

BEST JOURNAL OF INTERNATIONAL ACCOUNTING RESEARCH PAPER AWARD – 2007

SUSAN MACHUGA AND KAREN TEITEL

“The Effects of the Mexican Corporate Governance Code on Quality of Earnings and its Components”

Abstract

The Corporate Governance Code (Code) was established in Mexico in January 2000 to increase investor confidence by encouraging more accurate financial reporting and more transparent disclosure practices by management. Using a sample of Mexican firms, we investigate whether or not there is an improvement in earnings quality surrounding the implementation date of the Code. We use a variety of earnings quality characteristics frequently studied in prior international research. Our results indicate that the quality of earnings increases after the implementation of the Code. While earnings quality characteristics generally improve for firms listed exclusively on the Mexican Bolsa, we only document improvements in income smoothing and timely loss recognition for Mexican firms listed on U.S. stock exchanges. Our results suggest that the filing jurisdiction of Mexican firms influences the impact we observe in changes in quality of earnings surrounding the implementation of the Mexican Corporate Governance Code.

(The complete manuscript can be found in *Journal of International Accounting Research*, Volume 6, No. 1, 2007, pages 37-55).

BIOGRAPHIC INFORMATION

Susan Machuga is an Assistant Professor at the University of Hartford in Hartford, Connecticut. She received her BS in accounting from Rider University in 1986 and became a CPA in 1989. Her work experience includes Ernst and Young, along with a local CPA firm and Aetna in Hartford, Connecticut. She is also an alumnus of the University of Hartford receiving her MBA in 1991. She earned her Ph.D. from the University of Massachusetts in 1996 and has taught accounting at both the undergraduate and graduate level at the University of Massachusetts - Boston, Central Connecticut State University and the University of Hartford for the past 12 years.

Her research publications and interests focus on investigating how earnings are manipulated by management in both the U.S. and internationally. In addition to the article published in *JJAR*, she has had publications in the *Review of Quantitative Finance and Accounting*, *Advances in Quantitative Analysis of Finance and Accounting*, *International Journal of Auditing*, and *Review of Pacific Basin Financial Markets and Policies*.

(continued on page 21)



From left, Award Winners Karen Teitel and Susan Machuga, along with Tim Doupnik, Chair of the Publications Committee, who presented the award.

Best JIAR Paper Award Winners *(continued from page 20)*

Susan enjoys spending her free time with her 3 children, ages 7, 10 and 11. She frequently volunteers at public schools and is currently preparing to run her 13th marathon.

Karen Teitel is an Assistant Professor of Accounting at the College of the Holy Cross in Worcester, Massachusetts. Karen has been teaching financial accounting at Holy Cross since 2004. Prior to joining Holy Cross she taught at the University of Connecticut at Storrs. Her teaching focuses on external financial reporting by business enterprises, including the study of financial accounting practice, preparation of financial statements and disclosures, and financial reporting policy and regulation.

Her research focuses on the impact of financial accounting information on the decisions made by corporate managers, stock investors, and financial analysts. She has published articles in the *European Accounting Review* and the *International Journal of Accounting Research*. Karen received her Ph.D. in Accounting from the University of Massachusetts Amherst, her MS in Accounting from Bentley College and her BBA in accounting from the University of Massachusetts. Prior to pursuing her Ph.D. she worked in public accounting for four years and was licensed in Massachusetts as a CPA.



Publications Committee Chairman Tim Doupnik presents the 2007 Best JIAR Paper Award.



Congratulations to 2007 Best JIAR Paper Award Winners Karen Teitel and Susan Muchaga!

BEST PAPER – 2008 IAS MIDYEAR MEETING

YIGIT ATILGAN, PAQUITA DAVIS-FRIDAY, AND ALOKE GHOSH

“U.S. Cross-Listing, Credit Ratings, and the Cost of Debt”

Abstract

We examine whether the cost of issuing debt in the U.S. differs for non-U.S. and U.S. firms. We hypothesize that cross-sectional variation in the cost of debt is related to three factors: the quality of debt (speculative versus investment debt), the extent of “home bias” in the public debt market and a “ratings bias.” For speculative-grade debt, both the home and the ratings bias predict a higher cost of debt for non-U.S. firms. However, for investment-grade debt, the prediction is ambiguous as the home and ratings biases predict opposing outcomes. Consistent with our expectations, we find an asymmetric result. Non-U.S. firms issuing investment-grade debt have a lower cost of debt relative to their U.S. counterparts, but for speculative-grade debt the cost of debt is higher. We also find that after controlling for debt ratings, country-specific legal characteristics do not affect the cost of debt for speculative-grade debt issues but they are significantly related to the cost of investment-grade debt. Consistent with the ratings bias hypothesis, our results suggest a downward bias for investment-grade debt.

This paper was presented on February 9 at the IAS Midyear Meeting. If you would like a full copy of the paper, please contact Paquita at Paquita_Friday@baruch.cuny.edu.

BIOGRAPHIC INFORMATION

Yigit Atilgan received his B.A. in Management degree at Bogazici University in Istanbul before moving to the U.S. He took his M.S. in Finance degree at the University of Rochester in 2005. Currently, he is working towards his Ph.D in Finance degree at Baruch College, City University of New York. As an empirical researcher, his research interests include international finance, capital structure and portfolio analysis.



Award Winner Paquita Davis-Friday

Paquita Y. Davis-Friday is an associate professor in the Stan Ross Department of Accountancy at the City University of New York’s Baruch College. She earned her Ph.D. in accounting at the University of Michigan-Ann Arbor. Her dissertation received the 1997 Outstanding International Accounting Dissertation Award from the American Accounting Association. Prof. Davis-Friday also graduated with distinction from the Master of Accounting program, earned an M.A. in applied economics, and received a B.B.A. in accounting and finance, all from the University of Michigan. Before entering the Ph.D. program, Dr. Davis-Friday worked as an auditor for Deloitte & Touche in Detroit and as a tax accountant for Deloitte & Touche in Ann Arbor and was

(continued on page 23)



Midyear Meeting Co-Coordinator Tony Kang announces the winners of the Best Paper for the 2008 IAS Midyear Meeting.

Best Paper Award—Midyear Meeting *(continued from page 22)*

certified in 1992 by the State of Michigan as a public accountant.

Before joining Baruch College, Prof. Davis-Friday was an assistant professor at the University of Notre Dame and a visiting scholar at the University of Michigan's Ross School of Business and Emory University's Goizueta Business School. Prof. Davis-Friday teaches intermediate accounting and auditing to undergraduate students and principles of accounting to MBA students. Her teaching has been recognized with awards at the University of Michigan and the University of Notre Dame.

Prof. Davis-Friday's primary research interests are the relationship between international financial reporting and firm valuation and the role of accounting disclosures in security valuation. Her work has been published in *The Accounting Review*, *Accounting Horizons*, *Contemporary Accounting Research* and other international accounting journals. As a member of the American Accounting Association's Financial Accounting Standards Committee, Prof. Davis-Friday was a principal author of the Committee's responses to the FASB's Exposure Drafts on Share-Based Payments and Pensions.

Prof. Davis-Friday is a member of the American Accounting Association and the European Accounting Association and serves on the editorial board of the *Journal of International Accounting Research*. She is also a member of the Paton Accounting Center Advisory Board at the University of Michigan's Ross School of Business.



Alope Ghosh, received his Ph.D. from Tulane University, in New Orleans, Louisiana. He is a Professor of Accountancy at Baruch College, City University of New York. He is also the coordinator of the Doctoral Program in Accountancy at Baruch and the Director of the MS Program in Financial Statement Analysis. In the past, Professor Ghosh has served as the Accounting Academic Fellow at the Securities and Exchange Commission and as a Visiting Associate Professor at the Goizueta Business School of Emory University.

Professor Ghosh has published in the *Accounting Review*, *Contemporary Accounting Research*, *Review of Accounting Studies*, *Journal of Finance*, *Journal of Corporate Finance*, *Financial Management*, and *Journal of Business Finance and Accounting*, among other journals. His research interests include capital markets, quality of financial reporting, and auditing.

***Award Winner Alope
Ghosh***

**ERNST & YOUNG BURSARY AWARD
ADMINISTERED THROUGH THE BRITISH ACCOUNTING ASSOCIATION**

ASAD KAUSAR

This year's recipient of the Ernst & Young Bursary Award is Asad Kausar of the University of Manchester, United Kingdom, for his paper entitled "Impact of Bankruptcy Code on the Value of the Going-Concern Opinion to Investors". This paper was presented on February 9 at the IAS Midyear Meeting. An abstract follows. If you would like a full copy of the paper, please contact Asad at AKausar@dom01.mbs.ac.uk.

Abstract

This study examines the comparative information content of the going-concern opinion in very similar auditing and capital market environments but divergent legal regimes. We hypothesize that, ceteris paribus, investors in a creditor-friendly bankruptcy regime (the U.K.) react more adversely to a first-time going-concern audit opinion indicating increased risk of loss associated with bankruptcy than do investors in a debtor-friendly bankruptcy regime (the U.S.). Our empirical results are consistent with this expectation. Our findings have clear implications for standard-setters and regulators who, in pursuing international harmonization of accounting and auditing standards, need to take into account how such standards interact with local legal regimes, and consequently their informativeness to capital market participants.



E&Y Bursary Award Winner Asad Kausar

BIOGRAPHIC INFORMATION

Dr. Kausar is a Lecturer in Accounting at the Manchester Business School at the University of Manchester. He received his BA in Economics and Statistics from Government College in Lahore, Pakistan, his Masters of Science in Finance from the University of Manchester and his Ph.D. in Accounting from the Cranfield School of Management, Cranfield University in the United Kingdom.

Dr. Kausar's research interests include capital markets, going-concern opinions, auditing, behavioral finance and corporate finance.

He is married with 3 lovely children (2 boys and a girl). His hobbies include reading, internet surfing, music, movies and swimming.

(continued on page 25)

Ernst & Young Bursary Award *(continued from page 24)*



*2008 Ernst & Young
Bursary Award
Winner Asad Kausar
and presenter Stella
Fearnley.*



*Stella Fearnley,
representing the
British Accounting As-
sociation, presents the
Ernst & Young Bursary
Award for funds to at-
tend the 2008 IAS
Midyear Meeting.*

