

INTERNATIONAL
ACCOUNTING SECTION
of the



*American
Accounting
Association*

NO. 76

FORUM

INTERNATIONAL ACCOUNTING

SUMMER 2002

EDITOR: Don Herrmann
Oklahoma State University

Chairperson's Message

Here in the Northern Hemisphere as I write my last "message from the chairperson," another academic year is winding down, we look forward to the summer teaching break, and research catch-up. Many of us are already booking our hotel and flights for the national Annual Meeting in San Antonio in mid-August. As you will see in other news from the Association, there are a number of changes in the meeting this year that will significantly affect the Section.

First, our annual business meeting, which is normally held on Monday morning immediately prior to the section lunch, will take place this year late on Thursday afternoon, at a time when there will likely be plenty of other distractions! Nevertheless, I encourage all members of the Section to attend this meeting—it is a great opportunity to meet our peers, and there are several matters of interest to be discussed.

I have stated in the past that I believe that the biggest challenge to the Section is to identify a new role for the Section within the AAA (and, for that matter, within the global academic accounting community) as the world moves toward greater harmonization of financial-reporting standards, driven by the so-called globalization of business activity. The International Accounting Sec-



David Sharp

tion's advisory board has proposed that we create a new committee to be charged with building links with other AAA sections. I see this as an important first step in a new direction for the section—one in which the section provides a source and network of expertise in international matters to our colleagues in other sections. I encourage you to bring your innovative ideas to the business meeting—and to provide some incentive, a small buffet will be arranged!

A second innovation is the "Make Your Own Session" time slot at the end of Saturday afternoon (our meeting occupies the other time slot on Thursday afternoon). At the time of this writing, the allocation of slots had not been announced. However, in addition to research-paper sessions, there are two other sessions that may be of interest to many of our members. The first is a panel of International Accounting journal editors on Friday morning, providing guidelines on how to get published in these increasingly high-profile journals. On Saturday afternoon, there will be an update on the state of International Financial Reporting Standards (IFRS), from those who are close to the process.

It is interesting to look back over the debate between IFRS and U.S.

GAAP. The received wisdom in North America was that we had the highest level of disclosure, the highest-quality audits, and of course, the most rigorous accounting standards. I had the opportunity to invite a European professor of accounting to our school earlier this semester, who observed that, until Enron, this was also a widely held view in Europe. However, in his opinion, the Enron failure would not have been possible under most European standards, including IFRS. Now here is an opportunity for the section membership to engage in a useful debate and exchange of information! We all have much to learn from each other.

There is probably more happening in international standard setting today than at any other time in the history of financial reporting. In particular, events in Europe over the next few years will surely be interesting. With the adoption of IFRS within the EU planned for 2005, there will be much for North American standard setters (and academics) to learn about the effectiveness of IFRS, and the implementation process. In Canada, the Certified General Accountants of Canada have recently come out in support of the adoption of IFRS rather than U.S. GAAP to replace Canadian GAAP (which not surprisingly looks

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Preliminary Schedule of Activities
INTERNATIONAL ACCOUNTING SECTION
AAA ANNUAL MEETING
SAN ANTONIO • AUGUST 14–17, 2002

THURSDAY, AUGUST 15

10:15 AM – 11:45 AM Concurrent Session

Session Title: International Accounting Journal Editors
Moderator: Timothy S. Douppnik, University of South Carolina
Panelists: To Be Announced

2:00 PM – 3:30 PM Concurrent Sessions

Session Title: Developments in International Accounting Standards
Moderator: David J. Sharp, University of Western Ontario
Panelists: To Be Announced

4:00 PM – 5:30 PM Concurrent Sessions

Session Title: International Aspects of Consolidation Issues
Moderator: John Wild, University of Wisconsin–Madison

Paper 1: *Earnings Management through Affiliated Transactions*. Wayne B. Thomas, University of Oklahoma; Don Herrmann, Oregon State University; Tatsuo Inoue, Kwansei Gakuin University

Paper 2: *Proportionate Consolidation vs. the Equity Method: A Decision Usefulness Perspective on Reporting Interests in Joint Ventures*. Roger C. Graham, Oregon State University; Raymond D. King, University of Oregon; Cameron K. J. Morrill, University of Manitoba

Paper 3: *Legal Protection, Enforceability, and Tests of the Debt Hypothesis: An International Study*. Ferdinand A. Gul, City University of Hong Kong; Judy S. L. Tsui, Hong Kong Polytechnic University; Xijia Su, City University of Hong Kong; Min Rong, City University of Hong Kong

Discussant: Elizabeth A. Gordon, Rutgers, The State University of New Jersey

Chairperson's Message (continued from page 1)

very much like U.S. GAAP at the moment), I encourage all members around the world to contribute to the ongoing public debate over the relative merits of different GAAPs. We are the experts in this!

In early April, the AAA Council held its semianual meeting. An important development was an agreement to adopt a Statement of Responsibilities for the AAA membership, subject to a few small amendments. An electronic vote will take place before the Annual Meeting. This document has been in the works for ten years, and was long overdue. Watch out for it—it makes interesting reading.

I look forward to seeing you in San Antonio in August.

INTERNATIONAL ACCOUNTING SECTION

Forum Deadlines and

Announcement of Change in Editor

Fall 2002 Issue — September 1, 2002

Spring 2003 Issue — January 15, 2003

Summer 2003 Issue — May 1, 2003

Beginning with the Fall 2002 issue, Jeannie Harrington will serve as the new editor of the *Forum*. Please submit items via email using a Word format file as an attachment. Submit to jharrington@mtsu.edu.

If sending materials please send to:
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International Accounting Section AAA Annual Meeting
Preliminary Schedule of Activities (continued from page 2)

THURSDAY, AUGUST 15 (continued)

5:45 PM – 6:45 PM **International Accounting Section Business Meeting**

FRIDAY, AUGUST 16

10:15 AM – 11:45 AM **Concurrent Sessions**

Session Title: Investor Expectations: International Evidence

Moderator: Robert Larson, University of Dayton

Paper 1: *Disclosure Practices, Enforcement of Accounting Standards, and Analysts' Forecast Accuracy: An International Study.* Ole-Kristian Hope, University of Toronto

Paper 2: *Analysts' Forecasts of Taiwanese Firms' Earnings: Some Empirical Evidence.* Li-Chin Jennifer Ho, The University of Texas at Arlington; Jeffrey Tsay, The University of Texas at Arlington

Paper 3: *An Examination of the Effect of Firm-Specific Variables on the Level of Detail in Geographic Area Disclosures under SFAS No. 131.* George T. Tsakumis, University of South Carolina; Timothy S. Douplik, University of South Carolina; Larry P. Seese, East Carolina University

Discussant: Ajay Adhikari, American University

2:00 PM – 3:30 PM **Concurrent Sessions**

Session Title: Accounting Standards and Equity Valuation: International Evidence

Moderator: Kathy Hsu, University of Louisiana at Lafayette

Paper 1: *An Empirical Investigation of the True and Fair Override.* Maureen McNichols, Stanford University; Gilad Livne, London School of Economics

Paper 2: *Unrecognized Deferred Taxes: Evidence from the U.K.* Elizabeth A. Gordon, Rutgers, The State University of New Jersey; Peter Joos, Massachusetts Institute of Technology

Paper 3: *Stock Exchange Disclosure and Market Liquidity: An Analysis of 50 International Exchanges.* Carol A. Frost, Dartmouth College; Elizabeth A. Gordon, Rutgers, The State University of New Jersey; Andrew F. Hayes, The Ohio State University

Discussant: Gary P. Braun, The University of Texas at El Paso

4:00 PM – 5:30 PM **Concurrent Sessions**

Session Title: International Dimensions of Equity Valuation Issues

Moderator: Mitch McGhee, University of Tennessee

Paper 1: *Comparative Value Relevance among German, U.S., and International Accounting Standards: A German Stock Market Perspective.* Eli Bartov, New York University; Stephen R. Goldberg, Grand Valley State University; Myung-Sun Kim, University of Missouri-Columbia

Paper 2: *The Effect of Economic Environment, Corporate Governance, and Accounting Standards on the Market Valuation of Book Value and Earnings in Indonesia, South Korea, Malaysia, and Thailand.* Paquita Y. Davis-Friday, University of Notre Dame; Li Li Eng, Oklahoma State University; Chao-Shin Liu, University of Notre Dame

Paper 3: *An Investigation of Investors' Use of Reported Cash Flow and Accrual Information for Eight Countries.* Joan Hollister, Marist College; Victoria Shoaf, St. John's University in New York

Discussant: Ervin Black, Brigham Young University

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TO: International Accounting Section Members
FROM: Advisory Board
RE: 2001–2002 Charge

The Advisory Board of the International Accounting Section was given the charge to review the Section's Bylaws and, if necessary, propose changes. After careful deliberation and consultation with Craig Polhemus, the Advisory Board has recommended a number of changes to the bylaws. The rationale for the changes and the proposed revised wording follows:

PROPOSED REVISIONS TO THE IAS BYLAWS

1. **(Bylaws Section IV)** The positions of Section Chairperson, Chairperson-Elect and Vice Chairpersons should be changed to President, President-Elect, and Vice Presidents.

Rationale: Departments and Colleges often confuse these officer positions with simply chairing a committee. The new names would give the positions stature and make it easier to attract future potential officers.

2. **(Section IV. E.)** The position of President-Elect should be added as a separate position from the current position of "Vice President–Academic and President-Elect." The Vice President–Academic should be given the responsibility of working with the mid-year meeting committee and will automatically become the President-Elect.

(Section IV. E. 3.) The President-Elect should be given the responsibility of maintaining and updating the Section archives and operating manual as well as planning for the following year.

Rationale: The Section has been very lucky during the past several years to have a few people volunteer to chair and organize the midyear meeting committee. In many sections, that very time-consuming job is given to the Vice President. Individuals who want to move up in the leadership of the Section know that they will be responsible for the function if they accept the position as Vice President. We are not recommending that the position of Vice President be responsible for organizing the midyear meeting but, instead, that the Vice President should be responsible for working closely with that committee. If the Vice President wants to take on the responsibility for organizing the meeting, he/she is not prohibited from doing so. This change will assure the Section that it will have an officer who is familiar with Section functions, policies, members, etc., working with the midyear meeting committee.

By making the President-Elect a separate office, the individual holding that position will have the time to organize his/her committees for the following year and do some long-range planning with the Advisory Board. Since that individual will be selecting individuals to chair or serve as members of committees, he/she should maintain the Section archives of member service and update the operating manual.

3. **(Section V. A. 1.)** The past Vice Chairperson (Vice President)–Practice should be eliminated as an automatic member of the Advisory Board, but could be nominated for a position on the Advisory Board by the Nominations Committee.

Rationale: During the past several years, the past Vice Chairpersons–Practice have not wanted to maintain active roles with the Section once their terms as Vice Chairperson have expired. This has resulted in vacancies and confusion in filling positions for the Advisory Board.

4. **(Section V. A. 3.)** The Chairperson of the Advisory Board should be the past president of the Section who is serving in his/her third year on the Advisory Board.

Rationale: The Section past president who is serving in his/her third year on the Advisory Board will have a good understanding of the current problems facing the section.

5. **(Section V. B. 4.)** Eliminate this section dealing with how to ask individuals to resign from the Advisory Board.

Rationale: This section deals with asking members of the Advisory Board to step down if they do not respond to reasonable and timely requests to carry out their duties. The process is time-consuming and could cause terrible disputes. It might be better to have the Nominations Committee contact the members of the Advisory Board who have remaining terms to determine if they will be able to continue their active involvement on the Advisory Board. If the individual cannot, the Nominations Committee can ask the individual to write a letter of resignation so that the Committee can nominate individuals to complete the terms. This change would also require a change to Section VII.C., dealing with the duties of the Nominations Committee.

6. **(Section VI. B.)** The Research Committee should be eliminated as a standing committee.

Rationale: This committee has not had a real function for several years. If a President-Elect believes that a research project is important, he/she can establish a committee for the year of Presidency.

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Proposed Revisions to the IAS Bylaws *(continued from page 4)*

7. **(Section VI. B.)** A Liaison Committee should be established as a standing committee.

Rationale: Since many aspects of international accounting are now mainstream, the Section should investigate joint activities with other sections and organizations. It should also establish a closer link with the IAAER. A Liaison Committee would be responsible for contacting and maintaining ties with other sections and organizations to investigate possible joint meetings, projects, etc.

8. **(Section IX. C. 1.)** The relationship between the Publications Committee and the Executive Board should be clarified with respect to selecting the Editor of the Section's journal. It should be made clear that the Publication Committee is responsible for forwarding a nominee (or list of nominees) to the Executive Board, but the Executive Board makes the selection. The Board has the right to consider other names and is not bound by the nominee put forth by the Publication Committee. The sentence indicating that the appointment is based on the recommendation received from the Publications Committee should be revised.

Rationale: As now worded, the Publication Committee is required to forward **one** name to the Executive Board and it appears from the wording that the Executive Board must rubber-stamp that nominee as the new Editor. In effect, the Publication Committee appoints the new editor, which takes that executive decision away from the Executive Board.

9. **(Section IV. B.)** We need to clarify at what meeting the elections are held. If we want to maintain the current situation where elections are held at the Section's annual business meeting that is held in conjunction with the AAA Annual Meeting, we should state that explicitly.

Rationale: The bylaws now indicate that elections are held at the Annual Meeting. Some Sections have switched elections to the Section's midyear meeting while others run the elections at the annual business meetings held in conjunction with the AAA Annual Meeting.

10. **(Section VI. C. 3.)** Eliminate the requirement that each committee chairperson provide an evaluation of the service of committee members.

Rationale: Craig Polhemus indicated that the AAA has eliminated this practice because of potential legal problems. It is recommended that the Section also eliminate this practice.

11. **(Section XI.)** Need to clarify what happens after the Advisory Board proposes amendments to the Bylaws and Objectives and they are presented to the Executive Board for review.

Rationale: The bylaws do not indicate if the proposed revisions can be further revised by the Executive Board or must be accepted as they are and presented to the membership.

12. **(Section IV. B.)** We need to clarify somewhere that the Advisory Board and the Publications Committee are also elected to their positions.

Rationale: Craig Polhemus' comments concerning the Advisory Board and Publications Committee follow:

Just to make sure I understand it, the Nominations Committee selects two individuals to join the Advisory Board? Although the word "nominates" is used, it seems the Nominations Committee actually selects rather than simply nominates the two people; the last sentence of Section VII supports this interpretation. Is this correct? (This is consistent with the references to the membership electing "officers" and the list of officers excluding Advisory Board members.) Although a related issue applies to the Publications Committee, in that case the role of the Nominations Committee is specifically stated as appointing rather than nominating members. However, in the list of positions for which the Nominations Committee is to recommend candidates, those Advisory Board and Publications Committee members for whom the Nominations Committee is apparently making a final decision are included in the same list as those for whom it is simply making nominations. I also infer that members can elect officers other than those suggested by the Nominations Committee; at least if that election were not to occur at a physical business meeting, however, it is not clear to me how any such other candidates might be nominated or voted for—perhaps by a write-in space on the ballot?

13. **(Section IX. B. 3.)** The bylaws should indicate that the newsletter will be published in printed form as well as on the Section's web page.

14. **(New Section Needed)** The bylaws do not deal at all with the position of webmaster. Maintaining a current, easy-to-manuever web page is a critical function of the Section. The bylaws should deal with who appoints a webmaster, the term of appointment, and the duties of the webmaster. The bylaws should also indicate the committee that will have oversight over the web page, for example the Publications Committee.

15. **(Section IX. D.)** Area to think about: The bylaws require special publications (monographs, etc.) to be distributed to members free of charge. Craig Polhemus asked us to think about charging for printed versions of special publications but making them available free of charge on the web page.

JOURNAL OF INTERNATIONAL ACCOUNTING RESEARCH

Call for Papers

Editor: R. S. Olusegun Wallace

King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia

Editorial Policy

Journal of International Accounting Research publishes articles that increase our understanding of the development and use of International Accounting and reporting practices or attempt to improve extant practices. International Accounting is broadly interpreted to include the reporting of international economic transactions; the study of differences among practices across countries; the study of interesting institutional and cultural factors that shape practices in a single country but have international implications; and the effect of International Accounting practices on users. The *Journal* has a diverse readership and is interested in articles in auditing, financial accounting, managerial accounting, systems, tax, and other specialties within the field of accounting. The *Journal* is open to research using a wide variety of research methods, including empirical-archival, experimental, field studies, and theoretical. The importance of the findings and the rigor of the analyses are the factors that determine acceptability. The *Journal* may include sections for Notes (shorter articles) and Commentaries. Education articles should be sent to a journal such as *Issues in Accounting Education*.

All manuscripts are sent to two reviewers, although one or more additional reviewers may be consulted in some instances. Reviews will be double-blind (i.e., to both the author and reviewer). A strong effort will be made to complete the initial review within two to three months. The review process is intended to provide constructive comments that improve the quality of manuscripts by focusing on critical issues. The editorial team recognizes that the nuances of a paper are better left to the authors.

Submission of Manuscripts

1. Manuscripts currently under consideration by another journal or other publisher should not be submitted. At the time of submission, the author must state that the work is not submitted or published elsewhere.
2. To expedite the process, an electronic submission and review process can be employed. To preserve anonymity, place the cover page and the remainder of the document in separate Word or PDF files. In the case of manuscripts reporting on field surveys or experiments, the instrument (e.g., questionnaire, case, and interview plan) should also be submitted in a separate file, with identity of the author(s) deleted. Email the cover page, manuscript, and, if applicable, the instrument as attached files to R. S. Olusegun Wallace, editor, at: wallace@kfupm.edu.sa The submission fee is \$25.00 in U.S. funds for members of the AAA International Section, or \$50.00 for others, made payable to the American Accounting Association. The submission fee is nonrefundable. To charge the fee, access the AAA web site at:

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Please indicate in the email that you have charged the fee. Alternatively, the submission fee may be paid by check, payable to the American Accounting Association, and mailed to:

R. S. Olusegun Wallace, Editor
Journal of International Accounting Research
King Fahd University of Petroleum & Minerals
KFUP Box 1995
Dhahran 31261, Saudi Arabia

3. If electing to submit hard copies, four copies of manuscripts should be mailed to R. S. Olusegun Wallace at the address above. In the case of manuscripts reporting on field surveys or experiments, four copies of the instrument (e.g., questionnaire, case, interview plan) should be submitted. Information that might identify the author(s) must be deleted from the instrument. The submission fee should be enclosed or charged at the AAA web site (per above).
4. Revised manuscripts must be submitted within 12 months from request; otherwise they will be considered new submissions.

Books for review should be sent to the Book Review editor:

Dr. Wayne Thomas
School of Accounting
Price College of Business
307 W. Brooks, #200
University of Oklahoma
Norman, OK 73019-4004

Scholars interested in reviewing books are requested to forward their names and particular interests to the Book Review editor.

Manuscript Preparation and Style

These practices are based on *The Accounting Review*. The primary difference is the acceptability of international standard size A4 paper and a 150-word abstract. For initial submission, any widely used style is acceptable.

GAAP 2001

NEW SURVEY HIGHLIGHTS SIGNIFICANT DIFFERENCES BETWEEN NATIONAL ACCOUNTING REQUIREMENTS AND INTERNATIONAL ACCOUNTING STANDARDS

An international accounting survey by the world's seven largest accountancy firms, *GAAP 2001*, found mixed progress toward convergence of national requirements with International Accounting Standards. Approximately one-third of the 62 countries surveyed are responding to the challenge of convergence with an active agenda and proposed changes to national requirements. However, half of the countries surveyed reported significant differences between national and international standards, but have not implemented or proposed new standards to reduce the differences. As a result of major changes to international standards that are being considered, the differences between national and international standards will increase unless national standard setters redouble their efforts to keep pace with the changes.

In an age of significantly increasing international investments and financial reporting on the Internet, the need for a common worldwide financial language and framework for reporting is quickly making diverse national standards obsolete. Governments, regulators, investors and the accounting profession all need to rededicate themselves to achieving convergence of accounting standards at the earliest feasible date.

The seven firms jointly advocate a single worldwide framework for financial accounting and reporting based on high-quality International Accounting Standards (IAS). Achieving such a framework would improve investor confidence by providing greater transparency and comparability of the financial information used in investment decisions, and thereby would contribute to financial market stability and economic growth around the globe.

The complete *GAAP 2001* report is available at <http://www.ifad.net>. It includes summaries for each of the 62 countries surveyed of instances in which a country's requirements would not allow, or would not require, the IAS treatment. The survey also includes analyses of changes in these summaries since last year

and of national requirements or proposals for national requirements, which will come into effect in the future and may further reduce differences from IAS.

In addition, *GAAP 2001* demonstrates the necessity for users of any financial information to take great care to understand which accounting principles—national or international—have been applied in preparing the relevant financial statements.

"The rapid development of global financial markets has greatly reinforced the desirability of—indeed now demands—international consistency in accounting standards and auditing approaches," said Paul Volcker, Chairman of the Trustees of the IASC Foundation in June 2001. Strong support for high-quality international standards has come from a number of other sources, including the European Commission's Commissioner on Internal Markets, Frits Bolkestein, who, in commenting on the EC's proposal for a Regulation on the application of IAS said, "The adoption of a common financial-reporting language for listed companies throughout Europe will greatly benefit both companies and investors in bringing about more transparency and a higher degree of comparability." Isaac Hunt, a Commissioner of the United States Securities and Exchange Commission commented recently, "... I can think of no greater gift to the investing public than establishing a set of worldwide accounting standards."

The potential for IAS to provide the basis for comparable national and cross-border financial reporting is increasingly clear. Evidence includes the May 2000 recommendation by the International Organization of Securities Commissions that regulators should allow multi-national issuers to use IAS for cross-border offerings and listings, subject to the provision of supplemental data. In addition, in February 2001, the European Commission proposed a Regulation that will require the Europe Union's listed companies to prepare their consolidated financial statements in accordance with IAS

from 2005 onward.

Across the world from Asia to Latin America, many national governments, regulators and accountancy professionals are actively considering how their national accounting requirements differ from IAS and how to reduce those differences. This process will, in many countries, lead to a significant improvement in financial-reporting transparency and comparability.

The quantity and significance of the differences reported in *GAAP 2001* make it clear that, for many countries, convergence with IAS will be a major task and will require a joint effort in each country by the government, stock market regulators, financial-statements preparers, users, standard setters. Although some efforts may be initiated internationally, it is clear that the most significant actions must be undertaken at the country level, where plans for convergence of high-quality accounting standards need to be developed and implemented.

One response to the convergence issue is the European Commission's announcement of its proposed 2005 Regulation, which has provided several years of advance warning before IAS becomes compulsory for listed European Union companies. This approach will allow time for the management and finance functions of affected companies to develop a well-considered, orderly transition to IAS.

GAAP 2001 provides an overview of the movement toward global accounting standards throughout the world. Creating written standards that are comparable country-by-country is a critical first step, but written requirements will not actually lead to better accounting if standards are not properly applied and enforced. Overall improvements in financial reporting will require a joint effort in each country by the government, stock market regulators, the business community, users of financial statements, standard setters, and the accountancy profession to develop the educational, professional, and regulatory infrastructures.

HAVE YOU SEEN...?

Wayne B. Thomas, University of Oklahoma

Editorial Note: If you have an abstract or know of an abstract that would be of interest to the members of the AAA International Accounting Section, please email the reference information and abstract to Wayne Thomas at wthomas@ou.edu.

Andjelkovic, Aleksandar, Glenn Boyle, and Warren McNoe, "Public Disclosure of Executive Compensation: Do Shareholders Need to Know?" *Pacific-Basin Finance Journal* (Vol. 10 No. 1, 2002): 97-117.

We analyze the cross-sectional variation in New Zealand executive compensation during the first year of public disclosure (1997) and find no evidence of a positive relationship between pay and performance, regardless of firm size, risk, leverage and board structure. Instead, CEO pay seems to depend primarily on firm size. However, the group of firms that voluntarily disclosed CEO compensation earlier than required do exhibit a positive relationship between pay and performance. Moreover, the advent of the disclosure legislation coincides with significant innovations in the setting of executive pay, particularly among firms that delayed disclosure until the last possible date.

Ashbaugh, Hollis, and Per Olsson, "An Exploratory Study of the Valuation Properties of Cross-listed Firms' IAS and U.S. GAAP Earnings and Book Values," *The Accounting Review* (Vol. 77 No. 1, 2002): 107-126.

The relative performance of the earnings capitalization, the book value, and the residual income valuation models are used to explore the valuation properties of International Accounting Standards and U.S. Generally Accepted Accounting Principles earnings and book values reported by non-U.S., cross-listed firms trading in a common equity market. Using non-U.S./non-U.K. firms whose shares trade on the International Stock Exchange Automated Quotation system in London, it is found that the earnings capitalization model is the dominant accounting-based valuation model when cross-listed firms report under International Accounting Standards. In contrast, it is found that when cross-listed firms report under U.S. GAAP, the residual income model is the dominant accounting-based valuation model.

Ashbaugh, Hollis, and Morton Pincus, "Domestic Accounting Standards, International Accounting Standards, and Predictability of Earnings" *Journal of Accounting Research* (Vol. 39 No. 3, 2001): 417-434.

This paper investigates: (1) whether the variation in accounting standards across national boundaries relative to International Accounting Standards has an impact on the ability of financial analysts to forecast non-U.S. firms earnings accurately, and (2) whether

analyst forecast accuracy changes after firms adopt IAS. Indexes of differences in countries' accounting disclosure and measurement policies relative to IAS are developed, and it is documented that greater differences in accounting standards relative to IAS are significantly and positively associated with the absolute value of analyst earnings forecast errors. Further, it is shown that analyst forecast accuracy improves after firms adopt IAS.

Baginski, Stephen P., John M. Hassell, and Michael D. Kimbrough, "The Effect of Legal Environment on Voluntary Disclosure: Evidence from Management Earnings Forecasts Issued in U.S. and Canadian Markets," *The Accounting Review* (Vol. 77 No. 1, 2002): 25-50.

Evidence on how management earnings forecast disclosure differs between the U.S. and Canada, two otherwise similar business environments with different legal regimes, is provided. A greater frequency of management earnings forecast disclosure is found in Canada relative to the U.S. Further, although U.S. managers are relatively more likely to issue forecasts during interim periods in which earnings decrease, Canadian managers do not exhibit that tendency. Instead, Canadian managers issue more forecasts when earnings are increasing, and their forecasts are of annual rather than interim earnings. Also consistent with a less litigious environment, Canadian managers issue more precise and longer-term forecasts.

Baker, C. Richard; Alain Mikol, and Reiner Quick, "Regulation of the Statutory Auditor in the European Union: A Comparative Survey of the United Kingdom, France and Germany," *The European Accounting Review* (Vol. 10 No. 4, 2001): 763-786.

In this paper we discuss regulation of the statutory auditor in the United Kingdom, France, and Germany. Previous research has addressed regulation of statutory auditors with respect to regulatory harmonization and the reduction of barriers to intra-European trade in professional services. While these are important goals, it has also been the policy of the European Commission to encourage high standards of auditing, which the Commission anticipates will evolve within the legal and regulatory frameworks of the Member States of the EU. In this regard, our paper seeks to investigate how auditory regulation is organized in three important EU economies. In particular we examine several key functions of auditory regulation and how these are deployed

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Have You Seen...? (continued from page 8)

in the three countries investigated. In addition we provide some forward-looking comments concerning regulation of statutory auditors in the EU.

Brown, Larry D., and Huong N. Higgins, "Managing Earnings Surprises in the U.S. vs. 12 Other Countries," *Journal of Accounting and Public Policy* (Vol. 20 No. 4/5, 2001): 373-398.

This study compares the distribution of earnings surprises in the U.S. to that of 12 other countries. We expect U.S. managers to be relatively more likely to manage earnings surprises due to differences in U.S. corporate governance and legal environments versus those in other countries. An increasing emphasis on stock price performance in the U.S., as reflected by the rapid increase in stock and options compensation to U.S. managers and increases in litigation upon stock price drops, leads us to expect the tendency of U.S. managers to manage earnings surprises versus that of non-U.S. managers has increased in recent years. Our evidence is consistent with our expectations. We discuss implications of our findings for public policies to address the earnings surprise game.

Clare, Andrew, and Richard Priestley, "Calculating the Probability of Failure of the Norwegian Banking Sector," *Journal of Multinational Financial Management* (Vol. 12 No. 1, 2002): 21-40.

We calculate the probability of failure of the Norwegian banking sector both before and after the Norwegian banking crisis. Thus, unlike previous studies of this kind, we choose a sample period and banking sector where there were significant numbers of bank failures. This approach therefore gives us a better indication of the quality of the calculated risk measure. Our results indicate evidence of a steep increase in the risk inherent in this sector beginning in 1984 following the deregulation of Norwegian banks in the mid 1980s. We also find that risk levels in the sector fall after 1992 and continue to fall to pre-1982 levels by the end of our sample in December 1995.

Duru, Augustine, and David M. Reeb, "Geographic and Industrial Corporate Diversification: The Level and Structure of Executive Compensation," *Journal of Accounting, Auditing and Finance* (Vol. 17 No. 1, 2002): 1-24.

This article explores the relation between corporate diversification and chief executive officer compensation. It documents that geographic diversification provides a compensation premium, while industrial diversification is associated with lower levels of CEO pay. It also examines the effect of corporate diversification on the structure and performance criteria of CEO compensation contracts. It is found that both diversification strategies are associated with a greater use of incentive-based compensation and with a greater reliance on market-based, rather than accounting-based measures of firm performance. Finally, the

question of whether shareholders reward CEOs for corporate diversification is addressed. It is documented that while value-enhancing geographic diversification is rewarded, nonvalue-enhancing industrial diversification is penalized.

Fors, Gunnar, and Roger Svensson, "R&D and Foreign Sales in Swedish Multinationals: A Simultaneous Relationship?" *Research Policy* (Vol. 31 No. 1, 2002): 95-107.

This paper analyzes the simultaneous relationship between R&D and foreign sales in Swedish multinational enterprises (MNEs). We argue that this two-way relationship should especially apply to multinationals based in small economies due to the firms' high dependence on foreign markets. The only previous study addressing this issue used data on multinationals from the United States, a country with a large domestic market, but did not find evidence of the hypothesized simultaneous relationship. Our empirical results suggest a positive two-way relationship between R&D and foreign sales.

Giner, Begona, and William Rees, "On the Asymmetric Recognition of Good and Bad News in France, Germany and the United Kingdom," *Journal of Business Finance & Accounting* (Vol. 28 No. 9/10, 2001): 1285-1331.

This paper investigates whether accounting systems recognize bad news more promptly in earnings than good news, where news is proxied by changes in share price. It finds that in France, Germany, and the U.K. the contemporaneous association between earnings and returns is much stronger for bad news than for good news, and although the results are strongest for the U.K., and then France, the inter-country differences are not statistically significant. The results suggest that "pervasive" conservatism, unrelated to news, is observed in Germany and France, but the U.K. results are consistent with optimism.

Higgins, Huong N., "Analysts' Forecasts of Japanese Firms' Earnings: Additional Evidence," *International Journal of Accounting* (forthcoming in 2002).

This paper examines analyst forecasts of Japanese firms' earnings during Japan's economic burst period in the 1990s. Using the evidence of analyst earnings forecasts in the U.S. as benchmark, the paper documents the following three findings. First, whereas the forecast accuracy of U.S. analysts following U.S. firms improves over time, the forecast accuracy of U.S. and Japanese analysts following Japanese firms does not. Second, whereas decreases in forecast errors of U.S. analysts following U.S. firms are best explained by decreases in forecast bias of the analysts, increases in forecast errors of U.S. and Japanese analysts following Japanese firms are best explained by increases in the

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frequency of losses experienced by Japanese firms. Third, Japanese analysts forecast earnings less accurately than do U.S. analysts. These findings reflect the difficulty of producing accurate earnings forecasts during economic downturns. These findings also suggest that Japanese analysts are more bound than their U.S. counterparts by cultural ties that impede forecast accuracy.

Kidwell, Linda A., Shih-Jen Kathy Ho, John Blake, Philip Wraith, Raafat Roubi, and William Richardson, "New Management Techniques: An International Comparison," *CPA Journal* (Vol. 52 No. 2, 2002): 63–66.

This article reports the results of an international comparison of the use of management accounting techniques by municipalities in the U.S., U.K., and Canada.

Lausten, Mette, "CEO Turnover, Firm Performance and Corporate Governance: Empirical Evidence on Danish Firms," *International Journal of Industrial Organization* (Vol. 20 No. 3, 2002): 391–414.

This paper examines the relationship between the replacement of CEOs and corporate performance in Danish firms. We use a unique longitudinal data set to test the hypothesis that CEO turnover is inversely related to firm performance. Evidence is provided using several measures of corporate performance and corporate governance. The results are consistent with the principal-agent theory: the threat of turnover ensures that CEOs act in the interest of the shareholders. Moreover, the status of the chairman of the board and family ties within the management and ownership of the company strengthen the relationship between CEO turnover and firm performance.

Lee, Bong-Soo, and Oliver M. Rui, "Dynamic Relationship between Stock Returns and Trading Volume: Domestic and Cross-Country Evidence," *Journal of Banking and Finance* (Vol. 26 No. 1, 2002): 51–78.

This paper examines the dynamic relations—causal relations and the sign and magnitude of dynamic effects—between stock market trading volume and returns (and volatility) for both domestic and cross-country markets by using the daily data of the three largest stock markets: New York, Tokyo, and London. Major findings are as follows: First, trading volume does not Granger-cause stock market returns on each of three stock markets. Second, there exists a positive feedback relationship between trading volume and return volatility in all three markets. Third, regarding the cross-country relationships, U.S. financial market variables, in particular U.S. trading volume, contains an extensive predictive power for U.K. and Japanese financial market variables. Fourth, subsample analyses show evidence of stronger spillover effects after the 1987

market crash and an increased importance of trading volume as an information variable after the introduction of options in the U.S. and Japan.

Robb, Sean W., Louise E. Single, and Marilyn T. Zarzeski, "Nonfinancial Disclosures across Anglo-American Countries," *Journal of International Accounting Auditing and Taxation* (Vol. 10 No. 1, 2001): 71–83.

This study of nonfinancial disclosures, as recommended by U.S. financial analysts to the Jenkins Committee, improves our understanding of factors that determine nonfinancial disclosure choices of firms in Australia, Canada, and the United States. We develop and utilize a list of nonfinancial disclosures to determine the factors that impact disclosure choices in annual reports. Seemingly unrelated regression tests show that larger companies and companies with a global focus provide higher levels of both forward-looking and historical nonfinancial disclosures in their annual reports. There are minimal industry and country effects. The findings of this study may be useful to the International Accounting Standards Committee and to the International Organization of Securities Commissions. These organizations are attempting to develop a "level playing field" of disclosure for companies that cross-list their shares in financial markets. We present evidence that three countries already provide recommended nonfinancial disclosures to the marketplace. Further research is needed to determine whether non-Anglo-American firms provide similar nonfinancial disclosures and whether such disclosures are useful for financial analysts.

Street, Donna L., "An Interview with Sir David Tweedie," *Journal of International Financial Management & Accounting* (Vol. 13 No. 1, 2002): 73–100.

In an interview, David Tweedie discusses his outlook for the International Accounting Standards Board (IASB) and his role as chairman. The IASB's strategy is fairly clear. Initially, the restructuring was considered because of pressure that came primarily from individual national standard setters including members of the G4. The EU's announcement was a highly encouraging development. IOSCO's endorsement of IAS was not a surprise. Some IASs allow alternatives, but the IASB will try to eliminate those.

Zeffer, Stephen A., "Political Lobbying on Proposed Standards: A Challenge to the IASB," *Accounting Horizons* (Vol. 16 No. 1, 2002): 43–54.

Now that the International Accounting Standards Board has emerged from the restructuring of the International Accounting Standards Committee's board, it seeks to establish high-quality International Financial Reporting Standards and to engineer convergence at that level with eight leading national standard setters

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via a formal process of liaison. One obstacle lying in the IASB's path is the set of "political" pressures that may be triggered by any board initiative to prescribe specific accounting treatments, eliminate alternative

treatments, impose additional disclosure requirements, or tighten the allowed interpretations. This article relates numerous attempts by industry and other affected parties, both in the U.S. and other countries, to move aggressively to prevent an accounting standard setter from imposing an objectionable requirement.

14TH ASIAN-PACIFIC CONFERENCE ON INTERNATIONAL ACCOUNTING ISSUES

**NOVEMBER 23-26, 2002
LOS ANGELES, CALIFORNIA U.S.A.**

Home Page: <http://www.craig.csufresno.edu/ap>

The Fourteenth ASIAN-PACIFIC Conference on International Accounting Issues will be held on November 23-26, 2002 in the Disneyland area of Los Angeles, U.S.A. The main theme of the conference is "Quality of Earnings: Challenges for Standard Setters in the New Economy". The Conference will provide an important forum for the interaction of different ideas and information between academicians and practitioners, in order to enhance the understanding of international accounting issues in various Asian-Pacific countries.

Research paper presentation and special workshops will be held by well-known international accounting scholars and practitioners to discuss issues on international accounting research, education, and practice, impact of advanced technology in international accounting, comparative ethics in international auditing and business, and related international accounting topics.

Conference Venue

The Conference will be held at HYATT Regency Anaheim, a modern hotel located within a few minutes from Disneyland. Nearby attractions include South Coast Plaza (the largest shopping center in Southern California), Knott'sberry Farm, Universal Studios, and Hollywood.

Conference Registration Fee

U.S.\$300

Registration fee includes: Reception, two breakfasts, two luncheons, one dinner (banquet and entertainment), copy of Conference Program and Proceedings, subsidy to a two-day, one-night tour to Las Vegas. A special registration fee of U.S.\$200 is available to full-time graduate students.

The Vernon Zimmerman Best Paper Awards

Each of the best four papers, to be selected by a panel of distinguished reviewers, will be awarded U.S.\$500.

International Accounting Section AAA Annual Meeting Preliminary Schedule of Activities *(continued from page 3)*

SATURDAY, AUGUST 17

10:15 AM – 11:45 AM **Forum Papers and Concurrent Sessions**

Session Title: Evidence from Japan's Equity Markets

Moderator: Jeannie Harrington, Middle Tennessee State University

Paper 1: *The Japanese Market for Corporate Control—An Event Study of Domestic and Foreign Acquisitions by Japanese Bidders.* Huong Ngo Higgins, Worcester Polytechnic Institute

Paper 2: *The Effects of Investor Informativeness and Earnings Persistence on the Japanese Subsidiary Earnings Anomaly.* Don Herrmann, Oregon State University; Tatsuo Inoue, Kwansai Gakuin University; Wayne B. Thomas, University of Oklahoma

Paper 3: *Accounting Conservatism and Firm Valuation in Japan.* Richard Chung, Hong Kong Polytechnic University; Sandra Ho, Hong Kong Polytechnic University; Jeong-Bon Kim, Hong Kong Polytechnic University

Discussant: Obeua Persons, Rider University

2:00 PM – 3:30 PM **Forum Papers and Concurrent Sessions**

Session Title: Evidence from Cross-Listed Companies

Moderator: James Bannister, University of Hartford

Paper 1: *How Representative Are Cross-Listed Firms? An Analysis of Firm Performance and Accounting Quality.* Mark Lang, The University of North Carolina at Chapel Hill; Jana Smith Raedy, The University of North Carolina at Chapel Hill; Michelle Yetman, The University of Iowa

Paper 2: *Liability Exposure Effects on Earnings Conservatism: The Case of Cross-Listed Firms.* Carel Huijgen, Rijksuniversiteit Groningen; Martien Lubberink, Lancaster University

Paper 3: *Are Detailed Accounting Standards Sufficient to Ensure Compliance? Evidence from Non-U.S. Firms Adopting U.S. GAAP.* Mark T. Bradshaw, Harvard University; Gregory S. Miller, Harvard University

Discussant: Steve Salter, University of Cincinnati

4:00 PM – 5:30 PM **Concurrent Sessions**

Session Title: Developments in International Accounting Standards

Moderator: Bruce Behn, University of Tennessee

Paper 1: *Litigation Risk and Big 5 vs. Non-big 5 Audit Quality: Evidence from ASEAN Countries, Canada, and U.S.* Inder Khurana, University of Missouri-Columbia; K. K. Raman, University of North Texas

Paper 2: *The Role of Audit Quality in Firm Valuation: The Case of R&D Capitalization in Australia.* Gopal Krishnan, City University of Hong Kong; Majella Percy, Queensland University of Technology; Irene Tutticci, University of Queensland

Paper 3: *Corruption and International Valuation: Does Virtue Pay?* Charles Lee, Cornell University; David T. Ng, Cornell University

Discussant: John Eichenseher, University of Wisconsin-Madison

4TH ASIA-PACIFIC JOURNAL OF ACCOUNTING & ECONOMICS SYMPOSIUM

SHANGHAI, CHINA
JANUARY 6 – 8, 2003

Organized By: Department of Accountancy and Accounting and Corporate Law Centre,
City University of Hong Kong
Shanghai National Accounting Institute
Fudan University

Shanghai University of Finance and Economics

Supported by: American Accounting Association

CALL FOR PAPERS

Papers submitted for the Symposium should contain original research, which rigorously applies economic or legal theory to accounting and auditing issues. Papers which address any relevant issue in accounting or auditing will be considered, and empirical papers are particularly encouraged.

Papers submitted for Plenary Paper Sessions

The Symposium will provide accommodation (single occupancy) for four days, waiver of registration fees, and reimbursement for the least expensive return economy airfare up to a maximum of U.S.\$1,200 for one author of each accepted paper. Accepted papers will be published in *Asia-Pacific Journal of Accounting & Economics*, subject to the editors' approval.

Papers submitted for Forum Presentation

Authors who do not wish to commit their papers to the *journal* can still submit their papers for consideration at the Forum Presentations. No sponsorship will be provided.

Submission Guidelines

Two copies of the manuscript should be submitted in paper format with another electronic copy in Microsoft® Word format. **Manuscripts previously published or currently under review by other publications must not be submitted.** All submissions are subject to a double-blind review process. (Note: Papers currently under review by other publications can be submitted for Forum Presentation.)

Manuscripts following *APJAE's* editorial guidelines should be sent

- by email to: acapjae@cityu.edu.hk
- by mail to:

Professor Ferdinand A. Gul
Co-Editor
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HONG KONG

Submissions must be received no later than **August 31, 2002**. Please state clearly whether the paper is to be submitted for the Plenary Paper Sessions or the Forum Presentations. Authors submitting for the Plenary Paper Sessions can expect to be notified of the Editors' decision by **November 15, 2002**. Authors submitting for the Forum Presentations can expect to be notified of the Editors' decision by **October 15, 2002**.

Further information on the Symposium can be found at
http://fbweb.cityu.edu.hk/ac/apja/apjae_03.htm

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Almost half the American Accounting Association's International Accounting Section's 1,600 members live outside the United States, representing 60 countries. The IAS announces the Gift Membership Program to provide sponsored gift AAA memberships to department chairs in universities outside the United States to be selected by the IAS's International Relations Committee or by individual contributors. The gift membership will provide accounting departments at these universities much-needed access to *The Accounting Review*, *Accounting Horizons*, *Issues in Accounting Education*, and *Accounting Education News*.

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