceived by investors. In 2015 the Securities Exchange Commission (SEC) issued a concept release contemplating additional disclosure requirements related to audit committee oversight. Recently, in response to calls for more transparency, many firms have begun reporting their audit committees' activities related to overseeing the external audit process. Using a novel dataset that summarizes reported audit committee activities, we create a composite measure that captures the extent of the audit committee's reported oversight over the external audit. Our analyses test two competing theories: agency theory predicts that actively monitoring and reporting audit committees ensure reliable financial reporting; institutional theory predicts that audit committee plays a ceremonial role and their reports fit a window-dressing purpose. Consistent with agency theory, we find that firms with audit committees who report taking a more active role in overseeing the external audit have better financial reporting quality and pay higher audit fees. We also find evidence that the market reacts positively to reports indicating strong oversight, consistent with perceptions of higher financial reporting quality. This study extends prior literature on the audit committee oversight role and sheds light on how reported activities map into financial reporting and audit quality. Our results have important implications for the issues raised in the SEC concept release.

TABLE 1: AUDIT, ACCOUNTING PRACTICE, AND FINANCIAL
REPORTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Is Accounting a Miserable Job?

Paul E. Madsen
University of Florida

Zhenhao Piao
University of Florida

ABSTRACT: Popular culture portrays accounting as a miserable job. Accounting research evaluating the boring “beancounter stereotype” argues that it is wrong and costly because it reduces the appeal of accounting to high quality students and exacts a psychological toll on accountants who are thus stereotyped. In this study, we empirically test the basic question: is accounting a miserable job? We use data from a variety of sources that enable us to measure workplace misery and model it as a function of work tasks and personal characteristics of workers across occupations. We find that accounting work is particularly sedentary, rigid, repetitive, constrained, and rules-centric; characteristics that are consistent with the accounting stereotype and that prior work outside of accounting has shown are associated with workplace misery. However, we find that accounting is not a miserable job. In univariate and multivariate tests, we find that accounting has misery values that are either near the average or are better than average for comparison jobs. This apparent paradox could be a positive consequence of accounting stereotypes, which may facilitate the matching of potentially miserable work with people who are most prepared to tolerate it. Indeed, we present longitudinal evidence suggesting that accounting attracts people with personalities suited to repetitive and rules-centric work and who have psychosocial histories that make them robust to stress. Workplace misery is costly to workers, employers, and society and accounting stereotypes have value if they facilitate informed career selection.

TABLE 1: AUDIT, ACCOUNTING PRACTICE, AND FINANCIAL
REPORTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Annual Auditor Contract Renewal Negotiations and Financial Reporting Quality

Blake Davis Bowler
University of Florida

Robert Ronald Carnes
University of Florida

Hyun Park
Temple University

ABSTRACT: We investigate whether annual auditor contract renewal negotiations influence financial reporting quality. For U.S. public companies, auditor renewals are negotiated around the start of company fiscal years. Theory suggests agents have incentives to engage in strategic behavior near the end of contracts to influence renewal outcomes. We test for this behavior using the timing of company announcements of their year-end auditors in relation to their Q1 financial closing and reporting cycles. In a sample where all companies renewed their auditor, we find financial restatements are more likely to begin in Q1 when auditor contract renewals are more uncertain (i.e., announced later) during Q1 reporting. Further, uncertain renewal companies are more likely to meet or beat analyst forecasts and have declines in their accruals quality. These outcomes are different from quarters without renewal negotiations. Collectively, our findings suggest an unintended consequence of annual auditor contract renewal negotiations is compromised reporting quality.

TABLE 2: CORPORATE GOVERNANCE AND REGULATION
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Likelihood and Performance of Reverse Leverage Buyout Pre- and Post-SOX

Ben Le
University of Tennessee at Martin

ABSTRACT: We investigate how private equity (PE) firm's reputation and external regulation influence the likelihood and type of Leverage Buyout (LBO) exit. We are particularly interested in whether the success of a LBO, measured by type of exit and post-exit performance, is influenced by PE firm reputation, or is merely due to self-selection of better performing pre-LBO firms to high reputation PE firms. The literature documents a decline in firms going public post-SOX because of the cost of compliance. (Engel et al (2007) and Mohan and Chen (2007) find that firms go private due to the compliance costs of SOX). Thus, we examine reverse LBOs in the two distinct regulatory environments pre- and post- SOX, which allows additional insights into firm resilience and performance. Most of the LBOs after the SOX period (July 2002) did not have exit information since our LBO data end May 2015 and hence these firms have fewer years and may not yet have exited. In order to avoid this bias, we divide the LBOs into smaller time buckets to observe our results.

TABLE 2: CORPORATE GOVERNANCE AND REGULATION
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Loss or Lost? Channels and Economic Consequences of Internal Capital Markets

Marcel Olbert
University of Mannheim

ABSTRACT: Business groups can make use of internal capital markets to support financially distressed member firms. Such resource shifting can avoid credit-risk spillovers and operational disruptions but may come at the cost of inefficient resource allocation. Using plausibly exogenous variation in loss-related tax incentives, I study the channels of internal resource allocation to financially distressed member firms and its impact on firm survival and productivity. Evidence from a cross-sectional difference-in-differences design based on a large international sample and a single-country regression discontinuity design suggests that business groups avoid member firms' defaults if loss-related tax shields are more valuable. Conditional on member firm survival, groups shift fewer revenues and assets to distressed member firms with more valuable tax shields, suggesting that tax benefits function as substitutes for the reallocation of financial resources. Further results suggest that internal capital markets lead to lower firm-level productivity when group support is tax-motivated: Low-quality member firms are artificially kept alive, plausibly causing inefficient resource allocation.

TABLE 3: CREDIT RISK AND CRASH RISK
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Do Independent Research Firms Accurately Assess Credit Risk? Evidence from Morningstar's Rating Model

Xucheng SHI
HEC Paris

ABSTRACT: This study examines whether independent research firms provide accurate assessment on corporate bond issuers' credit risk. In extant literature, little is known about the informational value of independent analysts' credit assessment. After analyzing independent analysts' credit reports and their proprietary credit risk assessment model, I find evidence showing that 1) independent analysts accurately assess bond issuers' credit risk in comparison with the peer group; 2) the qualitative discussions in their reports provide incremental information on borrowers' creditworthiness. In addition, using a difference-in-differences approach, I find that independent research firms provide more inflated ratings after they obtained the status of Nationally Recognized Statistical Rating Organization (NRSRO).

TABLE 3: CREDIT RISK AND CRASH RISK
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Managerial Risk Tolerance and Corporate Credit Ratings

Zhiyan Cao
University of Washington-Tacoma

Eliza Zhang
University of Washington Tacoma

Ray Zhang
Simon Fraser University

ABSTRACT: This study examines whether and how managerial risk tolerance influences corporate credit ratings. Using the possession of a private pilot license to capture CEO risk tolerance, we find that firms led by pilot CEOs have worse credit ratings after controlling for firm fundamentals, CEO risk-taking incentives, and other CEO characteristics. Path analyses show that risk-tolerant CEOs lead to worse credit ratings by reducing the level of future firm value, increasing the volatility of future firm value, and changing rating agencies' assessment of management. Also, the negative association between CEO risk tolerance and credit ratings is more pronounced when management play a more important role in a firm. Overall, our study sheds light on the dark side of managerial risk tolerance by documenting its adverse impact on corporate credit ratings.

TABLE 3: CREDIT RISK AND CRASH RISK
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

The Bright Side of Unionization: The Case of Stock Price Crash Risk

Jeong-Bon Kim
City University of Hong Kong

Eliza Zhang
University of Washington Tacoma

Kai Zhong
University of International Business and Economics

ABSTRACT: This study examines whether and how labor unionization influences stock price crash risk. Using a regression discontinuity design that employs union elections as an exogenous shock yielding local variation in unionization, we find that unionization leads to a significant decline in stock price crash risk. We further explore the underlying mechanisms through which unionization affects crash risk and find that labor unions constrain managerial resource diversion and overinvestment, demand less risk-taking, and facilitate transparent information flow, which in turn reduces crash risk. Overall, our results suggest that unions play an important governance role. Our study sheds new light on a formerly under-researched beneficial impact of unionization and the role that organized labor plays in influencing extreme downside risk in the equity market.

TABLE 4: EXECUTIVE COMPENSATION AND CORPORATE
GOVERNANCE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

The Effect of Supplier Industry Competition on Pay-for-Performance Incentive Intensity

Mary Ellen Carter
Boston College

Jae Eun Choi
Emory University

Karen L Sedatole
Emory University

ABSTRACT: We examine how competition in supplier industries affects CEO incentive intensity in procuring firms. Using the Input-Output Accounts Data (IO Data) published by the Bureau of Economic Analysis (BEA), we compute a weighted supplier industry competition measure. We then predict and find that higher supplier competition is associated with stronger CEO pay-for-performance incentive intensity.

This effect is incremental to the effect of competition in the firm's own industry documented in prior research and is robust to using alternative measures of supplier competition. Importantly, we show that performance risk and product margin act as mediating variables in the relation between supplier competition and CEO incentive intensity providing support for the theory underpinning our finding. This study shows that firms use CEO compensation contracts as a mechanism to exploit the market dynamics of upstream industries to their own benefit.

TABLE 4: EXECUTIVE COMPENSATION AND CORPORATE GOVERNANCE

DATE: SATURDAY, JANUARY 25, 2020

TIME: 9:45 AM - 10:45 AM

The Impact of CEO Overconfidence on Accounting and Stock Performances: A Firm's Life Cycle Perspective

Tuba Toksoz
Koç University

Sebahattin Demirkan
Manhattan College

Birendra Kumar Mishra
University of California-Riverside

ABSTRACT: We examine how CEO overconfidence impact on accounting and stock performances for firms at different stages in their life cycle. Extant research has shown that overconfident personality could affect CEO's decision-making on investment, financial reporting and firm's choice of policies. It is well known that firms have lifecycle stages as they evolve with time. The firm's evolution is triggered by changes in internal factors like investment and managerial decisions and external factors such as evolution of industry and economy. Prior literature posit that life cycle stages have an impact on firms' decision making and profitability. In this research we study the interaction of CEO overconfidence and firm's life cycle on firm's accounting performance and existence of abnormal return. We find that firms with overconfident CEOs perform differently and have abnormal return depending on the firm's life cycle. Especially they perform better and have positive abnormal returns in growth, mature and shake-out stages if the CEOs are overconfident. We find no significant result for firms in introduction and decline phases.

TABLE 5: DEBT MARKETS AND CREDIT RATINGS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

*Credit Availability and Voluntary Disclosures: Evidence from Interstate Bank
Branching Deregulation*

Nargess Golshan
University of Missouri

ABSTRACT: This study examines whether greater availability of bank loans affects borrowers' voluntary disclosures. Exploiting the staggered deregulation of interstate bank branching across states in the U.S., I find that bank-dependent firms decrease their voluntary disclosures following bank branching deregulation. This overall effect is muted for firms with higher information asymmetry in the public capital markets and higher litigation risk. Furthermore, the decline in voluntary disclosures is more pronounced among borrowers with higher proprietary information costs and stronger lending relationships with their lenders. Overall, this paper sheds light on how regulatory changes in the banking sector have externalities on corporate borrowers' disclosure decisions.

TABLE 5: DEBT MARKETS AND CREDIT RATINGS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

*Do Creditors Have a Say in Corporate Social Responsibility? Evidence from
Covenant Violations*

Luo He
Concordia University

Jingjing Zhang
McGill University

Ligang Zhong
University of Windsor

ABSTRACT: We examine whether and how creditors influence corporate social responsibility (CSR) through the observable event of debt covenant violations. Employing a quasi-regression discontinuity design, we document differentiated effects of creditor control rights on various components of CSR activities: firms tend to reduce CSR activities related to employee and community welfare, while leaving activities largely intact on the components that can have long-term adverse reputational effects on the firm. We also find that the reduction in CSR activities occurs primarily in situations where creditors have greater influence and where the managerial agency problem in CSR activities is more severe. Our findings highlight the active role that creditors play in shaping CSR practices.

TABLE 6: FINANCIAL ANALYSTS I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Analyst Extraversion: Characteristics and Career Outcomes

Patrick Kielty
The Ohio State University

Marcus Paul Kirk
University of Florida

Diana Lynn Weng
University of Florida

ABSTRACT: This study investigates whether sell-side analysts' personality characteristics are associated with job performance and career outcomes. Using well-established statistical linguistic learning techniques, we determine the extraversion level of each analyst. We find that extraverted analysts issue more pessimistic earnings forecasts and less accurate but bolder earnings forecasts. We find that extraverted analysts are less likely to participate on conference calls and, when they do, talk less and have fewer dialogues with management. We also find that extraverted analysts are less likely to be recognized as Institutional Investor All-Stars. Our findings suggest that while prior research suggests extraversion is related to positive outcomes in the executive setting, it is related to more negative outcomes in an analyst setting.

TABLE 6: FINANCIAL ANALYSTS I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Valuation Uncertainty and Analysts' Use of DCF Models

Hongping Tan
McGill University

Changqiu Yu
York University

ABSTRACT: Using textual analysis for a large sample of analyst reports, we find that analysts are more likely to use a DCF model and to discuss more cash flow and discount rate information for firms with more uncertainty, especially under heightened aggregate economic uncertainty and bearish market sentiment. The market reactions to target price changes based on a DCF model are stronger, particularly when the analysts present more cash flow and discount rate discussions. These results indicate that analyst valuation process reflects investors' information demand under uncertainty, and has a bearing on the informativeness of analyst research.

TABLE 7: FINANCIAL ANALYSTS II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Are Analysts Skilled at Determining if Returns Have Underlying EPS Information?

Austin Starkweather
Vanderbilt University, Owen School of Business

ABSTRACT: Research has shown that some analysts incorporate a firm's prior stock returns into their earnings forecast models. However, it has not yet examined whether analysts do so skillfully, or if by incorporating returns, they might be introducing forecast error. I show that some analysts behave as though they believe prior returns contain information related to future earnings when they do not and introduce error by incorporating those uninformative returns into their forecast models. This finding runs counter to the literature that suggests analysts are skilled intermediaries of information and sensitive to the informativeness of returns. I find that certain analysts - those who are more inexperienced, busier, and more fatigued - are the most responsive to incorporating uninformative returns into their forecasts, as are analysts covering firms whose P/E ratios have drifted farther away from historical levels. I also show that this reliance on uninformative returns leads to less accurate forecasts, inhibits market price discovery, and results in predictable market mispricing.

TABLE 7: FINANCIAL ANALYSTS II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Non-Deal Roadshows, Informed Trading, and Analyst Bias

Daniel Bradley
University of South Florida

Russell Jame
University of Kentucky

Jared Williams
University South Florida

ABSTRACT: Non-deal roadshows (NDRs) are private meetings between management and institutional investors, often organized by analysts. Using a novel hand-collected sample of NDRs, we show that local institutions trade heavily and profitably in NDR firms. Brokers are rewarded for hosting NDRs vis-à-vis increased commissions creating a potential conflict of interest for analysts. Consistent with misaligned incentives, NDR analysts issue significantly more optimistic recommendations and target prices, but less optimistic earnings forecasts, suggesting strategic bias. Collectively, NDRs create significant informational advantages for institutional investors and are an important source of analyst bias; both of which have potential adverse consequences for less-sophisticated investors.

TABLE 8: FINANCIAL ACCOUNTING ISSUES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Does Mandatory Recognition of Off-Balance Sheet Items Affect Capital Structure Choice?

Michael Axenrod
Norwegian School of Economics

Michael Kisser
BI Norwegian Business School

ABSTRACT: We investigate whether mandatory recognition of previously disclosed off-balance sheet items affects corporate capital structure decisions. Specifically, we use the introduction of the Statement of Financial Accounting Standards No. 158 as a quasi-exogenous shock to financial reporting decisions as it requires sponsors of defined benefit (DB) pension plans to recognize the level of plan funding explicitly on the balance sheet. There is at best moderate evidence that leverage decreases following the new accounting standard and we further show that this change is not driven by active managerial leverage reductions. Our findings suggest that the mandatory recognition was not costly to DB plan sponsors and revealed no new information to lenders and shareholders.

TABLE 8: FINANCIAL ACCOUNTING ISSUES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Uncertain Tax Benefits and Earnings Persistence

Lisa C Williams
University of Northern Iowa

ABSTRACT: I examine the relationship between uncertain tax benefit accruals (UTB accruals) and earnings persistence. I posit that two competing forces in UTB accruals lead to no relationship between UTB accruals and earnings persistence. I argue that UTB accruals could be informative about investments, and therefore positively related to earnings persistence. UTB accruals could also represent accrual errors and therefore be negatively related to earnings persistence. I find that the relationship between UTB accruals and earnings persistence is non-linear. Earnings persistence is the highest for firms with no UTB accruals and is higher for large positive UTB accruals than large negative UTB accruals. These findings suggest that large positive UTB accruals provide information on investments, while large negative UTB accruals represent accrual errors. UTB accruals exhibit properties of both being informative and having accrual errors, and thus, future research should consider these properties separately when examining UTB accruals and managerial opportunism.

TABLE 9: FINANCIAL INSTITUTIONS AND FAIR VALUE ACCOUNTING I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Accounting Aggregation and Information Loss

Wei Ting Loh
University of Washington

Asher Curtis
University of Washington

Robert Raney
IESE Business School

ABSTRACT: Using a sample of firms required to disclose quarterly fair values for individual assets, we examine the implied information loss from various aggregation rules. We predict and find that aggregation rules based on combining assets with similar risk factor exposure leads to lower information loss on aggregation. In general, we find that the aggregation of more homogenous assets results in smaller information loss. Additionally, we hypothesize that information loss from aggregating fair values is lower than the information loss from aggregating historical cost, and this effect increases with the magnitude of difference between cost and fair value. This hypothesis is consistent with historical cost reflecting stale prices that increase heterogeneity across assets, which is positively associated with information loss from aggregation. Supplemental tests establish that findings are distinct from the mechanical effects of having more or less groupings of assets.

TABLE 9: FINANCIAL INSTITUTIONS AND FAIR VALUE ACCOUNTING I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

A Re-Examination of Income Smoothing in Banks

Philip Barrett Wheeler
Tulane University

Gans Narayanamoorthy
Tulane University

ABSTRACT: This paper examines the association between discretionary income smoothing and bank transparency. We argue that previous studies documenting discretionary income smoothing in banks via the association between loan loss provisions and pre-provision earnings largely ignore the non-discretionary portion of this association driven by the risk-return relationship reflected in both loan interest and loan loss provisions. We show that loan loss provisions are positively associated with loan interest and that this association is stronger when loan losses are less idiosyncratic. We then document that including loan interest as a control variable significantly attenuates the coefficient on pre-provision earnings in models used in prior research to examine income smoothing in banks. Finally, we construct a new measure of discretionary income smoothing and, using this measure, provide evidence that discretionary smoothing is associated with more informative loan loss provisions. These results provide both methodological improvements to measuring income smoothing for banks and help us understand whether bank managers use their discretion to increase or decrease bank transparency.

TABLE 10: FINANCIAL INSTITUTIONS AND FAIR VALUE ACCOUNTING II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Asymmetric Loan Loss Provisioning

Sudipta Basu
Temple University

Justin Vitanza
Temple University

Wei Wang
Temple University

ABSTRACT: Banks' loan loss provisions have a V-shaped relation with changes in loan portfolio quality, i.e., decreases in nonperforming loans are associated with increases in loan loss provisions. Loan charge-offs are a major contributor to asymmetry, and modeling this asymmetry can change previous inferences about the presence of earnings management and the effects of delayed loan loss recognition in papers that incorrectly assumed linearity. Loan loss provision asymmetry is greater for banks with more heterogeneous loans, during economic downturns and in the fourth quarter, and for public banks, consistent with loan loss recognition standards varying across loan types and conditional conservatism.

TABLE 10: FINANCIAL INSTITUTIONS AND FAIR VALUE ACCOUNTING II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

*The Effect of Bank Audit Committee Financial Experts on Loan Loss Provision
Timeliness*

Diana Choi
Purdue University

ABSTRACT: This paper examines the effect that appointing financial experts to banks' audit committees has on the timeliness of banks' loan loss provisions. I identify two regulatory shocks that mandated audit committee expertise as quasi-natural experiments and investigate the effects on the timeliness of loan loss provisioning. The shocks I consider are the Federal Depository Insurance Corporation Improvement Act of 1991 (FDICIA) and a listing standard for NYSE and NASDAQ firms in 1999. Using a difference-in-difference research design, I find that treated banks more promptly recognize expected losses than control banks. Building on these results, I examine the effects of appointing different types of financial experts to bank audit committees. Specifically, I consider affiliated auditors, unaffiliated auditors, former regulators, and those who are neither former auditors nor former regulators (Others). Using propensity-score weighting, I find that appointing affiliated auditors is associated with less timely provisioning, relative to appointing unaffiliated auditors. I also show that hiring former regulators is associated with less timely loan loss provisioning, relative to hiring Others or unaffiliated auditors. Overall, my findings suggest that financial expertise on the audit committee and agency problems influence loan loss provision timeliness.

TABLE 11: MANAGEMENT AND ANALYST FORECASTS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Are Small Negative Earnings Surprises Created Equal?

Ilona Bastiaansen
University of Connecticut

Alina Lerman
University of Connecticut

ABSTRACT: We examine whether firms that miss the consensus analyst earnings forecasts by one cent are homogenous by evaluating their contemporaneous market reactions. Prior research and the persistence of a discontinuity in the earnings distribution suggests that there are either actual or perceived significant stock market penalties for marginally missing analyst forecasts. We expect this penalty to be higher when the reported disappointment is either more reliable or more unexpected. Consistent with our predictions, we find that “just miss” firms with a higher analyst following, where the expectation of earnings is more reliable, and firms which report a revenue disappointment, a confirmatory signal to earnings, have more negative abnormal returns at the earnings release. Surprisingly, we do not find a significant effect of auditor choice on the reaction to a marginal miss. Firm which experienced a downward revision of analyst forecasts during the quarter have a moderated market reaction consistent with the reported earnings disappointment at least partially anticipated by the market.

TABLE 11: MANAGEMENT AND ANALYST FORECASTS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

*Management Forecasts, Analyst Revisions, and Investor Reactions: The Effect of
CEO Gender*

Alison Cook
Utah State University

Adam Michael Esplin
The University of Texas at El Paso

Christy Glass
Utah State University

Joshua Scott Judd
University of Illinois-Chicago

Kari Joseph Olsen
Utah Valley University

ABSTRACT: In this study, we examine whether CEO gender affects the likelihood of management forecast issuance, forecast properties, and subsequent reactions from analysts and investors. We use a panel data set of CEO transitions between 2000 and 2015 to test our hypotheses. We find that while women CEOs are more likely to issue earnings forecasts after a CEO transition, the characteristics of forecasts issued by women and men CEOs do not differ. Furthermore, we find that CEO gender significantly affects analyst and investor reactions. In particular, we find that analysts and investors demonstrate a more tempered reaction to good news forecasts issued by women CEOs compared to men CEOs. Overall, our findings suggest that analysts and investors find management forecasts issued by women CEOs to be less credible than forecasts issued by men CEOs despite no apparent differences in their forecast properties.

TABLE 11: MANAGEMENT AND ANALYST FORECASTS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Sending Mixed Signals? Differential Interpretation Associated with Multiple Earnings Forecasts and Realizations

Seanna Asper
University of Alabama

Christopher McCoy
College of William & Mary

Gary K Taylor
University of Alabama-Tuscaloosa

Trevor Sorensen
West Virginia University

ABSTRACT: Prior literature notes that abnormal trading volume can be due to either new information contained within the earnings announcement that changes the market's expectations of future cash flows (differential precision of prior information) or differential interpretation. We estimate the change in abnormal trading volume associated with differential interpretation as the number of information signals increase from two (both GAAP [Generally Accepted Accounting Principles] and non-GAAP earnings forecasts and realizations are identical), to three information signals (GAAP and non-GAAP forecasts are equal but realizations are not equal or GAAP and non-GAAP forecasts are not equal but realizations are equal) to four information signals (both GAAP and non-GAAP forecasts and realizations are not equal). We find a positive association between the number of earnings signals and differential interpretation. Interestingly, when comparing the two-three information signals scenarios, there is a significantly higher level of abnormal trading volume due to differential interpretation when GAAP and non-GAAP earnings forecasts are not equal but have the same earnings realizations. Next, we analyze abnormal trading volume depending on whether the GAAP and non-GAAP realizations meet, miss, or beat their forecasts. Regardless of the scenario, non-GAAP earnings rarely eliminates abnormal trading volume associated with differential interpretations. Our results suggest that differential interpretation increases as GAAP and non-GAAP forecasts and earnings diverge.

TABLE 12: MERGERS AND ACQUISITIONS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Have M&A Delistings Negatively Impacted U.S. Capital Markets? Evidence from the Effect on Industry Peer Firms

Jangwon Suh
New York Institute of Technology

Donal Byard
Baruch College/CUNY

Masako Darrough
Baruch College/CUNY

Anna Brown
Clarkson University

ABSTRACT: We provide evidence of negative information spillovers associated with delistings from mergers and acquisitions (M&A delistings), a key factor in the long-term decline in the number of publicly listed firms in the U.S. Specifically, we show that M&A delistings are associated with a decrease in the quality of analysts' information environment (increased absolute forecast errors and dispersion) for targets' industry peer firms; these results are stronger when targets are larger, and for public targets than for private targets. Additional tests, including a falsification test using non-completed M&As, suggest that our results are robust to endogeneity concerns arising from industry-level shocks.

TABLE 12: MERGERS AND ACQUISITIONS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

SEC Comment Letters on Form S-4 and M&A Accounting Quality

Bret Johnson
George Mason University

Ling Lei Lisic
Virginia Tech

Joon Seok Moon
George Washington University

Mengmeng Wang
SUNY-Buffalo

ABSTRACT: Prior research on SEC comment letters has almost exclusively focused on reviews of periodic filings, such as 10-Ks, which are selectively reviewed by the SEC. Transactional filing reviews, such as those related to mergers and acquisitions (M&A), are all scrutinized by the SEC and therefore free from this selection issue. In addition, they are a top priority to the SEC and to the executives of the filing companies. We examine the influence of SEC comment letters on one type of transactional filing, Form S-4, on the accounting quality of the newly merged entity. We find that S-4s that receive an SEC comment letter are less likely to have a restatement or a goodwill impairment after the M&A deal is completed. Our inferences remain the same using either an entropy-balanced sample or a propensity-score-matched sample based on firm and deal characteristics. These results are stronger for S-4 comment letters with higher intensity and M&A-specific comments. Using path analysis, we find some evidence that the improved accounting quality is through S-4 amendments filed during the comment letter process. Overall, our findings provide first evidence on the effectiveness of the SEC's transactional filing review process related to M&A deals.

TABLE 13: TECHNOLOGY AND FINANCIAL ACCOUNTING I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Predicting Profitability Using Machine Learning

Vic V Anand
University of Illinois-Urbana-Champaign

Theodore Sougiannis
University of Illinois-Urbana-Champaign

Robert Brunner
University of Illinois-Urbana-Champaign

Kelechi Ikegwu
University of Illinois at Urbana-Champaign

ABSTRACT: Out-of-sample prediction of profitability is a critical step in fundamental analysis and yet, even sophisticated regression models do not generate predictions that significantly outperform random walk predictions. We employ random forests with classification trees, a method from machine learning (ML), to generate out-of-sample predictions of directional changes (increases or decreases) in five profitability measures, return on equity (ROE), return on assets (ROA), return on net operating assets (RNOA), cash flow from operations (CFO), and free cash flow (FCF). With a minimum set of independent variables, and out-of-sample, our method achieves classification accuracies ranging from 57 – 63% for our profitability measures, compared to 50% for the random walk. The difference in proportions of accurate classifications is highly significant. Classification accuracy is invariant to number of years ahead (we test 1-5 years ahead). We also observe better performance on cash flow measures than on traditional, earning-based profitability measures. Importantly, our method is insensitive to outliers; our method used data that had not been winsorized or standardized. These results suggest that ML methods offer better predictive performance than traditional regression-based methods.

TABLE 13: TECHNOLOGY AND FINANCIAL ACCOUNTING I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

The Role of Transparency and Disclosure in the Crypto Token Market: Evidence from Investor Reactions to Regulatory News

Jeroen Koenraadt
Erasmus School of Economics - Erasmus University Rotterdam

Edith Leung
Erasmus School of Economics - Erasmus University Rotterdam

ABSTRACT: Despite some efforts to regulate cryptocurrencies, these assets are mostly issued and traded outside traditional regulated financial markets due to their ambiguous nature. We empirically examine if crypto token investors perceive regulation as net beneficial or costly, and whether cross-sectional differences in crypto token characteristics and transparency affect this reaction. Using a sample of around 1,300 crypto tokens and 145 regulation news events, we find that on average, investors react negatively to news that increases the perceived likelihood of regulation. We find that the negative reaction is mainly driven by news about securities regulation of ICOs and crypto exchanges. However, the negative reaction is less pronounced for crypto tokens with higher expert ratings for transparency, management competence and the underlying business idea, and for crypto token issuers that engage more with followers on social media. We conclude that crypto token investors expect regulation to be costly on average, but less so for tokens with a better information environment or that are better positioned to deal with changes in regulatory requirements.

TABLE 14: TECHNOLOGY AND FINANCIAL ACCOUNTING II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Collaborative Speculation and Overvaluation: Evidence from Social Media

Adam Booker
University of Arkansas-Fayetteville

Asher Curtis
University of Washington

ABSTRACT: We use data from StockTwits and Twitter to provide evidence that investor attention on social media in the period before earnings is related to short-term overvaluation, consistent with bullish investors herding around common information. In the 2 to 60 days after earnings, returns for companies in the highest quintile of pre-earnings announcement investor attention are 4.2 percent lower than those of companies in the lowest quintile. We find evidence that the negative post-earnings drift result found in this study is related to investors waiting until after earnings are announced to enact costly arbitrage strategies. We further examine intra- and inter-network herding and find evidence that social media influences investors beyond the population of active users. This study contributes to prior literature on herding, social media, and speculation and arbitrage.

TABLE 14: TECHNOLOGY AND FINANCIAL ACCOUNTING II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Noise Trading: An Ad-Based Measure

Joshua Mark Madsen
University of Minnesota

Vivian Fang
University of Minnesota

Xinyuan Shao
University of Minnesota

ABSTRACT: This paper proposes a novel measure of noise trading that aims to capture uninformed retail trading. The measure, an indicator of whether the firm placed advertisement(s) in the Wall Street Journal (WSJ) seven calendar days earlier, is motivated by evidence that retail trading spikes seven days after ad days, that firms regularly place ads at weekly intervals, and that weekly ads frequently contain duplicate images. This ad-based measure of noise trading is positively associated with informed trading and stock price volatility, but negatively associated with adverse selection. Collectively, our results provide broad support for the theoretical predictions of Collin-Dufresne and Fos (2016).

TABLE 15: DISCLOSURE ISSUES I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Management Disclosure Committees: Implications for Financial Reporting Quality, Readability and Timeliness

Cristina Bailey
Boise State University

Jonathan Nash
University of New Hampshire

Le (Emily) Xu
University of New Hampshire

ABSTRACT: To help companies to comply with the certification requirements under Section 302 of SOX, the SEC recommends issuers form a management-level committee, namely “disclosure committee”, “for considering the materiality of information and determining disclosure obligations on a timely basis” (SEC 2002a). While not required, the presence of disclosure committees has been persistent post-SOX, and practitioners describe these committees as integral components of corporate governance. However, no academic research has examined disclosure committees. In this study, we examine the effects of disclosure committees on financial reporting quality, readability and timeliness. We find firms with disclosure committees have better financial reporting quality. Further, we find that financial reports are more readable for firms with disclosure committees and such firms have timelier financial reporting. These results are robust to the inclusion of other corporate governance mechanisms and to different endogeneity controls including within-group analyses and propensity score matching. As an additional analysis, we find that the benefits of a disclosure committee on improving financial reporting quality, readability and timeliness are incremental over time. Collectively these results suggest disclosure committees are not merely “window dressing”, providing implications for practitioners, regulators, and academics concerned with corporate disclosure practice.

TABLE 15: DISCLOSURE ISSUES I
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Risk Disclosure and Event Impact Mitigation: Evidence from Security Breaches

Nicholas Jasa
University of Colorado Boulder

ABSTRACT: Prior literature regarding the informativeness of qualitative risk disclosures is divided. While some studies argue that qualitative risk disclosures are boilerplate and do not provide investors with substantial information, others find that markets react to qualitative risk disclosures at the time of the 10-K filing. However, these studies do not examine whether qualitative risk disclosures mitigate consequences of the risk in the event the risk actually occurs. By examining a sample of data security breaches, I find evidence that previous data security risk disclosures mitigate market reactions at the time a security breach is disclosed. Additionally, I find that data security risk disclosure is associated with reduced executive turnover in the year of the breach disclosure. These findings suggest that risk disclosures have a future impact, beyond the filing date, on both stock and labor market outcomes.

TABLE 16: DISCLOSURE ISSUES II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

Disclosure Obfuscation: New Evidence from Index Funds

Christina Zhu
Wharton School University of Pennsylvania

Ed deHaan
University of Washington

Yang Song
University of Washington

Chloe Xie
Stanford University

ABSTRACT: Do managers attempt to obfuscate weak performance with complex disclosures? A significant challenge in addressing this question is controlling for non-discretionary disclosure complexity driven by the underlying firm and its economic transactions. We examine the “manager obfuscation” hypothesis in the context of homogenous S&P 500 index funds. This allows us to hold non-discretionary complexity (e.g., investments and risks) largely constant in order to examine how funds’ disclosure choices covary with net performance (as measured by expenses or, equivalently, post-expense returns). We have three findings that are relevant to both the mutual fund and corporate disclosure literatures. First, funds with weaker net performance have more complex disclosures, which is compelling evidence of managerial obfuscation. Second, funds obfuscate weak performance by ex ante creating unnecessarily complex within-fund class structures. This indicates that seemingly non-discretionary firm characteristics may be part of a discretionary obfuscation strategy. Third, we find that funds simultaneously choose both their expenses and complexity, which is a departure from most studies’ assumption that managers choose disclosure complexity to obfuscate non-discretionary poor

TABLE 16: DISCLOSURE ISSUES II
DATE: SATURDAY, JANUARY 25, 2020
TIME: 9:45 AM - 10:45 AM

The Real Effects of Clinical Trial Disclosures

Thomas Bourveau
Columbia University

Vedran Capkun
HEC Paris

Yin Wang
Singapore Management University

ABSTRACT: We examine the impact of regulation related to the disclosure of clinical trial results on information asymmetry between capital market participants, as well as that between the firm and its customers. Using the adoption of the Food and Drug Administration Amendments Act of 2007 that requires additional disclosures regarding clinical trial results, we document a reduction in information asymmetry in capital markets. Consistent with these additional disclosures also being used for monitoring by customers and scientists, we document an increase in adverse event complaint reports filed against the pharmaceutical firms to FDA and a higher number of drug and medical devices recalls for affected firms after the change in regulation. Finally, we find that the increase in FDA complaint reports and recalls after FDAAA enactment was more prominent in firms with a higher bid-ask spread decrease. Taken together, our results show some benefits of the FDA regulation change for both investors and consumers.

Session 5.02: NON-GAAP EARNINGS AND FORECASTS AND INVESTOR SENTIMENT

DATE: SATURDAY, JANUARY 25, 2020

TIME: 11:00 AM - 12:30 PM

A Tale of Two Forecasts: An Analysis of Mandatory and Voluntary Effective Tax Rate Forecasts

Novia (Xi) Chen
University of Houston

Sabrina Chi
Texas Tech University

Terry J Shevlin
University of California-Irvine

ABSTRACT: We exploit a setting where firms provide two forecasts of the same underlying metric – effective tax rates (ETRs) – to examine the interaction between voluntary and mandatory disclosures. The integral method (ASC 740-270) requires firms to forecast de facto annual ETRs while some firms additionally provide voluntary ETR forecasts in earnings calls. Using a self-constructed dataset of voluntary ETR forecasts, we document that managers are more likely to issue voluntary ETR forecasts when tax complexity is higher. More importantly, voluntary ETR forecasts are incrementally informative over mandatory ETR forecasts as analysts revise their ETR forecasts based on the news in voluntary ETR forecasts, especially for voluntary non-GAAP ETR forecasts and in the presence of discrete tax items. Overall, our results suggest that managers resort to voluntary disclosure when mandatory disclosure constrains their ability to convey private information, thus we offer new insights on the interaction between voluntary and mandatory forward-looking disclosures.

Session 5.02: NON-GAAP EARNINGS AND FORECASTS AND INVESTOR SENTIMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Investor Sentiment and Information Demand

Jayson Talakai
Utah State University

Devon Erickson
Utah State University

Kevin Kim
The University of Memphis

ABSTRACT: We investigate how investor sentiment influences information demand, i.e., investor gathering of detailed information (EDGAR searches) and summary information (Google searches). Using an acquisition announcement setting, we find that as sentiment increases, investors decrease their demand for more detailed information (via EDGAR searches) and increase their demand for more summary information (via Google searches). We also provide evidence suggesting that the relation between sentiment and information demand results in a higher magnitude of future price adjustment (i.e., less efficient market reactions) as sentiment increases. Further, we find that fundamental accounting information obtained via EDGAR search (specifically in the 10-K and 10 Q) significantly decreases sentiment-driven post-acquisition mispricing, whereas summary information obtained via Google search significantly increases it. Overall, our paper provides new insights on one mechanism by which sentiment influences market efficiency - via its influence on investor demand for detailed/fundamental information vs. summary information.

Session 5.02: NON-GAAP EARNINGS AND FORECASTS AND INVESTOR
SENTIMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

*When Non-GAAP Earnings are Not Opportunistic: Evidence from Non-GAAP
Earnings that Follow Management Forecasts*

Mohamad Mazboudi
American University of Beirut

Suteera Pongtepupathum
University of Southern California

Mark T Soliman
University of Southern California

ABSTRACT: We examine the relation between management earnings forecasts and non-GAAP earnings. We find that managers' disclosure strategy for non-GAAP earnings is highly dependent on whether or not managers have issued earnings forecasts in the prior period. In particular, we find that managers are more likely to disclose non-GAAP earnings that are more informative and less aggressive when they issue forecasts for non-GAAP earnings. We also find that non-GAAP earnings that follow both GAAP and non-GAAP management forecasts are more informative and less aggressive than those that follow non-GAAP only management forecasts. Taken together, these results suggest that managers are less likely to use non-GAAP earnings opportunistically when they also issue forecasts for non-GAAP earnings.

Session 5.03: PROPERTIES OF ACCRUALS AND EARNINGS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Debiasing the Measurement of Conditional Conservatism

Miguel Duro
IESE Business School

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New York University Stern School of Business

Fernando Penalva
IESE Business School

Marc Badia
IESE Business School

ABSTRACT: Basu's (1997) conceptualization and measurement of conditional conservatism as the timelier response of earnings to bad news than to good news underlies hundreds of studies on the determinants and effects of this form of conservatism. Starting with Dietrich et al. (2007), however, numerous studies cast doubt on the extent to which Basu's measure captures conditional conservatism as opposed to statistical biases or alternative constructs (collectively, "biases"). Many of these studies question the validity of the inferences that empirical researchers have drawn from their analyses using Basu's measure. We analyze the primary biases identified by these studies and modify Basu's measure in two simple ways to remove the biases. Our key modification is the inclusion of interactive controls for return variance to remove biases attributable to any scale-related effect that interacts with return variance, including but not limited to the loss effect documented by Patatoukas and Thomas (2011, 2016), as well as biases attributable to the muting of equity returns by risky debt documented by Beaver and Ryan (2009) and the skewness of returns documented by Dutta and Patatoukas (2017). Using placebo tests, synthetic returns, alternative measures of conservatism, and other approaches, we show that our modified Basu measure is largely free of bias. We further show that our modified measure is associated with contracting-related variables as predicted by theory. We conclude that, after necessary surgical intervention, the news about the death of Basu's measure has been greatly exaggerated.

Session 5.03: PROPERTIES OF ACCRUALS AND EARNINGS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Patterns in Accruals Quality over Time: Is the Sky Really Falling?

Jenna D'Adduzio
University of British Columbia

Theodore E Christensen
University of Georgia

Karen K Nelson
Texas Christian University

ABSTRACT: Prior research finds evidence of a long-term trend of declining earnings quality in the U.S., concluding that accounting accruals have become less useful in capturing economic fundamentals. We reinvestigate this issue, focusing on a more recent period using the accruals quality measure developed by Dechow and Dichev (2002). Although we find a decline in accruals quality through 2000, our results indicate that accruals quality has generally improved since then (except during financial crisis in 2007-2009). Consistent with prior research, we find that accruals quality is primarily attributable to the volatility of underlying firm performance and conclude that “low” accruals quality is not necessarily a product of a poorly functioning accounting system or manager manipulation. Rather, it reflects the economic (cash flow) uncertainty of the firm’s operating environment. Our results are robust to alternative measures of accruals quality. This negative association between cash flow volatility and accruals quality is not unique to the U.S. We find a similar association between cash flow volatility and accruals quality across different regions of the world—even though inter-temporal accruals quality patterns differ across regions. We reconcile our results with the extant literature and discuss their implications for future researchers.

Session 5.03: PROPERTIES OF ACCRUALS AND EARNINGS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

*The Usefulness of Accrual Accounting in Forming Analysts' Forecasts of Accruals
and Cash Flows from Operations*

Srinivasan Sankaraguruswamy
National University of Singapore

Hojun Seo
National University of Singapore

Shiva K. Sivaramakrishnan
Rice University

Jinping Zhang
National University of Singapore

ABSTRACT: Recent work shows that the role of accrual accounting in mitigating the timing differences between cash flows and operating performance has been disappearing over time (Bushman, Lerman, and Zhang 2016). We argue that even though there is noise in the accrual accounting process, sophisticated users of financial information – financial analysts, are able to extract useful information from the reported accrual accounting process, and use them in their forecasting process, are able to smooth the timing differences in forecasted cash flows, and also predict future reported cash flows. We find that the analysts' forecasts of accruals and cash flows are negatively correlated with each other, and this negative correlation has not changed over time. We also find that the ability of analysts' accruals forecasts to predict future cash flows has not declined over time.

Session 5.04: REGULATORY ENFORCEMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Principles-Based Accounting Standards and Regulatory Enforcement

Mark Paul Kim
University of California-Los Angeles

ABSTRACT: Practitioners claim that rules-based accounting standards provide a safe harbor shield against enforcement risk. In contrast, regulators suggest that principles-based reporting norms better protect preparers and auditors from undue enforcement threat due to its emphasis on substance over form (SEC 2003). I add to this debate by studying a proprietary dataset on accounting inspections from South Korea in conjunction with their mandated adoption of IFRS reporting in 2011. A temporal analysis of this dataset, which archives annual investigative details and enforcement actions relating to accounting allegations, suggests that a shift to a more principles-based regime is associated with (1) increased detection rates of GAAP violations per investigation, (2) larger share price discounts incurred by misreporting firms, and (3) greater declines in their perceived earnings quality. These results are policy relevant in light of the FASB's and IASB's joint proposal advocating a more principles-based approach to standard setting (FASB 2002, 2010).

Session 5.04: REGULATORY ENFORCEMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Regulators' Disclosure Decisions: Evidence from Bank Enforcement Actions

Rimmy Elizabeth Tomy
University of Chicago

Anna V Kleymenova
The University of Chicago

ABSTRACT: Regulatory disclosure requirements induce market discipline and facilitate efficient allocation of resources by increasing firm transparency. However, disclosure also increases the visibility of regulatory actions, which influences the behavior of regulators. We study the effect of disclosure on regulators' incentives by using the setting of the 1989 Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which required bank regulators to disclose enforcement actions publicly. Using a novel sample of enforcement actions in the non-disclosure regime, we find that regulators' incentives change after the introduction of the Act. In the disclosure regime, regulators are more likely to issue enforcement actions as well as to rely on publicly observable signals to issue enforcement orders, suggesting a response to the increased public scrutiny of their actions. We also find that disclosure leads to a decline in deposits and improves banks' capital ratios and asset quality. Furthermore, we find that enforcement actions are a stronger predictor of bank failure in the disclosure regime and that the disclosure of enforcement actions accelerates bank failure.

Session 5.04: REGULATORY ENFORCEMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

The Impact of Redacting Information from SEC Filings on the SEC Oversight Process

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Baruch College - CUNY

Kalin S. Kolev
CUNY-Baruch College

Daeun Lee
Baruch College - CUNY

ABSTRACT: We study the interplay between a firm's request to redact material contracts information from its SEC filings and SEC oversight. We find redactions are associated with more intense oversight, as evidenced by higher incidence of comment letters and a longer resolution process. Pointing to a direct link, the effect is concentrated among comment letters targeting issues related to proprietary information. We also offer evidence the redactions relate to firms' overall approach to managing proprietary information, rather than to a one-off reporting choice. Collectively, our analyses support the notion that the SEC is mindful of the potential costs associated with withholding proprietary information from registrant filings, and acts to alleviate the information gap between redacting firms and their stakeholders.

Session 5.06: VALUATION AND FUNDAMENTAL ANALYSIS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Corporate Job Posting Distinguishes Between Highly-Valued and Overvalued Stocks

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New York University Stern School of Business

Xi Wu
New York University Stern School of Business

ABSTRACT: We propose in this study the rate of firms' job postings as a complementary and "alternative data" to conventional financial variables. Using a database which covers the near-universe of on-line job posting in the U.S., we first establish that job postings predict firms' sales and gross profit growth for at least three years, controlling for conventional growth predictions, such as R&D, capital expenditures, and the PE Ratio. We then apply job posting to the main theme of this study: distinguishing between highly-valued and overvalued (soon to decline) shares. We document that the rate of firms' job postings indeed contributes to the separation of the highly- from the over-valued shares, incrementally to conventional valuation measures used by investors.

Session 5.06: VALUATION AND FUNDAMENTAL ANALYSIS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Macroeconomic Uncertainty and Firm Profitability

Oliver Binz
Duke University

ABSTRACT: This paper examines how macroeconomic uncertainty affects firms' revenues, expenses, and profitability. Consistent with consumers reducing purchases and managers cutting costs, I find that increases in macroeconomic uncertainty lead to lower revenues and expenses. The net effect on profitability, however, is positive as the reduction in expenses exceeds the fall in revenues. The results last up to six quarters, vary predictably with countries' institutional environment, and hold under instrumental variable estimation employing exogenous variation in macroeconomic uncertainty arising from natural disasters, political unrest, revolutions, and terrorist attacks.

Session 5.06: VALUATION AND FUNDAMENTAL ANALYSIS
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Who is My Street Peer? The Relevance of Using Adjusted Accounting Metrics for Peer Selection in Multiple Valuation

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Universiteit Maastricht

Mathijs Van Peteghem
Universiteit Maastricht

Olga Ihl-Deviv'e
Maastricht University

ABSTRACT: This study benchmarks the use of street earnings versus GAAP numbers in a multiple valuation framework. Specifically, we examine whether multiple valuation using peers identified based on street earnings outperforms multiple valuation using peers identified based on GAAP numbers. To evaluate the outperformance of street earnings-based peer valuation, we examine the predictive ability and the valuation accuracy of peer-based multiple estimates. We rely on the warranted multiple approach developed by Bhojraj and Lee (2002), in which EVS ratios are predicted using a set of peer firms. Using a sample of U.S. listed firms over the period 2003 to 2014, we find that the use of street earnings leads to a completely different set of selected peers for 14% of the observations. When these different peers lead to a different implied valuation, the street earnings-based predicted EVS ratio has a higher predictive power and is more accurate compared the GAAP-based predicted EVS ratio. Moreover, we provide evidence that the street earnings-based predicted EVS better explains future stock returns and forms a useful benchmark in identifying target firm over- or underperformance. Crosssectional analyses further show that street earnings' value predominantly materializes in complex firms. Our findings confirm the supremacy of street earnings vis-à-vis GAAP numbers and suggest that the warranted multiple valuation approach may help investors detect mispricing.

Session 5.07: CORRUPTION, POLITICS, AND TERRORISM
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

*The Impact of Anti-Corruption Laws: Evidence from the U.K. Bribery Act's
Extraterritorial Reach*

Amanda Sanseverino
Baruch College -- CUNY

ABSTRACT: I study the impact of anti-corruption laws by introducing a novel within-country setting that exploits US multinational firms' differential exposure to the extraterritorial jurisdiction of the 2010 United Kingdom Bribery Act (UKBA). I show that adoption of the UKBA, which is stricter than the US Foreign Corrupt Practices Act (FCPA) in several key respects, induces US firms with material UK business to curb their exposure to corrupt countries, relative to US peers without material UK business. The effect is more pronounced for firms with higher enforcement risk and ex ante bribery risk. Following adoption, more US firms stop reporting their UK segment (compared to their German segment), consistent with some firms reducing their exposure to the UK's jurisdiction. Additionally, firms that reduce their UK exposure have relatively high pre-adoption business in corrupt countries. My findings suggest that adopting stricter anti-corruption laws abroad increases the cost of bribery for US multinationals and thereby drives real changes in their international business. This study also demonstrates how extraterritorial legal provisions, which are increasingly common due to globalization, can be exploited to provide plausibly causal evidence of the impact of new laws and regulations.

Session 5.07: CORRUPTION, POLITICS, AND TERRORISM
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

Political Activism and Market Power

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Fuqua School of Business, Duke University

Roni Michaely
University of Geneva

Laura Wellman
Penn State University

ABSTRACT: Using a novel dataset of firms' government relations staff and two distinct empirical settings we show that firms grow and protect their market power through political activism. Gains in market share are also accompanied by relative increases in margins, selling prices, and profitability. Findings indicate that active firms secure their first-mover advantage through strategically timed investments when the level of market-wide policy uncertainty is high. We overcome identification issues by using: (i) two instruments based on firms' geographic proximity to Washington D.C. and industry exposure to foreign markets, and (ii) separately, firms' mandatory lobbying disclosures to identify a broad set of legislative actions lobbied for by politically active sample firms to analyze their strategic actions around those events. Collectively, our results show that politically active firms gain a competitive advantage over inactive peers, and that this advantage is even stronger during high policy uncertainty times.

Session 5.07: CORRUPTION, POLITICS, AND TERRORISM
DATE: SATURDAY, JANUARY 25, 2020
TIME: 11:00 AM - 12:30 PM

SEC Disclosure Regulation of State Sponsors of Terrorism

Robert Hills
Pennsylvania State University

Matthew Ryan Kubic
Duke University

William J Mayew
Duke University

ABSTRACT: We study two SEC actions to regulate firm disclosures regarding involvement with countries designated as state sponsors of terrorism (SST). The first action is a web tool launch to highlight firm filings discussing SST activities. Highlighted firms stock price initially decreases by 1.1% which quickly and completely reverses, suggesting the web tool does not facilitate investor assessment of firm value. The second action is the creation and operation of the Office of Global Security (OGSR) to assist in registrant filing reviews with respect to SST. Following the OGSR's creation in 2005, the proportion of comment letters referencing SST (accounting topics) increases (decreases). Lawyers (accountants) are more (less) likely to inquire about SST, and the likelihood that the comment letter process fails to detect a financial reporting error increases when the comment letter references SST. The evidence is consistent with the SEC's increased focus on SST detrimentally affecting financial reporting quality.

Session 6.01: TAXES AND FINANCIAL REPORTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Do Financing Constraints Lead to Incremental Tax Planning? Evidence from the Pension Protection Act of 2006

John L. Campbell
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Nathan Chad Goldman
North Carolina State University

Bin Li
University of Oklahoma

ABSTRACT: Prior research examines whether firms facing greater financial constraints turn to tax strategies that generate lower cash effective tax rates (ETRs) to mitigate the adverse effect of these financial constraints. However, this literature produces conflicting evidence on the direction of this relationship (i.e., some studies document a decline in ETRs, while others document an increase in ETRs). We use the Pension Protection Act of 2006 (PPA 2006) as an exogenous shock to financing constraints for pension firms, but not for other firms. Using a difference-in-difference research design, we find that pension firms decrease their cash effective tax rates by 3.3 percent after the PPA 2006, but other firms do not experience such a decrease. These cash tax savings mitigate the investment shortfall brought about by financial constraints by only 14 percent. Finally, we identify the mechanism for this relation, showing that these firms lower their cash ETRs through tax strategies that result in immediate, permanent book-tax differences. In additional analysis, we show that our results concentrate in domestic firms and that the effect of financial constraints on tax planning is more complicated for multinational firms. Overall, our paper sheds light on the direction, causality, and economic magnitude of the association between financial constraints and tax planning activities, identifies the specific tax planning activities that firms use to mitigate the adverse effects of financial constraints, and reconciles seemingly “conflicting” results in prior studies.

Session 6.01: TAXES AND FINANCIAL REPORTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Do Investors and Analysts Understand the Financial Reporting Implications of a Tax Rate Change? Evidence from TCJA of 2017

Novia (Xi) Chen
University of Houston

Allison Koester
Georgetown University

ABSTRACT: This study examines whether investors and analysts understand the financial reporting implications of a tax rate change. We exploit the deferred tax adjustment resulting from the corporate tax rate reduction enacted by the Tax Cuts and Jobs Act of 2017 (TCJA) as a unique setting to isolate the financial reporting effect of a tax law change. We find that stock returns during the TCJA enactment window are associated with the deferred tax adjustment in the predicted direction, and there is no evidence of a systematic pre-emption or delay in market response. On the other hand, analysts only partially incorporate the earnings impact of the deferred tax adjustment into their GAAP earnings forecasts. Forecasts reflect more (but not all) of the adjustment as analysts observe more peer analysts' forecasts and industry peer firms' TCJA-related press releases, consistent with analyst learning. Our finding that investors fully incorporate the deferred tax adjustment into stock price, while analysts only partially incorporate the adjustment into their earnings forecasts, casts doubt on whether analyst forecasts are a reliable proxy for market expectations of a firm's earnings.

Session 6.01: TAXES AND FINANCIAL REPORTING
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Real Effects of Private Country-by-Country Disclosure

Marcel Olbert
University of Mannheim

Lisa De Simone
Stanford University

ABSTRACT: We investigate the effects of mandatory private Country-by-Country (CbC) disclosure to tax authorities on economic activity. Using rich data on the operations of multinational firms, we exploit the threshold-based application of this 2016 disclosure rule in a regression discontinuity design. We find evidence that firms affected by the disclosure mandate reduce ownership in tax haven subsidiaries relative to unaffected firms and thereby increase transparency in their previously opaque organizational structure. We also document that affected firms invest less in aggregate employment on average relative to unaffected firms but do not appear to alter consolidated tax payments. However, affected firms increasingly allocate revenue, employment, total assets, and, correspondingly, tax payments to subsidiaries in European low-tax countries. Collectively, our findings suggest that mandatory CbC disclosure curbs the most aggressive tax planning achieved through tax haven operations but has likely unintended adverse effects on other real economic activities.

Session 6.02: MODELING AND DETERMINANTS OF EARNINGS
MANAGEMENT

DATE: SATURDAY, JANUARY 25, 2020

TIME: 2:30 PM - 4:00 PM

Accounting for Uncertainty: An Application of Bayesian Methods to Accruals Models

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Harm Schütt
Tilburg University

ABSTRACT: We introduce a Bayesian approach for predicting “normal” accruals—a vital ingredient for measuring and identifying accrual-based earnings management. The literature’s standard approach takes a given model of normal accruals for granted, and neglects any prediction uncertainty. By contrast, our approach allows incorporating researchers’ uncertainty about the relevant models and parameters in the prediction of normal accruals. Our approach promises to increase power and reduce false positives in tests for opportunistic earnings management as a result of better predictions of normal accruals and more robust inferences. We advocate for greater use of Bayesian methods in accounting research, especially since they can now be easily implemented in popular statistical software packages.

Session 6.02: MODELING AND DETERMINANTS OF EARNINGS
MANAGEMENT

DATE: SATURDAY, JANUARY 25, 2020

TIME: 2:30 PM - 4:00 PM

Information Versus Investment

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Toni M. Whited
University of Michigan

Anastasia Zakolyukina
The University of Chicago

ABSTRACT: Firms' efficient long-term investment and accurate reporting of information about performance both serve crucial roles in the economy and capital markets. We argue quantitatively that the two goals are in direct conflict in the presence of realistic manager compensation contracts, which provide managers with incentives both to misreport financial statements and to distort their real investment choices. We build a dynamic structural model rich enough to capture a natural tradeoff between investment and information. The model matches a range of observable moments constructed from data on firm investment and periods of detected misreporting by firms. Counterfactuals show that regulations preventing misreporting do in fact incentivize managers to distort real investment, whose volatility rises. This excess volatility lowers firm value, suggesting a quantitatively meaningful tradeoff.

Session 6.02: MODELING AND DETERMINANTS OF EARNINGS
MANAGEMENT

DATE: SATURDAY, JANUARY 25, 2020

TIME: 2:30 PM - 4:00 PM

*Pressure from the crowd: Crowdsourced Earnings Forecasts and Earnings
Management*

Jacob Ott
University of Minnesota

K R Subramanyam
University of Southern California

Ivy Zhang
University of California, Riverside

ABSTRACT: Social-media-based information intermediaries are playing an increasingly important role in the capital markets. In particular, research finds that crowdsourced earnings forecasts collected and disseminated by Estimize provide an alternative earnings benchmark that affects analysts and investors. We explore the impact of this new, social-media-based information intermediary on managerial decision making by examining how Estimize coverage initiation affects firms' financial reporting. Using a difference-in-differences approach based on a propensity-score-matched control sample not covered by Estimize, we find that firms experience a significant incremental increase in both accrual-based and real-activities-based earnings management after Estimize coverage initiation. The evidence suggests that pressure from the crowd to deliver short-term performance exacerbates managerial myopia. We also find that the increase in accrual-based and real-activities-based earnings management is concentrated in firms followed by a larger number of Estimize contributors, firms with fewer existing analysts following, and firms with higher transient institutional ownership. This study adds to the rising line of research on social media by documenting an unintended impact of crowdsourced investment research on financial reporting and managerial short-termism.

Session 6.03: VARIOUS FINANCIAL REPORTING ISSUES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Board Risk Oversight and Corporate Tax-Planning Practices

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North Carolina State University

Nathan Chad Goldman
North Carolina State University

Christina Lewellen
North Carolina State University

Michelle McAllister
Northeastern University

ABSTRACT: Risk oversight by the board of directors is a key component of a firm's enterprise risk management framework, and recently, boards have paid more attention to their firm's tax-planning activities. In this study, we use a hand-collected sample of proxy statement disclosures about the board's role in risk oversight and provide evidence that more robust risk oversight is associated with less volatile firm effective tax rates as well as lower overall tax burdens. We also find that the tax activities are concentrated within positions that yield permanent tax benefits, as well as less uncertain tax-planning activities. Overall, the evidence is consistent with greater board risk oversight influencing the firm to engage in more effective tax-planning practices. Additionally, we document that our findings are concentrated among firms that provide their managers with less equity risk incentives, thereby providing evidence of one specific avenue boards may use to incentivize less uncertain tax planning.

Session 6.03: VARIOUS FINANCIAL REPORTING ISSUES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

The Effect of Deferred Prosecution Agreements on Firm Performance

R. Christopher Small
University of Toronto

Gus De Franco
Tulane University

Aida Sijamic Wahid
University of Toronto

ABSTRACT: The recent increase in the use of deferred and non-prosecution agreements (DPAs) by government agencies as a mechanism to hold a firm accountable for having engaged in wrongdoing and to reform the firm's practices has given rise to a vigorous debate regarding the merits and drawbacks of such arrangements, compared with the alternative of prosecuting these firms. We find that firms subject to DPAs experience significantly lower buy-and-hold returns in the one- to three-year period following the DPA compared with prosecuted firms. These results are consistent with shareholders experiencing a wealth loss when a firm enters into a DPA. We also show that DPA firms experience negative real consequences following the initiation of a DPA, relative to prosecuted firms, as measured by decreases in both sales and the number of employees. These results are inconsistent with the idea that DPAs reduce the collateral damage to stakeholders who are not responsible for the crimes committed by the organization (i.e., innocent parties).

Session 6.03: VARIOUS FINANCIAL REPORTING ISSUES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

CECL: Trade-offs of Timely Loan Loss Provisioning

Lucas Mahieux
Tilburg University

Haresh Sapra
University of Chicago

Gaoqing Zhang
University of Minnesota-Minneapolis

ABSTRACT: We investigate the impact of loan loss provisioning on the prudential regulation of banks. We study two provisioning models: an incurred loss model and an expected loss model. Relative to the incurred loss model, an expected loss model improves efficiency as it allows the bank regulator to intervene in the bank's operations in a timely manner to curb inefficient ex-post asset-substitution. However, taking real effects into account, our analysis uncovers a potential cost of the expected loss model. We show that when the bank is highly leveraged, it responds to timely regulatory intervention under the expected loss model by originating riskier loans so that timely intervention induces timelier risk-taking. By appropriately tailoring the bank's capital requirements to the expected loss model, the regulator may improve the efficiency of the expected loss model.

Session 6.04: MANDATORY DISCLOSURE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

CSR Disclosure and Benchmarking-Learning: Emissions Responses to Mandatory Greenhouse Gas Reporting

Sorabh N Tomar
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ABSTRACT: Examining the US Greenhouse Gas Reporting Program, I find facilities reduce GHG emissions by 7% after facility-level emissions are mandatorily disclosed. Facility inefficiency predicts emissions reductions, but only after public disclosure, which follows reporting to the regulator with a considerable lag. Industry emissions dispersion falls, and facilities with more nearby disclosing peers reduce emissions more. These results suggest facilities learn from their peers' disclosures. Combining Bayesian techniques with physical relations underlying fossil fuel use, I estimate pre-reporting period emissions--I find that reporting to the regulator, prior to disclosure, does not lead to emissions reductions. Lastly, the reduction following disclosure holds after scaling by a proxy for goods produced, and capital expenditure and gross margins increase, consistent with facilities investing in efficiency improvements. The takeaway is that 'benchmarking-learning' can play role in CSR improvements following mandatory CSR disclosure, with this extending to greenhouse gas emissions.

Session 6.04: MANDATORY DISCLOSURE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Information Transparency in Drug Development: Evidence from Mandatory Disclosure of Clinical Trials

Po-Hsuan Hsu
National Tsing Hua University

Kyungran Lee
University of Hong Kong

S.Katie Moon
University of Colorado

Seungjoon Oh
HSBC Business School, Peking University

ABSTRACT: Using the Section 801 of the Food and Drug Administration Amendments Act of 2007 (FDAAA) that requires drug developers to disclose clinical trial plans and results publicly as identification, we provide novel evidence that increased information transparency leads to more clinical trial suspensions. Our evidence supports peer learning as a mechanism for increased suspension decisions after the FDAAA. Finally, we analyze the social welfare of the increased information transparency and draw policy implications that while the FDAAA helped improve drug quality conditioning on project continuation, it leads to more suspensions of potential new drugs that could reduce mortality and morbidity.

Session 6.04: MANDATORY DISCLOSURE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

*Intended Benefits and Unintended Consequences of Improved Performance
Disclosure*

John C. Heater
Duke University

ABSTRACT: I document significant unintended consequences of a seemingly innocuous, well-intentioned disclosure rule change. In 1998, the SEC required that all funds disclose a self-selected, primary benchmark. I find that investor sensitivity to excess benchmark returns increases after 1998. Fund manager responses to the disclosure change resulted in significant real effects and externalities. I find that two-thirds of funds select an inaccurate benchmark and outperform non-strategic funds via higher risk taking. The new disclosures also exacerbate the well-documented tendency of underperforming fund managers to increase risk in the second half of the year.

Session 6.05: INVESTOR PRESSURE AND DISCLOSURES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Anonymous Equity Research

Travis Dyer
Cornell University

Eunjee Kim
Cornell University

ABSTRACT: This paper explores the incentives for and consequences of anonymous disclosure in crowd-sourced information platforms. Using a dataset from Seeking Alpha, one of the largest crowd-sourced information platforms, we find that anonymous authorship of articles is becoming more prominent over time and that anonymous authors tend to write about firms with uncertain information environments and higher retail following. We document that anonymous articles tend to incite additional uncertainty as evidenced by increased spreads and stock illiquidity in the target firm. Consistent with concerns regarding credibility, we find that investor's stock price reaction to anonymous articles tends to be muted. Despite this, there is some evidence of stock price reversals for anonymous articles. Lastly, we provide evidence that firm insiders are likely one type of market participant that discloses anonymously.

Session 6.05: INVESTOR PRESSURE AND DISCLOSURES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Reporting Frequency and Market Pressure in Crowdfunding Markets

Ties de Kok
University of Washington

ABSTRACT: This paper studies the role of reporting frequency in crowdfunding markets. Using data from one of the largest reward crowdfunding platforms, I provide the first empirical evidence on the relationship between reporting frequency and the level of market pressure in a scenario where the entrepreneur's consumers also act as her funders. I develop a text-based measure for market pressure by classifying Twitter messages directed to the entrepreneurs with a machine learning algorithm trained using Amazon Mechanical Turk. The results show a negative association between reporting frequency and the level of market pressure. This result is driven primarily by the reporting part of the updates; a mediation analysis shows that only a small fraction of the relationship is driven by a consumption utility effect. Furthermore, this association is stronger when accompanied by higher quality reporting events, is not influenced by the frequency of unverifiable additional announcements, and is weaker during periods with a large presence of newly joined funders. These results highlight that higher reporting frequencies can lead to reduced agency frictions in crowdfunding markets, even when these markets are characterized by strong myopic market preferences.

Session 6.05: INVESTOR PRESSURE AND DISCLOSURES
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

The Impact of Creditor Shareholder Conflict on Stock Price Crash Risk

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University of California

ABSTRACT: We use the simultaneous holding of equity and debt claims of the same firm by institutions ('Dual Holders') as a setting to study the impact of creditor shareholder conflict on stock price crash risk. We argue that creditor shareholder conflict with respect to voluntary disclosure exacerbates the problem of prolonged managerial withholding of bad news, and hence increases future stock crash risk. Consistent with this argument, we find that future stock crash risk goes down when the creditor shareholder conflict is partly mitigated due to the presence of Dual Holders. Further, the mitigating effect of presence of Dual Holders on stock crash risk is pronounced in periods and cross-section of firms where creditor shareholder conflict is more intense. Lastly, we find evidence consistent with the effect of creditor shareholder conflict on stock price crash risk operating through the channel of voluntary disclosure. Our study extends the existing literature on crash risk (which has primarily attributed stock crash risk to agency conflict between managers and shareholders) by highlighting the role of another important source of agency conflict within the firm, the one between creditors and shareholders, in exacerbating the stock price crash risk.

Session 6.06: GOVERNANCE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Investor-Driven Governance Standards and Firm Value

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Paige Harrington Patrick
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ABSTRACT: We examine whether there are baseline corporate governance practices effective in generating value across firms. Using a novel measure of corporate governance based on the stated preferences of a large group of institutional investors, we find that firms that adhere more closely to these stated preferences have higher valuations. Our empirical measure of these preferences is also associated with more stringent monitoring. Taken together, our results suggest that such baseline governance practices have a positive impact on firm value via more effective board oversight.

Session 6.06: GOVERNANCE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

rTSR: When Do Relative Performance Metrics Capture Relative Performance?

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University of Toronto - Rotman School of Management

Charles CY Wang
Harvard University Business School

ABSTRACT: Relative total shareholder returns (rTSR) has become the predominant metric to isolate managers' idiosyncratic performance. Among firms that explicitly use rTSR in relative performance contracts, 60%---those that choose specific peers as benchmarks---select rTSR metrics that do a remarkable job of filtering out the systematic component of returns in adherence to the informativeness principle. However, firms that choose index-based benchmarks retain substantial systematic noise in their rTSR metrics. We document that the selection of noisy benchmarks is associated with compensation consultants' preferences, which are uncorrelated with observable firm attributes. Firms with weak governance are more likely to choose indexes, not because of opportunism, but because they do not adequately scrutinize outside experts' advice. Collectively, our findings provide a new explanation for why some executives are evaluated based on systematic noise, and novel evidence on how compensation consultants can impact firms

Session 6.06: GOVERNANCE
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

The Dynamic Role of Earnings and Returns in Executive Contracting

Melissa Martin
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ABSTRACT: Prior literature theorizes variation in firms use of accounting and market measures of performance based on the underlying informativeness of each measure. Empirical tests utilizing cross-sectional variation in firm traits associated with the relative informativeness of these measures document expected variation in the relative contracting weights of earnings and returns. Our study focuses on whether firms alter the weights on these measures as their informativeness changes over time. We use the firm life cycle hypothesis to identify shifts in the informativeness of performance measures and examine whether firms adjust compensation for changes in the signal and noise of both accounting and market-based measures of performance. We document changes in the weights on performance as firms move forward and backwards across life cycle stages. Further, in cross-sectional tests, we document differences in the transition effect based on CEO power, CEO firm-related wealth, and monitoring. Lastly, we verify our results are distinct from other firm changes that may accompany life cycle stage shifts, including changes in institutional ownership.

Session 6.07: MARKET CONSEQUENCES OF EARNINGS MANAGEMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Acquiring to Sell: Acquisition Flippers and Earnings Management

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ABSTRACT: This study documents an interesting phenomenon that some acquirers act like “house flippers” in the capital market. They buy and own targets for a relatively short period of time and then resell targets to other companies for profit. Given the short investment horizon of these acquisition flippers, they may inflate targets’ earnings to boost resale value rather than improving targets’ fundamentals over a longer period of time. Using a matched sample of flipped and non-flipped acquisitions, we find evidence that flipped targets’ earnings are more likely to be overstated compared to non-flipped targets. Specifically, subsequent acquirers of flipped targets are more likely to restate earnings downward during the post-acquisition period than acquirers of non-flipped targets. In addition, flipped targets have a high level of abnormal accruals and tend to lay off employees, cut discretionary expenditures and engage in overproduction to boost earnings compared to non-flipped targets. Furthermore, we find that flipped targets’ earnings management is detrimental to subsequent acquirers as evidenced by subsequent acquirers experiencing larger declines in operating performance, having a higher likelihood of goodwill impairments, and being less likely to acquire flipped targets in the future than acquirers of non-flipped targets. Overall, we identify opportunistic behavior undertaken by acquisition flippers that is not in the best interests of targets and subsequent acquirers.

Session 6.07: MARKET CONSEQUENCES OF EARNINGS MANAGEMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

Firm Reputation Following Financial Misconduct: Evidence from Employee Ratings

Yuqing Zhou
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Christos Makridis
MIT

ABSTRACT: Using data from Glassdoor between 2008 and 2016, we study the effect of the public announcement of financial misconduct on employees' perceptions of firms, managers, and their salaries. We find a 0.32 standard deviation decline in overall company ratings following the public announcement of misconduct. The effects are stronger among employees who have weaker bargaining power on the job market, such as non-college workers and shorter tenure workers. Moreover, the salaries of certain employee groups slightly increase during the period of misconduct and decrease for a few years after the misconduct announcement. We also find that employee ratings are helpful for predicting misconduct.

Session 6.07: MARKET CONSEQUENCES OF EARNINGS MANAGEMENT
DATE: SATURDAY, JANUARY 25, 2020
TIME: 2:30 PM - 4:00 PM

How Are Non-Financial and Financial Misconduct Related?

Aneesh Raghunandan
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ABSTRACT: I examine the relation between firms' non-financial and financial misconduct. Using a novel, comprehensive dataset on federal agency penalties, I show that the relation between financial and non-financial misconduct varies with both the timing and type of non-financial violation. Financial misconduct is concurrent with illegal underpayment of employees' wages and precedes environmental violations, but does not appear to be concurrent with, precede, or be preceded by any other type of non-financial misconduct. Non-financial misconduct is also more indicative of financial misconduct in industries where a violation is more likely to have been deliberate (rather than accidental) and for firms in which governance worsens. Finally, firms under pressure to meet or beat earnings expectations engage more frequently in activities that yield both worker safety- and wage-related violations. My results highlight (i) that short-term and long-term incentives factor into not just whether firms engage in misconduct but how they choose to do so; and, as a result, (ii) that the dynamics of real vs. accrual earnings management do not necessarily generalize to the case of outright misconduct.