



Tax-Induced Distortions Of Multinationals' Decisions



A new paper by CAR's Rainer Niemann, jointly written with Thomas Martini (University of Bielefeld) and Dirk Simons (University of Mannheim), "Transfer Pricing or Formula Apportionment? - Tax-Induced Distortions of Multinationals' Investment and Production

Decisions", has been accepted for publication in Contemporary Accounting Research. Within multinational corporate groups (MNCs) transfer prices (TPs) are a device of both coordination and international tax planning. By manipulating TPs the MNC can shift revenues to low-tax countries and expenses to high-tax countries. As a solution to such earnings management, Martini, Niemann and Simons study a formula apportionment, where a common tax base is calculated and divided among the host countries on the basis of pre-defined factors. The paper analyzes the impact of different combinations of tax allocation and managerial accounting regimes on investment and production decisions of an MNC.

to study the concept of earnings quality and to analyze the characteristics of various metrics that are regularly employed in the empirical literature on earnings quality. The model shows how the different metrics capture essential aspects of earnings quality and how they are related to each other. Thus, the model enables empirical researchers to choose the metric that is appropriate in the context under consideration. The second paper puts these results into the perspective of post-implementation reviews that the IASB has committed to carry out for new accounting standards within its due process. The paper argues that the use of academic research is an important element of a post-implementation review and demonstrates how analytical and empirical results on earnings quality may be fruitfully applied in such reviews. Finally, the paper sketches how the process of post-implementation reviews may be organized to incorporate academic research.

Effects Studies In Financial Reporting

CAR's Alfred Wagenhofer co-authored a paper "The usefulness of academic research in understanding the effects of accounting standards", together with Marco Trombetta (IE Business School) and Peter Wysocki (University of Miami) in their roles as members of the EAA's Financial Reporting Research Group, on behalf of the EAA's Financial Reporting Standards Committee. This paper forms part of the response to the ASB/EFRAG Discussion Paper on "Considering the Effects of Accounting Standards" and surveys research methodologies and examples of useful academic research that should help inform accounting standard setters on the effects of accounting standards.

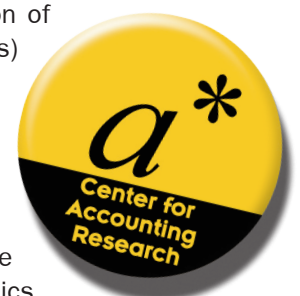
Wagenhofer was also invited to participate in a roundtable discussion, "A Dedicated Research Capacity for IASB", in London on September 2, organized by ACCA (Association of Chartered Certified Accountants) and IAAER (International Association for Accounting Education and Research). Other participants were high-level members and directors of the IASB, the U.K. ASB, EFRAG, IAAER, and some European accounting academics.

Finalization Of IAAER/KPMG Research Grant Project On Earnings Quality



As reported in the December 2009 issue of this newsletter, CAR has been awarded an international competitive grant by the International Association for Accounting Education & Research (IAAER) joint with KPMG International to carry out research on earnings quality as part of the "Informing the IASB Standard Setting Process Research Program". On June 17, CAR's Ralf Ewert presented the final results of this project at a high-level conference in London, which was hosted by the Institute of Chartered Accountants in England and Wales (ICAEW). Many board members and staff persons of the IASB attended the conference to get immediate access to the results of the project and to provide comments.

The project's results are documented in two papers. The first paper sets out an analytical model



DART Summer Activities



Participants at the DART Research Workshop in Vienna

Although the first year of the DART program was particularly intense with many demanding PhD courses, students were very active and enthusiastic and did, with support of the DART faculty, even attend non-required additional courses. Virtually all students attended the courses of Prof. Anil Arya (Ohio State University) and Prof. Stefan Reichelstein (Stanford University) at the University of Vienna. Prof. Arya held a course on “Input Markets and the Strategic Organization of the Firm”. For example, Björn Brand (Institute of Organization and Economics of Institutions) said he was very impressed about the way Prof. Arya developed a complex model dealing with incentives from a simple numerical example. Prof. Reichelstein gave an in-depth lecture on “Dynamic Performance Measurement” that was also very well received.

Jianfeng Xu and Hang Yu attended the 7th Accounting Research Symposium in Madrid. Yu noted that he benefited remarkably from discussions with participating professors and fellow doctoral students and considers the symposium to be a good complement to his first year in DART.

At the same time Stefan Schantl, as well as David Windisch (Institute of Accounting and Control) and Michael Vorraber (Institute of Accounting and Auditing), participated in the 2nd WHU Summer Program in Accounting Research at the WHU Otto Beisheim School of Management (Koblenz) organized by Prof. Thorsten Sellhorn (WHU) and Prof. Igor Goncharov (WHU) and partly led and held by Prof. Eddie Riedl (Boston University). The aim of the program was to give

an overview about the state of the art in empirical accounting research. Additionally, the doctoral students benefited from useful advice by Prof. Laurence van Lent (Tilburg University), the incoming editor of the *European Accounting Review*, to publish in an international journal. Directly after the WHU program, Schantl participated in a course on “Advanced Econometrics” at the London School of Economics and Political Science Summer School 2011. He summarized his three-week stay in London as a very intensive and enriching experience.

CAR Papers In Recent Conferences

CAR’s Pietro Perotti presented a working paper, co-authored with CAR’s Alfred Wagenhofer, “Earnings Quality Measures and Excess Returns”, at the 7th Accounting Research Workshop in Fribourg (Switzerland) in June. The paper examines the hedge returns that can be obtained by trading on a set of commonly used earnings quality measures. The results provide evidence on the relative usefulness of the earnings quality measures considered. At the same workshop, Wagenhofer discussed the paper by Andrei Kovrijnykh and Joseph Gerakos from the University of Chicago “Reporting Bias and Economic Shocks”. Perotti also presented his paper “Minimum Trade Unit Regulation and Market Quality”, co-authored with Barbara Rindi and Roberta Fredella from Bocconi University, in the annual meeting of the European Financial Management Association in Braga in June. The paper investigates the effect on market quality of the reduction of the minimum trade unit to one at Borsa Italiana. After the reduction, a decrease in the bid-ask spread and in the price impact of orders, as well as an increase in market depth at the best five levels of the book are observed.

CAR’s Roland Königsgruber presented a paper, “An Economic Model of Product Market-Related Incentives for Financial Reporting”, co-authored by Manuela Hirsch from the Vienna University of Economics and Business, at the Annual Congress of the American Accounting Association in Denver in August. The paper develops a model relating earnings management incentives and product market competition.

Imprint:

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Pictures: Archive

Date of Publication: September 2011