



"Why More Forward-Looking Accounting Standards Can Reduce Financial Reporting Quality" (EAR)



In a paper, recently published in the European Accounting Review, CAR's Ralf Ewert and Alfred Wagenhofer challenge the premises of standard setters and much empirical works that improving the quality of accounting standards and their implementation increases information in capital markets. Their analysis shows that more forward-looking accounting standards can reduce the information content of financial reports as these standards can conflict with the earnings smoothing and thus impair a manager's willingness to incorporate private information in the financial report. Although the manager could eliminate the effect by earnings management, it is too costly to do so. As a consequence, the capital market's ability to infer the financial and nonfinancial information in reported earnings declines. This finding should increase the awareness that an 'improvement' in accounting standards, without considering incentives and other information residing in firms, can adversely affect the quality of financial reporting.

"The financial reporting consequences of proximity to political power" (JAPP)



The paper written by Christian Groß (Institute of Accounting and Control), former CAR members Roland Königsgruber (VU Amsterdam) and Pietro Perotti (University of Bath), and Christos Panzalis (University of South Florida) has been accepted for publication in the Journal of Accounting and Public Policy (JAPP). The paper examines the consequences of corporate proximity to political power on financial reporting. Prior literature shows that higher proximity to political power leads to higher policy risk, i.e., uncertainty regarding the impact of future policies on the cash flow of the firm. An increase in policy risk implies an increase in the opaqueness of the information environment and in the expected volatility of future operating profitability; they argue that these effects

both encourage and facilitate earnings management. Drawing on recent research in finance and political science, they use a measure of the alignment along party lines between politicians elected at the state level and the federally elected President as their measure of proximity to political power. They find a significant positive association between the political alignment of firms' home states and their level of absolute discretionary accruals. Consistent with the idea that firms engage in corporate political activities (lobbying and financial contributions) to hedge against policy risk, their results only hold for firms not engaging in such activities.

Young Faculty Development Mentoring Programs

This summer, Alfred Wagenhofer participated in two international young faculty development programs with competitive selection processes and presentations by the young faculty. The first, organized by IAAER and ACCA, was held in Bucharest in June 2016. Participants came from Rumania, Poland, Turkey, and many other countries. Besides Wagenhofer, faculty included Katherine Schipper (Duke), Pat Hopkins and Leslie Hodder (Indiana), and Gilad Livne (Exeter), and many more. The second program, an AAA-organized international mentoring program called the Global Emerging Scholar Research Workshop, was held in New York City in August 2016. Participants came from all parts of the world. The workshop was organized by Wayne Landsman (UNC) and the faculty included Alfred Wagenhofer, John Christensen (Southern Denmark), Shivaram Rajgopal (Columbia), and Cathy Shakespeare (Michigan).



## 12<sup>th</sup> Workshop on Accounting and Economics

The 12th Workshop on Accounting and Economics in June 2016 was hosted by Tilburg University and chaired by Eva Labro (UNC), Jeroen Suijs (Tilburg), and Alfred Wagenhofer. The workshop provided an excellent forum to thoroughly discuss research, particularly economic modelling. The workshop was opened with a key-note speech by Chandra Kanodia (Minnesota), who highlighted the real effects of accounting policy and discussed their implications for standard setting. In parallel sessions with discussant, several DART members presented their current work. Kristina Berger (Institute of Accounting and Control) presented her paper, "Identity, cost of benchmark and incentives." Ralf Ewert presented a joint work with Alfred Wagenhofer titled "Accounting characteristics and internal controls." Sebastian Kronenberger presented his paper "Multi-period accounting bias and audit pricing," and Reinhard Schrank presented his paper "The impact of damage apportionment on ICS effectiveness and financial reporting accuracy." In the closing plenary session Paul Fischer (Wharton) addressed the question, "What if agents care about more than wealth, consumption, and leisure?" His speech stimulated discussion on points such as accounting and status, social norms as well as modelling characteristics.

## Better Corporate Reporting

The Institut Österreichischer Wirtschaftsprüfer, the Industriellenvereinigung, and Best Practice Reporting Austria jointly organized a symposium to discuss developments in corporate reporting in Vienna on September 1, 2016. The symposium included three presentations, including Alfred Wagenhofer's talk on "Big Data Analyses of Corporate Reporting," as well as a Gala Preview of the World's Best Annual Reports.

## Recent Presentations of CAR Papers

Georg Schneider and Alfred Wagenhofer participated in this year's EIASM Workshop on Accounting and Regulation in Siena. Georg Schneider presented a working paper jointly written with Michael Ebert (University of Paderborn), titled "Bentham's Panopticon and Real Effects of Voluntary Disclosure." Alfred Wagenhofer presented the paper "Effects of Increasing Enforcement on Financial Reporting Quality and Firm Value," a joint work with Ralf Ewert. Furthermore, he participated in a panel discussion on "Measurement and Performance Reporting" together with Tom Linsmeier (FASB), Anne McGeachin (IASB) and Nicola Clarelli (Monte dei Paschi Bank).

In August, Alfred Wagenhofer presented his working paper (together with Ralf Ewert), titled "Effects of Increasing Enforcement on Financial Reporting Quality and Firm Value," at the University of North Carolina at Chapel Hill (UNC).

## IFRS Conceptual Framework Panel

**NEW YORK 2016** **CELEBRATION OF THE CENTURY** American Accounting Association Annual Meeting Alfred Wagenhofer was invited as a panelist in a panel session titled "Cross-Cutting Measurement Issues," which was organized by the IASB at the AAA Annual Conference in New York City in August 2016. Led by Mary Tokar (IASB member), panel members were Ann Tarca (University of Western Australia, and member AASB), Mike Wells (former Director IASB Education Initiative), Tatsumi Yamada (KPMG Japan, former IASB member), and Wagenhofer, also acknowledging his role in AFRAC. The focus was to explore the costs and benefits of a mixed-measurement model currently included in the Exposure Draft of the Conceptual Framework. The panel discussed conceptual bases and practical issues of historical cost, fair value, and entity-specific values. The conclusion was that, overall, the mixed-measurement model seems preferable to single measurement models.

### Imprint:

Professor Dr. Dr. h.c. Alfred Wagenhofer  
Center for Accounting Research  
Karl-Franzens-Universität Graz  
Universitätsstraße 15/FE  
8010 Graz

tel 0316 380 3500  
e-mail car@uni-graz.at  
web http://car.uni-graz.at

Editor-in-chief: Alfred Wagenhofer

Contributors: Kristina Berger, Alfred Wagenhofer,  
David Windisch

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