

### Research News: Capital Market Reaction to Accounting Information Release

A vast body of literature studies the market response to the release of accounting information. These works generally consider how stock prices and trading volume react when such information is disclosed. In one of his research projects, Pietro Perotti, member of CAR's research team, proposes to use traders' strategies, measured in terms of order aggressiveness (i.e. the preference for a more immediate execution of the order), as an alternative metric of the market response to the release of accounting information. Trader's strategies represent a more primitive metric of market response and reflect a larger information set than stock prices and trading volume do. He presents an empirical application of this metric and he provides evidence that market participants perceive the information contained in earnings as useful. In another work, co-authored with Mara Cameran (Bocconi University, Accounting Department), Perotti considers the effect of IAS/IFRS adoption on fees paid to auditors in the Italian banking industry. After controlling for the traditional determinants of audit fees (size, risk and complexity of the auditee), he finds that fees increase after IAS/IFRS adoption. This is consistent with the view that fair value accounting increases auditor effort. For banks and financial institutions the approval of the accounting standards concerned with financial instruments (IAS 32, IAS 39 and IFRS 7) was highly controversial, in particular because of the greater complexity implied by the extension of fair value accounting and by the introduction of new hedge accounting rules. Accordingly, the results show that the increase in fees observed after the introduction of IAS/IFRS is partly driven by the presence of derivatives held for hedging purposes. These findings contribute to the debate on the costs and benefits of accounting harmonization, which is already effective in the European Union and will be soon a reality in North America.

#### To know more:

Perotti, Pietro and Barbara Rindi (2006): Market for Information and Identity Disclosure in an Experimental Open Limit Order Book, *Economic Notes*, Vol. 35, No. 1.

Perotti, Pietro (2008): Order Aggressiveness as a Metric to Assess the Usefulness of Accounting Information, available at SSRN: <http://ssrn.com/abstract=1129251>.

Perotti, Pietro and Barbara Rindi (2008): Market Makers as Information Providers: The Natural Experiment of STAR, available at SSRN: <http://ssrn.com/abstract=1320129>.

### CAR-Member Visits Berkeley

CAR's Roland Königsgruber won the prestigious Marshall Plan Foundation Fellowship to UC Berkeley and spent one month on the US West Coast. A graduate of degree programs in both Accounting and International Relations, Königsgruber's research borders on political science and financial reporting. He has published on lobbying in the context of accounting standard setting and spent his time in California researching the activities of governments on private financial markets via sovereign wealth funds.



### Wagenhofer Named Associate Editor of Abacus

Alfred Wagenhofer, head of CAR, has accepted to serve as an associate editor of Australian accounting journal *Abacus*. Founded in 1965 and closely related to the University of Sydney, *Abacus* is a highly regarded research outlet publishing research on financial reporting, its regulation and current developments in theory and practice, using a variety of research methods. *Abacus* is also SSCI listed.



## Research Ranking Yields Excellent Outcome for CAR

The German business daily Handelsblatt has recently published its long-awaited ranking of business research in the three German-speaking countries Austria, Germany and Switzerland, noting a strong shift in attitudes towards international publications. In the fields of accounting and taxation, CAR faculty boast strong result. In the overall ranking Alfred Wagenhofer is the highest ranked professor in the discipline Accounting and Management Control. Rainer Niemann leads the discipline Taxation for young researchers under forty years of age. These successes confirm earlier results from a study that ranked the University of Graz fourth among all German-speaking universities for its managerial accounting research.

### To know more:

<http://www.handelsblatt.com/politik/nachrichten/ranking-die-bwl-erfindet-sich-neu;2284051>.

Fabel, Oliver, Miriam Hein, Robert Hofmeister (2008): Research Productivity in Business Economics: An Investigation of Austrian, German and Swiss Universities, German Economic Review, Vol. 9, No. 4.

## Research News: Economics and Politics of Accounting Regulation

Accounting regulation may seem a dry, technical subject. However, the use of financial reporting information in contracts as well as its role in financial market valuation imply that there are real consequences attached to accounting. And this means that some people will go to great lengths to influence reported numbers. The examples of Enron and Worldcom brought outright reporting manipulation to the public's attention and resulted in a tightening of regulation. It is sometimes assumed that managers always prefer reporting flexibility and would lobby to retain it. However, as Roland Königsgruber, member of CAR's research team, demonstrates using formal game-theoretic modelling, if the users of financial reports rationally interpret the numbers, managers will usually prefer strict regulation leading to less flexibility in reporting. If compliance costs with the regulation are not too high, they may even opt into a stricter



reporting regime by means of a cross-listing. Königsgruber also analyses the process by which accounting standards come into effect in the European Union and the United

States. His research shows that there are more political actors with veto powers over accounting standards in the EU than across the Atlantic. He therefore concludes that lobbying can be expected to be directed towards politicians rather than standard setters more often in Europe. The analysis also suggests higher bargaining power for European actors due to the credible veto threat over new accounting standards stemming from the politicized endorsement process which includes representatives from national ministries as well as private industry.

### To know more:

Königsgruber, Roland (2009): A Political Economy of Accounting Standard Setting, *Journal of Management and Governance*, forthcoming.

Königsgruber, Roland (2009): An Economic Analysis of Cross-Listing Decisions and Their Impact on Earnings Quality, *Schmalenbach Business Review*, forthcoming.

Königsgruber, Roland (2009): Bilanzmanipulation und Managementpräferenzen bezüglich der Strenge des Systems der Rechnungslegungsregulierung, *Zeitschrift für Betriebswirtschaft*, forthcoming.

## Pre-Announcement: Symposium on Accounting, Valuation and Auditing Reserve the date

CAR organizes a symposium on accounting and auditing on September 29 2009. The German-language symposium will be in honour of Professor Gerwald Mandl who will retire this academic year. The program is scheduled to begin at 3 pm and includes four prominent speakers. Participation is free of charge. Separate invitations will be distributed soon. RSVP to [marika.adam@uni-graz.at](mailto:marika.adam@uni-graz.at).

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