Bilan

ESSEC KPMG Financial Reporting Centre

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ESSEC BUSINESS SCHOOL

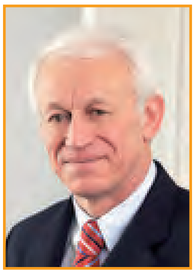
FEATURES IN THIS ISSUE:

BILAN is dedicated to showcasing the ESSEC KPMG Financial Reporting Centre's activities and exploring recent academic research about International Financial Reporting. Please visit us at http://www.essec-kpmg.net

CHAIR NEWS

ESSEC KPMG Financial Reporting 2nd FRAP seminar 5 April, 2011: "L'IASB – La première décennie" with Philippe Danjou and Gilbert Gélard.

Gilbert Gélard



Philippe Danjou

In April Gilbert Gélard and Philippe Danjou participated in a FRAP seminar at our La Défense campus to celebrate the completion of 10 years of standard-setting by the International Accounting Standards Board. **Gilbert Gélard** was a founding member of the IASB in 2001 and the first French member. He served until June 2010, when he became a visiting professor at ESSEC. During his period on the board, he was joined by Philippe Danjou, formerly of the Autorité des Marchés Financiers.

Mr Gélard told the audience that people were unaware of the origins of the IASB, and of the way the International Accounting Standards Committee (IASC) had metamorphosed into the IASB. He observed that the majority of international standards currently in force had been issued by the **IASC**. The original body had been an initiative taken in 1973 by the accounting profession. As standard-setters they were, however, amateur. Often members tried to protect the accounting practices of their home country.

After 1990 the organisation had grown in strength and in particular had had a very intense period from 1995 to 1998 which had ended with recognition of their standards by the International Organisation of Securities Commissions (IOSCO). Notwithstanding, the organisation had had to fight to maintain its independence from the International Federation of Accountants. On top of that, the organisation had nearly been torpedoed by the group of Anglo-Saxon standards-setters known as the G4+1. The **IASB** had been the product of a significant dialogue, through which the international standard-setter had abandoned its dilettante status and become professional.

At the time **Europe** had not yet decided to adopt the international standards. Why had it done so? Business needed to gain access to the international capital markets, and using the Financial Accounting Standards Board's (FASB) standards was not very much to the taste of the Europeans. The IASB issued international standards, and nobody could accuse them of being either American or European. Nonetheless, the support of the FASB and the Securities and Exchange Commission (SEC) was necessary in the early years. The first great success for the IASB was the SEC's abandonment of the reconciliation to US standards for issuers using IFRS. We were now awaiting a second major success, he said.

Mr Gélard observed that **politics** was never absent from standard-setting, but the financial crisis had lead to a rampant growth of pressure. In his view, lobbying was normal, although some issuers did not draw a distinction between lobbying and technical argument. In France companies had been in the habit of taking their requests to the Finance ministry. It had taken them a little time to get used to the idea that was no longer the case. They were now well accustomed to the system, however.

Philippe Danjou, whose term on the IASB continues until 2016, confirmed that the dynamic of success at the IASB was continuing. IFRS were indeed an international passport. Their use allowed European companies to avoid having to prepare figures drawn up under US standards. He observed that the **2005** changeover to IFRS in Europe had passed without any major difficulty. There had been no major scandal arising from incorrect application of the standards. He thought that globally users of financial statements were satisfied, even if some preparers were less so, depending on which sector they were in.

As regards cooperation with the **FASB**, there were several common standards, such as business combinations, segment information and share options. In addition there were other projects currently under way, such as leasing, financial instruments and revenue recognition. The process was sometimes laborious: the FASB worked to a rhythm different to that of the IASB.

The success of the organisation had led it to improve its **governance**. For the last three years it had been subject to the oversight of a public organisation: the Monitoring Board appointed both the Trustees and the board members. Even if it was the Trustees that put candidates forward, the Monitoring Board had a real power to reject these. The five members of the Monitoring Board could expand their activities in the future, although the idea of eliminating the Trustees completely had not been well received.

Mr Danjou confirmed that French companies were now accustomed to coming to talk to the IASB staff and the board. An understanding of the problems of every industry was very useful to the standard-setters. They would have to wait for things to quiet down in order to assess what differences **IFRS** had made. The IASB wanted to review the implementation of new standards such as IFRS 3 and IFRS 8.

The IASB had lived through a period of rapid change and resistance from preparers was beginning to be felt. They needed to move to a different way of doing things. As a result of pressure from the G8, the standard-setter had been working on very complex subjects such as **IAS 39** (which had itself taken 15-20 years to write). The convergence programme with the US was reaching its deadline. With the adoption of IFRS by more and more countries, European was going to have to accept seeing its influence diminish. For the US this was also the year of truth. The IASB itself had to manage a transition in leadership, with a new chairman and vice-chairman. There would shortly be a public consultation on its work programme. There would also be another change in the governance of the organisation.

EUFIN Conference, Bamberg, 8-9 September, 2011

The European Financial Reporting Research Group (Eufin) held its seventh annual workshop at the Otto Friedrich University of Bam-berg. The conference included a range of plenary speakers from the world of European financial reporting and some 32 research papers. **Eufin** aims to provide longer working sessions and feedback from specialists on research papers as well as the opportunity to learn more about practical issues from professionals. It acts as an incubator for papers intended for Accounting in Europe and an opportunity to discuss the work of the EAA's Financial Reporting Standards Committee (FRSC).

The opening **plenary on the governance of the IASB**, included an analysis of the IASB's evolution from Alan Teixeira, the senior director of the IASB technical staff. Nicolas Véron of the Bruegel Institute discussed whether the IASB was keeping its promises, while **Liesel Knorr**, chair of the German standard-setter, discussed the difficulties of being a private sector standard-setter. **Nicolas Véron** suggested that the IASB was more akin to a religious organisation than anything else, and he preferred to think of it as the Vatican. He noted that as more countries adopted IFRS, the influence of Europe would diminish, and he speculated on how the Commission would feel about that.

Alan Teixeira reported on what he saw as a continuous fine-tuning of the IFRS Foundation and attempts to make its decision-making more transparent and accessible. He noted, though, that this was not without its problems. When the IASB had decided to publish daily decision-summaries on standard-setting days, there was a complaint from a commercial provider of such summaries. Similarly, they had introduced the Monitoring Board but now some people were asking who monitored the Monitoring Board?

The other plenary was on **enforcement**. **Herbert Meyer**, who recently finished a five year term as the first head of Germany's Financial Reporting Enforcement Panel, gave an analysis of the errors picked up by his team. He said that roughly 25% of the 600-plus companies reviewed so far had revealed errors. However, he thought these were to do with the complexity of IFRS and the insistence on the use of fair values which mostly had to be estimated rather than observed.

Jürgen Wagner of Siemens discussed the problems of financial reporting in a multinational that reported to several different national authorities, including the SEC. He discussed conflicts between different requirements and the difficulty of streamlining reporting to avoid duplication.

Andreas Barckow, head of Deloitte Germany's IFRS desk, discussed complexity in accounting standards. He suggested that the company activity was complex and so was the reporting infrastructure. However he thought this could be mitigated. He recommended that standard-setters should not over-engineer, and should address the mainstream preparer, not the 5% who systematically aimed to abuse the system. He suggested that they should look at a wide range of countries and be aware of translation problems. He suggested the auditors should also avoid creating a second tier of quasi-standards.

In addition to the 32 papers discussed in parallel sessions, David Cairns and Christopher Nobes outlined the response of the FRSC to the EFRAG paper on ***Considering the Effects of Accounting Standards***. The response included a taxonomy of possible effects that should be brought to the attention of the standard-setter. The EAA response also included a section on how to research these effects, an element missing from the original discussion paper.

It was decided that Eufin should be chaired for the next three years by Brigitte Eierle, who organised this year's event. The Bamberg workshop was voted a great success by the participants, who, after a hard day's work, had the opportunity to sample local specialities including smoked beer. They learned that although the 1000 year-old city is administratively part of Bavaria, the inhabitants see themselves rather as Franconians.

Next year's workshop will be on 6-7 September 2012 in Prague. (E-mail gozdik@essec.fr to be put on the mailing list).

ESSEC KPMG Financial Reporting 3rd FRAP seminar 11 October, 2011: "Mesurer l'impact des normes IFRS" avec Philippe Bui, Peter Walton and Saskia Slomp


Philippe Bui


Saskia Slomp

The Third Academe-Pratitioner meeting organised by the ESSEC-KPMG Centre took place at La Defense on 11 October and focused on the debate about how the impact of accounting standards should be measured and incorporated in the standard-setting process.

Saskia Slomp, Director of EFRAG (European Financial Reporting Advisory Group), which is the European Commission's official adviser on IFRS, introduced a discussion paper that the organisation had published in January. She noted that part of EFRAG's job was to try to influence the work of the IASB upstream of the publication of standards. The discussion paper, *Considering the Effects of Accounting Standards* was an initiative in this area, intended to provoke discussion and move the IASB towards a more formal assessment of the effects of their work.

The **EFRAG** suggestion was that the IASB should itself systematically consider effects throughout the standard-setting process, starting with the expected effects, to be outlined at the agenda proposal stage. The paper suggested that the effects should be limited to those related to improving the quality of financial reporting.

Peter Walton, IFRS Director of the ESSEC-KPMG Centre, gave a synopsis of a response to the EFRAG paper that had been prepared on behalf of the European Accounting Association (EAA). Ms Slomp had earlier told the meeting that the EAA response was, at 40 pages, certainly the longest received. The EAA paper suggested that the IASB should aim to be aware of all effects, not limiting them to its objectives but not necessarily being influenced by them either.

The paper suggested that much of the gathering of information could be done in collaboration with outside entities such as national standard-setters and academic researchers. It also noted that the **EFRAG** paper did not go into the complexities of doing research that could feed into this area. The sort of feedback provided during outreach and the formal due process of the IASB was likely to be a biased sample.

The final presenter was **Philippe Bui**, director of research at the Autorité des normes comptables (ANC). He presented a paper suggesting that there should be a more ambitious approach to assessing the effects of standards. He drew a distinction between top down standards, inspired by a desire to implement a conceptual framework, and bottom up standards written to respond to a need identified by constituents. There was a need to control the effects much more closely when a standard emerged from a top down approach.

He suggested that rather than post-implementation reviews being done by the standard-setter, any constituents should be invited to submit their own review. A wide range of assessments could then be compared.

Paul André named President of A.A.I.G (L'Association Académique Internationale de Gouvernance)

Professor Paul André has been elected as President of the **International Academic Asso-ciation of Governance** (A.A.I.G). Created in 2009, the A.A.I.G aims at creating and at maintaining networks of exchanges between persons concerned by research, training and practices in governance; to facilitate the communication of information on the questions of governance; to favor the exchanges between researchers and practitioners on many questions concerning governance and associated disciplines and to contribute to the development and to the destination of knowledge in the field of governance and, in particular, to the promotion of work in French.

Peter Walton nominated to ACCA Financial Reporting Global Forum.

Professor Peter Walton, has been appointed as a member of the newly-formed **Financial Reporting Global Forum** of the **Association of Chartered Certified Accountants (ACCA)**.

The **ACCA** is a UK-based international professional accounting body with more than 100,000 members worldwide. Its 25 member **Financial Reporting Global Forum** will provide expert advice to the ACCA on the implications of corporate reporting developments for the public interest and the work of accountants and auditors in business and practice. It will advise the ACCA on the development of its policy positions and consider ideas for research and other initiatives that the ACCA might undertake on corporate reporting issues.

D. Bonnet 3rd FRAP seminar

IFRS OBSERVATORY

Peter Walton
IFRS Director

Probably the most significant event of the last six months has been the **hand-over** from founding IASB chairman Sir **David Tweedie**, to new, non-technical, chairman, **Hans Hoogervorst**. The change in chair has been accompanied by a change in pressure as well as style. Evidently Sir David Tweedie used the 30 June 2011 end of his term of office as a means of putting pressure on people to finalise standards. Many projects were side-lined in the thrust to complete financial instruments, leasing, revenue recognition and insurance, as well as meet the G20 deadline of convergence with the US.

In the end the G20 deadline was pushed back to 31 December 2011, and since July the IASB has taken a more relaxed view about the **deadlines**, accompanied by tighter chairing of the debates. Revenue recognition has been completed, but is being re-exposed shortly. Leasing is still dragging on ; the IASB and FASB are trying to complete by the end of the year and have committed in principle to re-exposing that too. In both cases re-exposure will put the final standard back to 2013 with implementation probable from 2015.

At the **Cannes G20**, accounting did not get a mention in the final communiqué, although the Financial Stability Board did prepare a schedule for the meeting showing how much progress had been made on revising the regulatory (and financial reporting) structure. Completion of convergence was highlighted in red ('not making adequate progress') and the commentary said: 'In some areas convergence is taking longer than expected (e.g. classification and measurement) and will not be completed until mid-2012. In certain other areas, a path towards convergence is yet to be identified (e.g. hedge accounting and netting)'.

In fact Mr Hoogervorst is pushing the boards towards resolving the thorny problem of **loan loss provisions**, and a solution may be available by mid-2012. However, the FASB has yet to publish its latest proposals on classification and measurement, and these are unlikely to be converged with IFRS 9, the IASB's classification and measurement standard. At the same time the SEC is expected to announce its position on adoption of IFRS soon, which could also change the game.

The IASB is making progress with **transaction hedging**, which should be finalised in 2012, but has only just started work on macro-hedging. IFRS 9 was due to be implemented on 1 January 2013, which would have meant starting to apply it in 2012. However, the EU has not endorsed it yet, having taken the position that it wanted to see a complete replacement for IAS 39.

The IASB also stated in the past that it would not make adoption compulsory until the full standard was available. It has just voted to defer implementation till 2015, which will avoid EU companies not complying with **IFRS 9** in the short term. Some people think that even 2015 is optimistic and the European Financial Reporting Advisory Group (EFRAG) suggested implementation should be three years after all the components have been finalised. The standard can be adopted voluntarily before that, and banking specialists on the IASB believe that banks will switch voluntarily once the impairment and transaction hedging rules are in place, and not wait for macro-hedging.

Insurance, now into its fifteenth year on the IASB agenda, is given a lot of board time, but there remain fundamental differences about the mechanism for calculating and releasing profit, as well as whether there should be two models or one. The IASB has received feedback that insurers outside the US would prefer that the IASB went ahead and issued its standard rather than continue to delay in pursuit of convergence. The need for a single approach in the rest of the world is greater, they say.

Outside of the convergence projects, the IASB has been conducting a far-reaching consultation on its **future agenda**, and should be taking a position on that early next year. Based on various comments, it would seem likely that MrHoogervorst's board will be unlikely to launch any grand new projects, and indeed is more likely than not to drop those such as financial statement presentation.

The hints are that Mr Hoogervorst is likely to listen to calls for a **slow down** on new material (but of course things like revenue recognition and leasing will be coming into force), and probably to give more attention to finishing the revision of the conceptual framework, and carrying out post-implementation reviews of standards. A discussion of Other Comprehensive Income could also be on the cards.

The IFRS Foundation Monitoring Board should also be publishing the results of its **strategy review** in the coming weeks. This will likely see the size of the Monitoring Board increased from five to eleven members, with emerging markets being represented for the first time. The European Securities and Markets Authority has asked for a seat, on the grounds that Europe has more experience than anyone in the use of IFRS. However there are no plans for the European Commission to give up its seat. Some respondents to the strategy review have said it is inappropriate for Japan and the US to have full voting seats when they have not committed to adopting IFRS.

The next two or three months will clarify what standard-setting under Mr Hoogervorst and technical vice-chairman Ian Mackintosh will look like.

ACADEMIC NEWS

Wolfgang Dick
Education Director

June 2011 study trip to Brussels with Centre's students

About 15 of the Centre's students joined by two ESSEC PH.D. students, the Centre's assistant and the Centre's directors did an intense study **trip to Brussels** on Wednesday 8 and Thursday 9 June 2011. The program started immediately after arrival with the presentation of two research briefs by the Chair seminar students (see below for the topics). On Thursday morning, the group attended a session of the Technical Experts Group (TEG) of EFRAG. EFRAG (European Financial Reporting Advisory Group) through TF assist the European Commission in the endorsement of International Financial Reporting Standards (IFRS). Topics covered included Other Comprehensive Income (OCI), Leases and Revenue Recognition. After a common lunch with KPMG Partner Bertrand Desbarrières and the opportunity for informal exchanges with him about IFRS and professional career related items, the trip ended with a visit of the European Parliament.

Centre seminar 2011 student research projects

Students of the spring 2011 Chair seminar have been working on IFRS related research projects.

"IFRS et comparaison des états financiers" by Sujee Kim, Chloé Raison and Romain Bosset analyses the evolution of comparability of financial statements. The paper focuses on accounting and reporting practices of 18 car manufacturers, mainly from Europe and Asia. Financial statements of years 2004, 2005 and 2009 have been analysed according to checklist of questions covering 21 accounting and reporting topics.

"Decision usefulness of operating cashflows" is still an ongoing project by Laurent Marrié and Kossi Muluala. The aim is to examine the usefulness of the direct method model vs. the indirect method model of disclosing operating cashflows. The empirical section will measure the usefulness of both methods upon a sample of credit managers and other professionals dealing regularly with cashflow-statements. This is part of an international project involving researchers in a dozen of countries.

"Impact des normes IFRS dans le secteur vitivinicole" is a research dissertation by Thomas Gaimard. The study examines the impact of adoption of IFRS in the wine industry while highlighting the effects of standards particularly crucial for this specific industry like IAS 41 – Agriculture, IAS 16 – Tangible Assets, IAS 38 – Intangible Assets or IAS 2 – Inventories. It also addresses questions regarding the adoption of the standard IFRS for SMEs in this industry segment.

APDC Award of the best research dissertation in Accounting, Controlling and Audit

The Centre joined this year the small group of 10 French high-level academic institutions which are invited by the **APDC** to submit research dissertations for this award. APDC (Association des Professionnels et Directeurs Comptabilité & Gestion) is the French professional association of Heads of Accounting and Controlling. The Chairman of the Award is M. Dominique Bonnet, Director of Accounting of Total Group.

Centre student Thomas Gaimard's dissertation about the effects of adoption of IFRS in the wine industry has been awarded with the 3rd price of this competition. It's the recognition of an excellent work.

Congratulations Thomas! The results have been announced at the APDC ceremony on 8 December 2011.

Conference about industry career opportunities in Financial Accounting

On 15 June 2011, he Centre invited all ESSEC students to a conference about career opportunities in financial accounting in industrial groups. Guest speaker was M. **Jean-Charles Gaury**, Director of Accounting of Automotive activities at **PSA Peugeot-Citroën Group**. ESSEC Alumini 1981 M. Gaury focused on the ability of leaders in this discipline to combine technical excellence in accounting and managerial skills and illustrated these managerial aspects with numerous concrete examples of his own professional experience. On behalf of Centre sponsor **KPMG**, Partner for Automotive Industry **Laurent Des Places** and Senior Manager **Lydwine Alexandre-Spizzichino** attended this presentation. Selected students enjoyed the opportunity of an informal exchange with these distinguished guests at a reception following the conference.

RESEARCH NEWS

Presenting the Center's New Research Fellows

Paul André
Research Director

The ESSEC KPMG Financial reporting Center is proud to present its new Research Fellows, also members of the Center's scientific committee.

Daphne Lui

Daphne Lui is based in Singapore where she teaches fundamental accounting courses in the Masters in Management, Advanced Masters in Strategy Management of International Business, and Advanced Masters in Logistics and Supply Chain Management programs. She also teaches financial statement analysis on the Cergy campus. Her research focuses on the role of financial analysts in the capital markets, the quality of financial reporting, and more recenlty pension issues. Prior to joining ESSEC, Daphne was an Assistant Professor at Lancaster University (UK) and taught part-time at London School of Economics and London Business School. She also has significant work experience in capital markets and management consulting in Asia.

Charles Cho

Charles Cho holds a Bachelor of Science in Accounting, a Master of Science in Accounting, and a PhD in Business Administration (Accounting Track) from the University of Central Florida. He is also a Certified Public Accountant (CPA) and a Certified General Accountant (CGA), and worked for KPMG LLP and other public accounting firms for several years in auditing and taxation. His research interests are Social and Environmental Accounting; Corporate Social Responsibility; and Accounting and the Public Interest. Dr. Cho has published articles in refereed academic journals such as *Accounting, Auditing and Accountability Journal, Advances in Environmental Accounting and Management, Accounting, Organizations and Society, Critical Perspectives on Accounting, the European Accounting Review, the International Journal of Accounting Information Systems, Gestion - Revue Internationale de Gestion, the Journal of Business Ethics, and Social and Environmental Accountability Journal.*

Recent Center working papers and publications

• **WORKING PAPERS**

Voluntary adoption of IFRS: A study of determinants for UK unlisted firms

Paul André, Peter Walton and Dan Yang

We examine the determinants of voluntary adoption of IFRS by medium-to-large UK unlisted firms (8417 firms comprising 287 IFRS firms and 8130 non-IFRS firms). Analysing voluntary adoption allows us to better understand the cost/benefits of choosing a specific set of accounting standards. Using univariate and multivariate analyses, we find that *internationality, leverage, firm size and auditor reputation* help explain UK unlisted firms' choice of voluntarily selecting IFRS. Other firm characteristics such as *profitability, capital intensity, industry, growth, ownership structure* and *employee productivity* do not appear to play a significant role in the decision. Additionally, we find that newly incorporated firms at the end of 2009 have a higher probability in adopting IFRS.

Equity Analysts and the Market's Assessment of Risk

Daphne Lui, Stanimir Markov, and Ane Tamayo

The traditional view of equity analysts is that they are a source of new information about future cash flows. We broaden this view by demonstrating that equity analysts are also a substantive source of new information about priced risk. In particular, we document that when announced, changes in analyst risk ratings distinctly and significantly affect equity returns, and are generally followed by significant changes in Fama-French factor loadings. Also, while less frequent than credit rating changes, equity risk rating changes are timelier, and with a larger overall stock price impact than credit rating changes.

Do Sell-Side Analysts Monitor Accounting Quality

Daphne Lui, Steven Young, and YachangZeng

We seek evidence on sell-side analysts' propensity to detect and disclose accounting irregularities in their research reports. Using a sample of firms that restate earnings as a result of having violated Generally Accepted Accounting Principles (GAAP), we search analysts' reports prior to news of the restatement being made public. We find that analysts are the first party to highlight accounting problems in just six percent of restatement cases. While detection rates appear low in absolute terms, we find that analysts perform at least as well as most other informed parties. Analysts' reports that critique accounting practices are unusually negative and convey new information to investors. The probability of an analyst publishing a detecting report is positively associated with the length of the GAAP violation period, the amount by which reported earnings are overstated, and analysts' access to firm-specific private information.

Risk Shifting Incentives in Pension Asset Allocations

Yanling Guan and Daphne Lui

Sponsors of defined benefit plans (DBP) have incentives to shift pension costs to the Pension Benefit Guaranty Corporation (PBGC) when bankruptcy is looming closer. One the one hand, they may aggressively increase pension investment risk to gamble for the upside to narrow the funding gap if they survive through the financial distress. On the other hand, they may also make little or no contribution to the plans in anticipation of their termination in the event of bankruptcy. We obtain pension asset allocation data for all public companies sponsoring DBPs for the period 2003-2009, and find evidence supporting the risk shifting argument in situations when the sponsors have severely underfunded DBPs and are in financial distress. Our results suggest that there is cross-subsidization in the PBGC between low-risk and high-risk sponsors.

The Informational Quality of Corporate Social Disclosure: An Exploratory Analysis.

Chauvey, J-N., Giordano-Spring, S., Cho, C.H., and Patten, D.M.

In this exploratory study, we measure the quality of corporate social responsibility disclosures based on informational quality attributes as discussed by the International Accounting Standards Board, the Financial Accounting Standards Board and the Global Reporting Initiative. Based on 2004 disclosures by a sample of 98 publicly traded French companies, we find that the quality of disclosure is extremely low. We further document that differences in the informational quality of the disclosures are positively associated with firm size, media exposure, and the disclosure of negative performance information, all factors assumed to lead to a greater need for corporate legitimization. Finally, our analysis shows that membership in the ASPI social responsibility index is negatively associated with disclosure of negative performance information but positively related to higher informational quality scores. Overall, our results suggest a need for finding a way to enhance the quality of corporate social responsibility disclosure.

Do Actions Speak Louder than Words? An Empirical Investigation of Corporate Environmental Reputation.

Cho, C.H., Guidry, R.P., Hageman, A., and Patten, D.M.

In this study, we investigate the extent to which firms' environmental performance is reflected in perceptions of their environmental reputation and whether environmental disclosure serves to filter the negative aspects of poorer environmental performance associated with those assessments. We also examine whether differences in environmental performance and environmental disclosure appear to be associated with membership selection to the Dow Jones Sustainability Index (DJSI), a factor we also believe may be associated with perceptions of environmental reputation. Based on a cross-sectional sample of 92 U.S. firms from environmentally sensitive industries, we find that environmental performance is negatively related to both reputation scores and membership in the DJSI. We argue this is due to the more extensive disclosure levels of firms that are worse performers and the finding of a significant positive relation between environmental disclosure and both the environmental reputation measures and DJSI membership. Finally, we show that the DJSI designation positively influences perceptions of corporate reputation. Overall, our results suggest that voluntary environmental disclosure appears to mitigate the impact of poor environmental performance. Perhaps more troubling, our results also suggest that membership in the DJSI appears to be driven more by what firms say than what they do. Thus, like voluntary disclosure, the DJSI may actually be hindering improved future corporate environmental performance.

Enhancement and Obfuscation through the Use of in Sustainability Reports: An International Comparison.
Cho, C.H., Michelon, G., and Patten, D.M.
In this study we investigate the use of graphs in corporate sustainability reports and attempt to determine, first, whether the use of graphs appears to be associated with attempts at impression management, and second, whether differences across three levels of reporting regulatory structure (Leuz, Nanda and Wysocki, 2003) are associated with differences in the level of impression management. Based on a sample of 120 sustainability reports issued by firms from six different countries, we empirically test for differences in presentation of favorable as
opposed to unfavorable items (enhancement) and for differences in the direction of materially
distorted graphs (obfuscation). For the overall sample we find substantial evidence of bias both in the choice of items graphed and, where it exists, in the direction of material distortion in the graph displays. We also find more limited evidence that impression management differs across companies in different regulatory structures.

- PUBLICATIONS
A Global History of accounting, financial reporting and public policy, Americas.
Previts, G., Walton, P., Wolnizer, P.,editors : May 2011
The global Accounting History four volume set aims to establish a benchmark reference source that covers the evolution of accounting, financial reporting and related institutions for all major economies in the world in a comparable way.
Volume Two addresses five nations from the American hemisphere, Argentina, Brazil, Canada, Mexico and the United States.
Knowledgeable specialists serve as the authors for each national essay which appear as separate chapters.

Family Firms and High Technology Mergers & Acquisitions (forth-coming) Journal of Management and Governance.
André.P. and Ben-Amar, W.
We examine whether family firms undertake value creating high technology M&A. We also examine whether level of ownership, diversification, agency issues and CEO type matter. Our sample consists of high-technology M&A undertaken by Canadian firms over the period 1997-2006. Canada offers a setting with many family firms and the use of control enhancing mechanisms such as dual class shares and pyramid structures.We find a positive relationship between family ownership and announcement period abnormal returns. This relationship, however, starts to decrease at higher levels of ownership but remains overall positive. Diversifying acquisitions undertaken by family firms are not associated with value destruction. We also show that the agency conflict between shareholders and professional managers has a detrimental impact on announcement period abnormal returns whereas the conflict between large and small investors via control enhancing mechanisms does not. Finally, we document that founder CEO are associated with better high tech deals than descendant or hired CEO.

Corporate Disclosure of Environmental Capital Expen-ditures: A Test of Alternative Theories. (forthcoming). Accounting, Auditing and Accountability Journal.
Cho, C.H., Freedman, M., and Patten, D.M.
We examine three potential explanations for the corporate choice to disclose environmental capital spending amounts. Using archival data from a sample of Fortune 500 U.S. firms operating in industries subject to both the Environmental Protection Agency's (EPA) TRI program and the Occupational Safety and Health Administration's Hazard Communication Standards, we conduct quantitative threshold tests to first investigate whether disclosure appears to be a function of the materiality of the spending. We next attempt to differentiate the choice to disclose across voluntary disclosure theory and legitimacy theory arguments. First, we find that, for the overwhelming majority of observations, the disclosed amounts are not quantitatively material. This suggests that non-disclosure is likely due to immateriality. Next, we show that disclosing firms do not exhibit improved subsequent environmental performance relative to non-disclosing companies. Further, controlling for firm size and industry class, we find the choice to disclose is associated with worse environmental performance.

Corporate Environmental Financial Reporting and Financial Markets. In The Oxford Handbook of Business and the Environment, eds. P. Bansal and A. Hoffman, Oxford University Press, UK (forthcoming).
Cho, C.H., Patten, D.M., and Roberts, R.W.
In this chapter we discuss two specific questions regarding corporate environmental financial reporting and financial markets: (1) why do corporations disclose environmental information in their financial reports?; and (2) do capital markets value corporate environmental information? Without a doubt, these questions are open to interpretation and can generate a wide range of responses. The responses offered by economists (e.g., Graham et al., 2005) will be quite different from those offered by critical accounting researchers (e.g., Milne et al., 2009). Given this theoretical eclecticism (Sil, 2000) found in social and environmental accounting research, it is not possible to present a complete review of how prior work has investigated these two research questions. Thus, we use this chapter to introduce the most common theoretical approaches used by accounting researchers to tackle these issues and review related empirical findings. Our review will help new researchers to the field gain an understanding of the key considerations associated with these streams of research.

Recent ESSEC KPMG Financial Reporting Centre research workshops papers

(all papers available at https://sites.google.com/a/essec.edu/seminaires-de-recherche-du-departement-comptabilite---controle-de-gestion/test)

"Financial Reporting Quality and the Yield Spread of New Corporate Bond Issues".
Michel Magnan, Concordia University, Member of the Accounting Standards Board of Canada.
Monday, April 4, 2011
Building upon recent research suggesting that debt markets rather than equity markets shape financial reporting, this study examines the relationship between financial reporting quality and the cost of new corporate bond issues. Empirical evidence suggests that bond market participants demand higher risk premiums for new corporate bond issues if issuers report a higher degree of conditional conservatism. At the same time, these same participants positively value issuers' unconditional conservatism reporting through risk premiums. In addition, we document that, pursuant to the auditors' report under Sarbanes-Oxley Act's Section 404 indicating that issuers' internal controls are effective, new bond issuers enjoy lower risk premiums than the issuers that have in effective internal controls. We also take into consideration the effect of credit quality on the above relationships. The results suggest that high credit quality weakens the negative effect of conditional conservatism and ineffective internal controls on the yield spread. Also, high credit quality enhances the positive effect of unconditional conservatism on the yield spread. This study extends the conservatism literature by providing arguments and empirical evidence that is inconsistent with the traditional debt contracting efficiency view of conservatism. Furthermore, by investigating the impact of internal control effectiveness on new corporate bond issues, this study fills a void in the SOX internal control literature, which focuses mainly on equity and private debt markets.

"Organizations and Audit Trails"
Michael Power, London School of Economics and Political Science.
Thursday, April 28
Audit trails are evidential pathways linking organizations and their environments. Audit trails in the accounting field are a special case of a more general phenomenon whereby organizations create microtraces of performance which can express institutionalised demands. The paper uses two contrasting case studies - the Sarbanes-Oxley legislation in the USA introduced in 2002 and the 2009 UK proposals for universities to demonstrate research impact – in order to explore the structure of audit trails. It is argued that audit trail 'logic' varies at the practice level in terms of primary traces, precision and traceability and a number of hypotheses are developed to explore the sources of this variation. The contours of a new form of empirical enquiry - audit trail analysis – are suggested for analysing patterns and similarities in the manner in which organizations create micro-facts of performance. Overall, the paper contributes to existing debates about institutional logics and practice variation, and draws attention to an area relatively neglected by organizational scholars.

"Are International Financial Reporting Standards-based and US GAAP-based Accounting Amounts Comparable?"
Mary Barth, Stanford University.
Friday, April 29, 2011 (joint ESSEC/INSEAD)
This study documents the extent to which application of IFRS by non-US firms results in accounting amounts that are comparable to those resulting from application of US GAAP by US firms. We assess accounting system comparability and value relevance comparability. IFRS firms have greater accounting system and value relevance comparability with US firms when IFRS firms apply IFRS than when they applied non-US domestic standards. Comparability generally is greater for IFRS firms that adopted IFRS mandatorily, for firm-year observations after 2005, and for IFRS firms domiciled in countries with common law legal origin and high enforcement. Although US firms' accounting amounts generally have higher value relevance than those of IFRS firms, the value relevance of IFRS-based accounting amounts generally is comparable to US GAAP-based accounting amounts for firms from common law and high enforcement countries. We find three dimensions of accounting quality—earnings smoothing, accrual quality, and timeliness—all are potential sources of the increase in comparability after IFRS firms adopt IFRS and of differences in comparability for the post-adoption sample partitions, although some dimensions appear more likely to be sources for some post-adoption partitions. Overall, the findings suggest widespread application of IFRS by non-US firms has
enhanced financial reporting comparability with US firms, but differences remain for some firms.

"Financial Incentives in Big 4 Accounting Partnerships and the Implications for Audit Quality"
Robert Knechel, University of Florida.
Friday, September 23, 2011
This study investigates the financial incentives of individual Big 4 audit partners implied by the overall compensation arrangements within their firms. Using tax and financial data for individual audit partners and clients in Sweden, our empirical findings indicate that there is significant variation in the parameters of the compensation contracts across the Big 4.
Further, the differences in the compensation arrangements are associated with the attributes of the clientele of each firm, suggesting that differences in incentives influence the client portfolio management of individual auditors and firms. Finally, we observe evidence which suggests that auditors are more likely to acquiesce to client pressure from economically important clients when deciding whether to issue a going concern report. This study adds to the literature examining the economic incentives in demonstrating that auditor compensation schemes influence both client acceptance and audit reporting decisions made by individual audit partners.

Opacity, institutional trading, and executive compensation
GarenMarkarian, Instituto de Empresa Business School.
Monday, October 03, 2011
We develop and test the hypothesis that firms' opacity induces increased risk sharing by managers in compensation contracts. We test this hypothesis in a manner robust to reverse-causality by exploiting the empirical link between institutional trading, which is outside the firm's control, and opacity. We find a positive relation between pay- performance sensitivity and measures of the opacity of financial reporting and stock prices. Moreover, institutional trading results into a substitutive shift from costly incentive pay to cash compensation, and alleviation of agency problems. Overall, our results suggest that institutional trading, via its effect on firm opacity, is associated with more efficient contracting.

The Value of Corporate Diversification: A Debt Market Perspective
Florin Vasvari, London Business School.
Monday, October 10, 2011
We study the role of corporate industrial diversification on the cost of public debt financing.
Theoretical arguments suggest that the co-insurance effect of diversification and agency problems specific to diversified firms such as poor disclosures and inefficient transfers across segments affect the firm's credit risk. We test these theoretical predictions for a broad set of diversification measures and empirical specifications and document that firms with industrially diversified operations pay significantly lower yields when they issue bonds. This negative relation is stronger when the quality of segment disclosures improves. We further document that the relation between industrial diversification and bond yields is strongly related to the firm's inter-segment earnings correlation, a proxy for co-insurance, but it is not affected by inefficient segment transfers. This co-insurance effect is supported by similar results using syndicated bank loans, where agency problems are typically addressed through contractualbased monitoring rather than price protection. Overall, our findings indicate that corporate industrial diversification lowers the cost of public debt mainly due to the co-insurance effect, however the quality of segment disclosures plays an important role.

Why the going-concern anomaly: gambling on the market ?
Richard Taffler, Warwick Business School.
Monday, October 17, 2011
This paper attempts to explain why the market fails to incorporate the going-concern (GC) opinion bad news in a timely fashion leading to a significant drift in stock returns following its publication for several months. We hypothesize that small traders slow down the market reaction to GC news resulting in a slow downward drift following the GC announcement. For our first time GC firms from 1993 to 2007 we use the Trades and Quotes database to measure trading responses of small and large traders as their abnormal net-buy order imbalance around the GC announcement. We find that small "retail" traders have a proclivity of net-buys in the face of this bad news signal. We further show that such a behavior of retail traders is positively related to short-term market reaction and negatively related to longer-term market response following the publication of the GC announcement. These findings are consistent with our hypothesis. Finally, we argue that such a contrarian behavior of small traders is explained by their attraction to GC stocks because such stocks have highly speculative features akin to lotteries.

Transnational governance in action: The pursuit of auditor liability reform in the EU
Chris Humphrey, Manchester Business School.
Monday, November 14, 2011
The European Commission's official Recommendation in 2008 that European Union (EU) Member States should establish a specified form of limited liability for statutory auditors contrasted significantly with its long held stance rejecting the need for regulatory action. Such a shift in policy opinion provides a valuable opportunity to explore the practical application of transnational policymaking and governance processes in an area of accounting that has traditionally exhibited very diverse opinions and heated debate. The paper's detailed longitudinal analysis illuminates the complexities of European audit policy making, focusing particularly on how the actions and interests of a diverse set of actors served to shape and influence the application and development of the policy agenda. The case findings, while lending support to an emerging body of accounting literature highlighting the active nature of the accounting profession's engagement with processes of transnational governance, advocate a degree of caution in evaluating the profession's capacity to influence. The persuasive of the profession's arguments in support of audit liability limitation are seen to vary across time and context, while the precise form of the European Commission's Recommendation emphasizes the residing sovereign authority of EU Member States and its constraining effect on the audit profession's transnational policy agendas. The key to enhanced understanding of the outcomes of transnational governance lies not in presumption or myth, but in detailed studies of the relational dynamics and processes underlying such governance practices in action.

Estimation Sample Selection for Discretionary Accruals Models
Jennifer Francis, Duke University.
Thursday, November 17, 2011
We examine how the criteria for choosing estimation samples (peer firms) affect the ability to detect discretionary accruals, using several variants of the Jones (1991) model. Researchers commonly estimate accruals models in cross-section, and define the estimation sample as all firms in the same industry. We examine whether firm size performs at least as well as industry membership as the criterion for selecting estimation samples. For U.S. data, we find that estimation samples based on similarity in lagged assets perform at least as well as estimation samples based on industry membership at detecting discretionary accruals, both in simulations with seeded accruals between 2% and 100% of total assets and in tests examining restatement data. For non-U.S. data, we show that industry-based estimation samples result in significant sample attrition and that estimation samples based on lagged assets perform at

least as well as estimation samples based on industry membership, with substantially less sample attrition.

Financial Accounting Regime Choice when Objectives Compete
Joachim Gassen, Humboldt University of Berlin.
Monday, November 21, 2011
This paper investigates the determinants of financial accounting regime choice in a setting with competing financial accounting objectives. We model the regime choice of a risk-neutral entrepreneur who needs financial accounting information for contracting with a managerial agent and for communicating the firm value to a risk-averse secondary capital market. Our comparative static results indicate that the preference of entrepreneurs for a fair value accounting regime increases with the relative importance of the secondary capital market and the outside options of the managerial agent while it decreases with the overall quality of the accounting signal, the effectiveness of the enforcement process and managerial productivity. Our empirical results, which are based on a country-year level analysis with measures constructed on a firm-year level sample of more than 75,000 observations, confirm most of our theoretical predictions.

Criminal Convictions, Overconfidence, and Corporate Performance
Eli Amir, London Business School.
Friday, November 25, 2011
An analysis of a unique proprietary dataset reveals that non-trivial proportions of directors, CEOs and CFOs in Swedish listed companies have been convicted of crimes. Based on prior literature, we argue that directors and senior executives with prior criminal behavior are overconfident, resulting in adverse business decisions. We find that firms appointing criminally convicted directors and CEOs are less profitable, engage more in goodwill writeoffs due to unsuccessful acquisitions, and recognize bad news in earnings in a less timely manner. These findings highlight the role personal characteristics of senior management play in managerial decisions.

ANNOUNCEMENTS

Upcoming ESSEC KPMG Financial Reporting Centre Research Workshops at Cergy:

Tuesday, December 13, 2011 at 11:00 am,
room N 405 at ESSEC (Cergy-Pontoise)
Claudine Mangen, Concordia University

Friday, January 27, 2012 at 11:00 am,
room N 405 at ESSEC (Cergy-Pontoise)
Michel Magnan, John Molson Business School, Concordia University and Member of the Accounting Standards Board of Canada

Friday, February 10, 2012 at 11:00 am,
room N 405 at ESSEC (Cergy-Pontoise)
Andrew Stark, University of Manchester

Friday, March 16, 2012 at 11:00 am,
room N 405 at ESSEC (Cergy-Pontoise)
Andrea Mennicken, London School of Economics

Thursday, April5, 2012 at 11:00 am,
room N 405 at ESSEC (Cergy-Pontoise)
WalidAlissa, HEC Paris

Friday, May4, 2012 at 11:00 am,
room N 405 at ESSEC (Cergy-Pontoise)
Ted Mock, University of California Riverside

Friday, June 8, 2012 at 11:00 am,
room N 405 at ESSEC (Cergy-Pontoise)
Juan Manuel Garcia Lara, Carlos III University of Madrid

8th workshop on European Financial Reporting (EUFIN), September 2012, Prague

Following the successful workshops in Bamberg, Regensburg, Milton, Keynes, Paris, Lund, Catania, and Bamberg, the European Financial Reporting Research Group (EUFIN) is pleased to announce the 8th workshop on European Financial Reporting, which will take place in 6-7 September 2012 at University of Prague, Czech Republic. The workshop offers an opportunity and venue for practice and academia to meet to engage with contemporary issues relating to accounting in Europe. It is likely to be of value to those who are interested in the harmonisation of accounting in Europe, the regulation of financial accounting and the process of change in accounting and accounting regulation, as well as the internationalisation of accounting generally.

About the Centre

The **ESSEC-KPMG Financial Reporting Centre** specialises in financial reporting under International Financial Reporting Standards (IFRS). Created in 2005, the year in which European listed companies started to use IFRS, the Centre monitors closely the activities of the International Accounting Standards Board and the application of IFRS by European companies. It produces a monthly report on the standard-setting meetings of the IASB and publishes research into the application of IFRS. It also provides specialist studies for ESSEC students who intend to follow a career in international financial reporting. The ESSEC-KPMG Financial Reporting Centre is host to the European Financial Reporting Research Network (EUFIN).

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*Source "La profession comptable 2010"

For more information about the Centre,
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