

INTERNATIONAL
ACCOUNTING SECTION
of the



American
Accounting
Association

NO. 102



FORUM

INTERNATIONAL ACCOUNTING

Fall 2011



American
Accounting
Association
International
Accounting

Editor: Jeannie J. Harrington
Middle Tennessee State University

President's Letter

Greetings to the members of the International Accounting Section! Like all of you, I am proud to be a member of this great section. The IAS is growing and there are many positive happenings in the section. I will share some of them with you in this newsletter.

The first *JJAR* conference held in Xiamen, China in June 2011 was a great success. The organizing committee, co-chaired by Agnes Cheng (Louisiana State University) and Xiaohui Qui (Xiamen University), did an excellent job organizing it. I would like to once again thank the Xiamen University for their generous sponsorship. Erv Black (BYU) served as the guest editor for the conference issue of *JJAR*. Close to ninety papers were submitted and five were selected and presented at the conference. The papers have been revised based on the discussant comments and feedback from the conference participants and are scheduled to be published in 2012.

Speaking of the *JJAR*, the journal now has the new editor, Mike Welker (Queens University), who has been working hard to take the journal to the next level. *JJAR* has come a long way over the last ten years. Thanks to the leadership of the previous editors, it has become a premier outlet for international accounting research. Right after his appointment, Mike has appointed a new editorial board, and taken measures to improve both the turnaround time and the quality of reviews. We look forward to your continued support of the journal.

In 2010, the section also initiated the Ph.D. student travel grant program. The purpose of this program is to encourage early involvement of doctoral students to the sec-

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President Tony Kang

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Murfreesboro, TN 37132, USA

President's Letter *(Continued from page 1)*

tion events, developing long-term ties. Five awards were awarded at the annual meeting in Denver last year, and five more are to be awarded this year in D.C. Please encourage your Ph.D. students with an interest in international accounting research to apply for this grant. Currently, we support \$750 for each Ph.D. student travel.

Calls for nominations for various positions in the section are now out. You can find out more about this on our website. We need nominations for our section awards as well. Please send your nominations for officer positions to Erv Black and for the section awards to Rob Larson (Outstanding Service Award), Cheryl Linthicum (Outstanding Educator Award) and Sudipta Basu (Outstanding Dissertation award).

Chris Skousen (Utah State University) and Hong Xie (University of Kentucky) have been working hard to put together the midyear meeting. Ole-Kristian Hope (University of Toronto) has been organizing the doctoral/new faculty consortium. Once again, we have a great program this year. The meeting will be held in the beautiful Hilton Tapatio Resort in Arizona February 23-25, 2012. Please plan on bringing your family and enjoying the warm weather! We look forward to seeing many of you on the golf course, if not on the tennis court!

Looking ahead, we look forward to your contributions as volunteers for various roles as we prepare the annual meeting in D.C. this summer. Your contributions as a reviewer, discussant or moderators are always appreciated. Agnes Cheng (the Annual Meeting Chair) is looking for volunteers, so please do so today!

In closing, I would like to thank all of you for making our section what it is today. Whenever I attend a section meeting, I am under the impression that our members not just share the common research and teaching interests but we enjoy interacting with each other and being a part of the friendly community. I am very proud of such heritage.

Tony Kang, IAS President (2011-2012)



Outgoing President Pat Poli is congratulated by Incoming President Tony Kang at the AAA Annual Meeting in Denver

In Memory

Norlin G. Rueschhoff, 81, residing at the Holy Cross Village at Notre Dame, passed away at 8:30 a.m. on Thursday, May 19, 2011. Mr. Rueschhoff was born on June 11, 1929 in Howells, Nebraska to the late Gerhard and Bertha (Schlautman) Rueschhoff. On December 29, 1958 in Rottweil, Germany, he married the former Otilie "Tilly" Seifert who preceded him in death on December 18, 1996. Their son, Kenneth Francis Rueschhoff; one sister, Erma Shavlik; and two brothers, Donald and Erwin Rueschhoff, all preceded in death.

Mr. Rueschhoff is survived by his daughter and son-in-law, Sandra and Michael Ruddick of Des Plaines, IL; three grandchildren, Alex, Krista and Rachel Ruddick; three sisters, Mary Ann Thege of Norfolk, Nebraska, Wyona Smith of Blue Springs, MO, and Janelle Kleffner of LaVista, Nebraska; and two brothers, Dennis Rueschhoff of Sioux Falls, South Dakota and Ivan Rueschhoff of Omaha, Nebraska.

Mr. Rueschhoff was a Professor of Accounting Emeritus at the University of Notre Dame. He retired in 2006 after 36 years of employment with the University of Notre Dame. Mr. Rueschhoff loved to travel. He was an avid golfer who enjoyed beating his son-in-law, Michael, repeatedly. Mr. Rueschhoff was proud of his German heritage and spoke German fluently. He loved his family and was proud of his grandchildren's accomplishments.

Norlin served for the International Accounting Section in many capacities including President from 1980-81 and historian until his death. He received the 2005 Outstanding IAS Service Award. A smiling, friendly face, he will be missed by our section.



Professor Norlin Rueschhoff at the town hall of Sansaporcro, Italy, the birthplace of Luca Pacioli, who wrote the first treatise on double-entry accounting in 1494. The plaque on the wall commemorates Pacioli, a friend and consultant to Leonard da Vinci.



AAA Regional Meetings, 2012

Please support your regional meetings. Present a paper or volunteer to serve on a panel. Remember you may present the same paper at two different AAA meetings. Regional meetings are great venues for Doctoral Student papers; please encourage your doctoral students to take advantage of these opportunities. For further information, please contact Patricia Walters, Texas Christian University, at p.walters1@tcu.edu or the appropriate IAS Regional Meeting Coordinator.

Mid-Atlantic – Philadelphia, Pennsylvania (April 19-21, 2012)

Midwest – St. Louis, Missouri (October 11-13, 2012)

Northeast – Providence, Rhode Island (October 18-20, 2012)

Ohio – Covington, Kentucky (May 10-12, 2012)

Southeast – Savannah, Georgia (April 12-14, 2012)

Southwest – New Orleans, Louisiana (March 1-2, 2012)

Western – Vancouver, Washington (April 19-21, 2012)

International Accounting Section

Forum Deadlines, Suggestions, Comments for 2012

Spring 2012 Issue – February 29, 2012

Summer 2012 Issue - May 31, 2012

Fall 2012 Issue - September 30, 2012

Any comments and suggestions you have to make the *Forum* more informative and enjoyable are appreciated. Please submit comments and items for publishing via email using a Microsoft Word Times New Roman 12 font format file as an attachment. Submit to :

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Murfreesboro, TN 37132

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Email: Jeannie.Harrington@mtsu.edu



*Jeannie Harrington
at the summit of
Pikes Peak in
Colorado (via the
tram, of course!)*

CALL FOR MEMBERS TO SERVE ON IAS COMMITTEES FOR 2012-2013

Below is a list of IAS committees for the period August 2012 to August 2013. Section members interested in serving on a committee should complete the form and send it to the address below:

Stephen Salter
University of Texas at El Paso
Phone: 915-747-7755
Email: sbsalter@utep.edu

To increase your chances of serving on a committee, please mark three choices and indicate your preference (1 = first choice; 2 = second choice; 3 = third choice).

- | | |
|---|--|
| <input type="checkbox"/> Annual Program | Regional Programs |
| <input type="checkbox"/> Midyear Meeting | <input type="checkbox"/> Mid-Atlantic Region |
| <input type="checkbox"/> Continuing Education | <input type="checkbox"/> Midwest Region |
| <input type="checkbox"/> Research | <input type="checkbox"/> Northeast Region |
| <input type="checkbox"/> Teaching Resources | <input type="checkbox"/> Ohio Region |
| <input type="checkbox"/> International Relations | <input type="checkbox"/> Southeast Region |
| <input type="checkbox"/> Information Technology | <input type="checkbox"/> Southwest Region |
| <input type="checkbox"/> Outstanding Dissertation Award | <input type="checkbox"/> Western Region |
| <input type="checkbox"/> Outstanding Educator Award | |
| <input type="checkbox"/> Outstanding Service Award | |
| <input type="checkbox"/> Publications | |
| <input type="checkbox"/> Strategic Planning | |
| <input type="checkbox"/> Website/AAA Commons | |
| <input type="checkbox"/> Practical Issues | |

Name _____

Affiliation _____

Address _____

Phone _____

Email _____



SCENES FROM THE 2011 ANNUAL MEETING



Donna Sharp, wife of our dear late colleague, Ian Philip Neil Hague, accepts the 2011 Executive Committee's Award of Distinction from President Pat Poli



Executive Head Table (left to right): Annual Meeting Chair Raynolde Pereira, President-Elect Tony Kang, Treasurer Betsy Gordon, Speaker Craig Crawford, Partner, KPMG, and President Pat Poli



ADDITIONAL SCENES FROM THE AAA ANNUAL MEETING



ADDITIONAL SCENES FROM THE AAA ANNUAL MEETING



ADDITIONAL SCENES FROM THE AAA ANNUAL MEETING



International Accounting Practice Challenges Panelists (clockwise from left): Frank Houser, PWC, John Hepp, Grant Thornton, Chris Bolash, Ernst & Young, Holger Erchinger, KPMG, and D.J. Gannon, Deloitte



2011 Outstanding IAS International Accounting Dissertation Award

Gwen Yu was named the recipient of the 2011 Outstanding IAS International Accounting Dissertation Award. Gwen completed her Ph.D. at the University of Michigan, where she also earned a master's degree in applied economics. Her undergraduate degree is from Yonsei University in Seoul. Before pursuing her graduate studies, she worked at McKinsey & Company and the global reinsurer Swiss Re.

Gwen is an assistant professor of business administration in the Accounting and Management Unit at Harvard Business School. She teaches the Financial Reporting and Control course in the MBA required curriculum. Her research focuses on how accounting information affects various real economic outcomes. Specifically, she is interested in how accounting standards and corporate disclosures influence capital allocation decisions of both managers and external investors. Professor Yu's work is forthcoming in the *Journal of Financial Economics*, and it has been cited and discussed in *The New York Times*, in *The Financial Times*, on *CBS Money Watch*, and in other outlets of the financial press.



Professor Gwen Yu

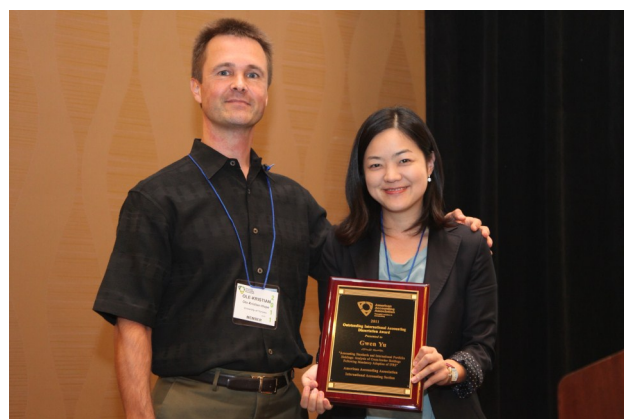
ABSTRACT

Accounting Standards and International Portfolio Holdings: Analysis of Cross-border Holdings Following Mandatory Adoption of IFRS

Prior literature shows that investors under-invest in foreign firms due to information asymmetry problems. I posit that differences in local accounting standards are a source of the information asymmetry among investors. Using security-level holdings of international mutual funds, I find that harmonizing accounting standards (adoption of IFRS) increases foreign mutual fund holdings. Harmonizing accounting standards increases cross-border holdings 1) directly by reducing the information processing cost of foreign investors and 2) indirectly by reducing the effect of other barriers on cross-border investments such as geographic distance. Further analysis suggests that differences in the enforcement of the standards are sufficient to curb the benefits of accounting harmonization.



Ole-Kristian Hope announces Gwen Yu as the winner of the 2011 Outstanding IAS International Accounting Dissertation Award



2011 Outstanding IAS International Educator Award

Professor J. Timothy Sale received the 2011 Outstanding IAS International Accounting Educator Award. Dr. Sale is Professor of Accounting and Information Systems and Norwood C. Geis Fellow at the University of Cincinnati and a Senior Fellow at Johannes Kepler University in Linz, Austria. He has previously served on the faculty of the Department of Accounting and Management Information Systems at The Ohio State University, and as an honorary senior visiting fellow at the University of Manchester, England. He previously worked at Armco Steel Corporation, Peat, Marwick, Mitchell & Co. and Link Belt Company.

Tim has served at the University of Cincinnati as the chair of the department of Accounting, the Director of Master of Science in Accounting Program, the Program Director of Quarter Abroad in Austria Program, the SAP Fellow in Enterprise Systems, and the Academic Director of the Master of Science in Taxation Program.

Dr. Sale has authored or co-authored articles published in leading American and European accounting journals including *The Accounting Review*, *Accounting and Business Research*, *Management Accounting*, *CA Magazine*, *Cost and Management*, *Journal of Accountancy*, *Journal of Accounting and Business Finance*, and *Artificial Intelligence in Accounting and Auditing*. He also co-authored a monograph entitled *Financial Control of Divisional Capital Investment* published by The Institute of Cost and Management Accountants in England. He is also currently Editor of *Advances in Accounting—Incorporating Advances in International Accounting*.

Dr. Sale received his BBA in Accounting, an MBA in Accounting and a Ph.D. in Accounting, all from the University of Cincinnati. He is a member of Beta Alpha Psi, Beta Gamma Sigma, Omicron Delta Kappa, and the AAA International Accounting Section.

Awards received include the Haskins & Sells Foundation Award for Excellence in Accounting, the Wall Street Journal Student Achievement Award and is an Honors Graduate in Accounting from the University of Cincinnati.

Professor Sale has chaired dissertations for many international accounting section members including Susan B. Hughes.

Tim has been married to his wife, Suzanne, for 48 years, and they have two daughters and four grandchildren. He is an avid soccer fan having played, coached, and refereed soccer for 30 years.



**2011 Outstanding IAS
International Educator Award
Recipient J. Timothy Sale**



**Susan B. Hughes
announces
J. Timothy Sale as
the winner of the
2011 Outstanding
IAS International
Educator Award**



2011 Outstanding IAS Service Award

Dr. Finley Graves was named the recipient of the 2011 Outstanding IAS Service Award. Dr. Graves is Dean of the University of North Texas (UNT) College of Business and former Chair of the Department of Accounting.

He holds an M.A. and Ph.D. in Accountancy from the University of Alabama. He also holds a Bachelor's degree in Modern Foreign Languages from the University of Mississippi, an M.A. in Modern German Literature from Rice

University, and a Ph.D. in Germanic Languages and Literatures from the University of North Carolina at Chapel Hill. He is a CPA licensed in the State of Mississippi. Prior to joining the faculty of the Department of Accounting at the University of North Texas as Chair in 2002, Dr. Graves was Head of the Department of Accounting at Kansas State University from 1997 to 2002. From 1983 through 1997, he was a member of the faculty of the School of Accountancy at the University of Mississippi.

At Ole Miss he was named the School of Accountancy's Outstanding Teacher and Outstanding Researcher twice each. Also while at Ole Miss, he received the campus-wide Burlington Northern Foundation Faculty Achievement Award for Outstanding Teaching and Scholarship. At UNT he received the 2006 Council of Business Students Faculty of the Year Award, and in 2010 he received the Federation of Schools of Accountancy's Joseph A. Silviso Faculty Merit Award. Dr. Graves has taught graduate courses in financial accounting theory and international accounting. At the undergraduate level, he has taught financial, managerial, and not-for-profit accounting.

In addition to publishing several books, Dr. Graves has authored a number of articles in the areas of international accounting, the development of accounting thought, and the social context of accounting. He has served on the editorial boards of *Accounting Horizons*; *The Accounting Review*; *Journal of International Accounting Research*; *Accounting Historians Journal*; *Journal of International Accounting Auditing and Taxation*; and *Journal of Accounting Education*. He has edited special editions of *Critical Perspectives on Accounting* and *Journal of Accounting and Public Policy*.

Dr. Graves is a member of a number of professional organizations including the American Accounting Association, the Amer-



Dr. Finley Graves receives the 2011 Outstanding IAS Service Award from Presenter Rob Larson

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2011 International IAS Outstanding Service Award *(continued from page 12)*

ican Institute of Certified Public Accountants, the Accounting Programs Leadership Group, the International Section of the American Accounting Association, the Academy of Accounting Historians, and Financial Executives International.

Dr. Graves has served as president of the International Accounting Section of the American Accounting Association, the Academy of Accounting Historians, and the Federation of Schools of Accountancy. He has also served as Vice-President – Education of the American Accounting Association. He is currently a member of the Accounting Accreditation Committee of AACSB International, the organization that accredits business and accounting programs worldwide. Dr. Graves is married to the former Gail Tait of Houston, Texas, and they have two children, Tait Graves, who is a partner with Wilson, Sonsini, Goodrich & Rosati in San Francisco, and Elizabeth Love, who is a Grant Officer with the Houston Endowment. Dr. and Mrs. Graves have three grandchildren.



Robert Larson announces Dr. Finley Graves as the recipient of the 2011 Outstanding IAS Service Award



Dr. Finley Graves receives the 2011 Outstanding IAS Service Award

Calls for Nominations

I. Section Officer Positions

- a. Vice President - Academic
- b. Vice President - Practice
- c. Treasurer (election is for a two-year term)
- d. Advisory Board (election is for three year terms).
- e. Nominations Committee
- f. Publications Committee

The deadline for nominations is **February 15, 2012**. Please send the nominations to Erv Black, Chair of the Nominations Committee, at ervblack@byu.edu.

II. Section Awards

a. Outstanding Section Service Award

The 2011-2012 Outstanding Section Service Award Committee is soliciting nominations for the 2012 recipient of the Outstanding Section Service Award. To qualify to receive the award, the nominees must meet one of the two following criteria: (1) Be a current member of the section, or (2) If retired or deceased, must have been an active section member during his/her career. If at all possible, the winner should attend the 2012 Annual Meeting in Washington, D.C. to receive the award.

Please send nominations to Rob Larson, the committee chair, by February 28, 2012.

Robert K. Larson
Professor of University of Dayton
School of Business Administration
300 College Park
Dayton, Ohio 45469-2242
Email: RLarson1@udayton.edu

Prior recipients of the award are:

Donna L. Street (2004)
Norlin Rueschhoff (2005)
Hanns-Martin Schoenfield (2006)
Lee H. Radebaugh (2007)
Bruce Behn (2008)
Gary Meek (2009)
Robert K. Larson (2010)
O. Finley Graves (2011)

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Calls for Nominations *(continued from page 14)*

b. Outstanding International Accounting Educator Award

The International Accounting Section of the American Accounting Association invites nominations for its Outstanding International Accounting Educator Award. The general selection criteria are as follows.

The award is presented to an individual who has made a substantial contribution to international accounting education through scholarly endeavors in research and teaching over a sustained period of time through publications, educational innovation, research guidance to students, active involvement in the activities of international professional and academic organizations, and serving as an example to others in promoting international accounting education.

The award recipient will be honored with a plaque at the Section's annual meeting luncheon. A sketch of his or her accomplishments will also be included in the Section's newsletter, *Forum*.

Please submit nomination materials and documents, along with the curriculum vitae of your nominee to:

Cheryl L. Linthicum
Department of Accounting
College of Business
One UTSA Boulevard
University of Texas - San Antonio
San Antonio, Texas 78249-0632
Phone: 210-458-6744
Email: Cheryl.linthicum@utsa.edu

The DEADLINE for nomination is February 29, 2012.

Previous winners of the Outstanding International Accounting Educator Award are:

1990 Paul Garner	2002 Christopher Nobes
1991 Gerhard Mueller	2003 Robert Parker
1992 Vernon Zimmerman	2004 Shahrokh Saudagaran
1993 Fred Choi	2005 Kazuo-Hiramatsu
1994 Sidney Gray	2006 Chee Chow
1995 Murray Wells	2007 Donna Street
1996 Belverd Needles	2008 Mary Barth and Timothy S. Douppnik
1997 Gary Meek	2009 Ross (Rasoul) Tondkar
1998 Lee Radebaugh	2010 Teresa Conover
1999 Steve Zeff	2011 J. Timothy Sale
2000 –Ahmed Riahi-Belkaoui	
2001 Helen Gernon	

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Calls for Nominations *(continued from page 15)*

c. Outstanding International Accounting Dissertation Award

The International Accounting Section of the American Accounting Association invites submissions for its Outstanding International Accounting Dissertation Award, to be presented at the Annual Meeting of the American Accounting Association in Washington, DC, during August 2012. All doctoral dissertations successfully defended during the 2011 calendar year in all areas of international accounting - including topics in financial, managerial, auditing, taxation, and information systems - are eligible for this award. Eligible individuals should submit via e-mail the following materials no later than (and preferably earlier than) February 28, 2012:

1. Summary of their dissertation not exceeding 20 pages including tables, or a working paper based on their dissertation, and
2. A letter of support from his/her dissertation committee chairperson.

Upon reviewing these initial submission materials, the Outstanding Dissertation Award Committee will select finalists for the award. Finalists will be requested to submit copies of the complete dissertation to the committee.

Please note that the committee will be grateful to receive suggestions from section members for suitable candidates for this award. Thus we would be very happy if you could ensure that all faculty and Ph.D. students at your school are aware of the award.

Please send submissions via email to:

Sudipta Basu

Fox School of Business

Temple University

Sudipta.Basu@temple.edu

The DEADLINE for nominations is February 28, 2012.

Winners of the Outstanding International Accounting Dissertation Award to date are:

1984 Trevor J. Harris, University of Washington

1985 (none awarded)

1986 Betty C. Brown, University of Louisville

1987 Shahrokh M. Saudagaran, University of Washington

1988 David Sharp, Massachusetts Institute of Technology

1989 Teresa L. Conover, University of North Texas

1990 F. Norman Shiue, George Washington University

1991 Ajay Adhikari, Virginia Commonwealth University

1992 Stephen B. Salter, University of South Carolina

1993 Patricia McQueen, New York University

1994 Keith R. Duncan, Bond University

1995 Mary A. Flanigan, Virginia Commonwealth University

1996 Wayne Thomas, Oklahoma State University

1997 Paquita Y. Davis-Friday, University of Michigan

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Calls for Nominations (continued from page 16)

Previous Recipients of the Outstanding International Accounting Dissertation Award (continued):

- 1998 Karl Albert Muller III, University of Illinois Urbana-Champaign
 - 1999 Jan Marton, Göteborg University
 - 2000 Tracy Manly, University of Arkansas
 - 2001 Takashi Yaekura, University of Illinois Urbana-Champaign
 - 2002 Ole-Kristian Hope, Northwestern University
 - 2003 Thomas A. Matthews, University of Waterloo
 - 2004 Steven Francis Orpurt, University of Chicago
 - 2005 Christopher Hodgdon, Virginia Commonwealth University
 - 2006 Ety Retno Wulandari, Nanyang Business School
 - 2007 Annelies Renders, Katholieke Universiteit
 - 2008 Devan Mescall, University of Waterloo
 - 2009 Hans Christensen, University of Manchester
 - 2010 Lijle Yao, Tsinghua University
 - 2011 Gwen Yu, University of Michigan
-



New JIAR Editor Michael Welker, Queens School of Business, Kingston, Ontario, Canada

NEW JIAR EDITOR

Michael Welker is a Professor of Financial Accounting and the KPMG Faculty Fellow at the Queen's School of Business. He has published widely cited articles that examine various aspects of disclosure and international accounting issues including articles in *The Accounting Review*, *Contemporary Accounting Research* and *Accounting, Organizations and Society*.

He is currently working on research projects related to accounting conservatism, the impact of accounting harmonization on analysts' and firms' decisions, and the impact of corporate governance mechanisms of markets' perceptions of firms' disclosures. He is currently an Associate Editor at *Contemporary Accounting Research*, and has served on the Editorial Boards of *The Accounting Review*, *Accounting Perspectives* and the *Journal of International Accounting Research*.

He has also served as a participant, an invited presenter and discussant at numerous universities and conferences. He received his Ph.D. from the University of Iowa.

HAVE YOU SEEN?

Kamala Raghavan
Texas Southern University



Bowe Hansen
Virginia Tech



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 Kamala Raghavan at raghavank@tsu.edu or Bowe Hansen at bhansen1@vt.edu.

Adzis, Azira Abdul, Tripe, David W.L. and Dunmore, Paul V., “International Financial Reporting Standards (IFRS) and Income Smoothing Activities of Banks: Evidence from Australia and New Zealand Commercial Banks” (November 30, 2010). *Finance and Corporate Governance Conference 2011 Paper*. Available at SSRN: <http://ssrn.com/abstract=1717307>.

This study investigates the impact of IFRS on income smoothing activities through loan loss provisions of Australia and New Zealand banks for the period of 1995-2009. Prior to IFRS implementation, bank loans provisioning is subject to managerial manipulation, possibly due to the weakness in GAAP that provides room for managers to manage earnings. We conjecture that the robust disclosure requirements under IFRS could mitigate income smoothing activities of the IFRS adopters. Our paper examines the effects of IFRS adoption on Australia and New Zealand banks as previous studies give much attention to the European Union (EU) samples. The findings demonstrate that income smoothing activities of banks in Australia and New Zealand are reduced after IFRS adoption.

Agoglia, Christopher P., Timothy S. Douppnik, and George T. Tsakumis, “Principles-Based versus Rules-Based Accounting Standards: The Influence of Standard Precision and Audit Committee Strength on Financial Reporting Decisions”, *The Accounting Review* (Volume 86, Issue 3, 2011): 747- 786.

Recent accounting scandals have resulted in regulatory initiatives designed to strengthen audit committee oversight of corporate financial reporting and have led to a concern that U.S. GAAP has become too rules-based. We examine issues related to these initiatives using two

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Have You Seen (continued from page 18)

experiments. CFOs in our experiments exhibit more agreement and are less likely to report aggressively under a less precise (more principles-based) standard than under a more precise (more rules-based) standard. Our results also indicate that CFOs applying a more precise standard are less likely to report aggressively in the presence of a strong audit committee than a weak audit committee. We find no effect of audit committee strength when the standard is less precise. Finally, we find support for a three-path mediating model examining mechanisms driving the effect of standard precision on aggressive reporting decisions. These results should be of interest to U.S. policymakers as they continue to contemplate a shift to more principles-based accounting standards (e.g., IFRS).

Atwood, T.J., Michael S. Drake, James N. Myers, and Linda A. Myers’ “Do earnings reported under IFRS tell us more about future earnings and cash flows?”, *Journal of Accounting and Public Policy*, (Volume 30, Issue 2, March-April 2011): 103-121.

We contribute to the debate about the relative benefits and costs of International Financial Reporting Standards (IFRS) adoption by examining whether earnings persistence and the association between current accounting earnings and future cash flows differ for firms reporting under IFRS versus firms reporting under United States Generally Accepted Accounting Principles (U.S. GAAP) and firms reporting under non-U.S. domestic accounting standards (DAS). Using samples comprised of 58,832 firm-year observations drawn from 33 countries from 2002 through 2008, we find that positive earnings reported under IFRS are no more or less persistent than earnings reported under U.S. GAAP but losses reported under IFRS are less persistent than losses reported under U.S. GAAP. Moreover, we find that earnings reported under IFRS are no more or less persistent and are no more or less associated with future cash flows than earnings reported under non-U.S. DAS. However, we find that earnings reported under U.S. GAAP are more closely associated with future cash flows than earnings reported under IFRS. This is important if a key role of reported earnings is to help investors form expectations about future cash flows. These results should be of interest to academics and standard-setters as they debate the merits of transitioning to IFRS, and to parties who use reported earnings to form expectations about future earnings and cash flows.

Bengtsson, E., “Repoliticalization of accounting standard-setting – The IASB, the EU, and the global financial crisis”, *Critical Perspectives in Accounting*, 22, 567-580.

Since its inception, the IASB has been able to set standards with relatively little political influence in its governance or standard setting process. But this changed with the outbreak of the global financial crisis. Political bodies began to view accounting standards as a contributing factor that amplified the consequences of the crisis on banks, financial markets and the overall economy. Regaining control over accounting standard setting was seen as imperative. In this article, we investigate how the EU sought to gain control over the IASB and how the global standard setter responded to limit political influence. Our findings show that a re-balancing of power in favor of political interests has occurred between the stakeholders of international accounting

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Have You Seen (continued from page 19)

standard setting. Further research in this area looks promising. We suspect that the heightened influence of political actors may lead to further power struggles and efforts to cope with on-going changes in the institutional environment.

Cairns, David, Dianne Massoudi, Ross Taplin and Ann Tarca, “IFRS fair value measurement and accounting policy choice in the United Kingdom and Australia”, *The British Accounting Review* (Volume 43, Issue 1, March 2011): 1-21.

This study investigates the use of fair value measurement by 228 listed companies in the UK and Australia around the time of adoption of IFRS from 1 January 2005. We test whether within and between- country comparability in policy choices (as measured by *T* indices) has changed in relation to (a) mandatory and (b) optional use of fair value measurement. Mandatory requirements related to financial instruments (IAS 39) and share-based payments (IFRS 2) have increased comparability, with a weaker effect for biological assets (IAS 41). In relation to the optional use of fair value, comparability increased in relation to property (IAS 16) because some companies discontinued fair value measurement. Under IAS 39, the fair value option for other financial assets and other financial liabilities decreased comparability. Options to use fair value in other areas (intangible assets, plant and equipment and investment properties) are not generally taken up, either for on-going measurement or on IFRS adoption (under the ‘deemed cost’ option). The results suggest a conservative approach and/or lack of incentives to use fair value measurement for most companies. Exceptions include some banks and insurance companies (for other financial assets and liabilities) and companies holding investment properties.

Cazavan-Jeny, Anne, Thomas Jeanjean and Peter Joos. “Accounting choice and future performance: The case of R&D accounting in France”, *Journal of Accounting and Public Policy*, (Volume 30, Issue 2, March-April 2011): 145-165.

We examine whether managers’ decisions to capitalize or expense R&D expenditures convey information about the future performance of the firm. Focusing on a French setting where managers can choose to capitalize R&D expenditures under certain circumstances, we find that, after controlling for industry effects, firms that capitalize R&D expenditures spend less on R&D, have more volatile R&D efforts, and are smaller and more leveraged than firms that expense R&D expenditures. We also find that capitalizers capitalize R&D outlays when they need to meet or beat thresholds. Finally, we show that the decision to capitalize R&D is generally associated with a negative or neutral impact on future performance, even after controlling for self-selection. Our results also show that when firms both capitalize and expense R&D expenditures, the expensed portion exhibits a stronger (and negative) relationship with future performance. Market-based tests corroborate these findings. While we cannot unambiguously establish whether our findings imply that management uses R&D capitalization to manage earnings or because it is unable to estimate the earning power of R&D projects, our results suggest that management is unable to truthfully convey information about future performance through its decision to capitalize R&D. Our findings, based on real data as opposed to simulated data, therefore contrast with previous supportive evidence in favor of capitalization in the literature.

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Have You Seen (continued from page 20)

Chen, F., O. Hope, Q. Li, and X. Wang, “Financial reporting quality and investment efficiency of private firms in emerging markets”, *The Accounting Review*, 86, 1255-1288.

Prior research shows that financial reporting quality (FRQ) is positively related to investment efficiency for large U.S. publicly traded companies. We examine the role of FRQ in private firms from emerging markets, a setting in which extant research suggests that FRQ would be less conducive to the mitigation of investment inefficiencies. Earlier studies show that private firms have lower FRQ, presumably because of lower market demand for public information. Prior research also shows that FRQ is lower in countries with low investor protection, bank-oriented financial systems, and stronger conformity between tax and financial reporting rules. Using firm-level data from the World Bank, our empirical evidence suggests that FRQ positively affects investment efficiency. We further find that the relation between FRQ and investment efficiency is increasing in bank financing and decreasing in incentives to minimize earnings for tax purposes. Such a connection between tax-minimization incentives and the informational role of earnings has often been asserted in the literature. We provide explicit evidence in this regard.

Clark, E. and Mefteh, S. “Asymmetric Foreign Currency Exposures and Derivatives Use: Evidence from France”, *Journal of International Financial Management & Accounting*, (Volume 22, 2011): 27–45.

This paper provides evidence on the asymmetric sensitivity of stock returns of French firms to exchange rate risk and the effect of foreign currency (FC) derivative use in alleviating this risk. The results show that FC exposure is frequently asymmetric and differs with respect to the US dollar (USD) and non-USD currencies. Cross sectional analysis provides evidence that FC derivatives use has a significant effect on reducing FC exposure to appreciations and depreciations of non-USD currencies and depreciations of the USD, but not to appreciations of the USD.

Cohen, J. R., G. Krishnamoorthy, M. Peytcheva, and A. Wright, “The impact of regulatory enforcement and principles-based accounting on auditors’ judgments to curb aggressive reporting”, April 21, 2011 Working Paper, Available at SSRN: <http://ssrn.com/abstract=1817684>

With the movement towards International Financial Reporting Standards (IFRS) in the U.S., a question arises as to whether the worldwide adoption of a principles-based approach such as the IFRS will result in higher quality financial reporting. One widely cited factor that could potentially affect the implementation of a principles-based approach is the type of regulatory environment over financial reporting and auditing that is in place in a given country. Accordingly, the objective of this paper is to examine whether greater process accountability induced by a principles-based standard will lead auditors to become more focused on economic substance than a rules-based standard irrespective of the regulatory regime in place and will,

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thus, curb aggressive reporting. To examine this issue, we employ an experimental approach with 97 experienced auditors as participants. Using a case setting involving the classification of a lease (operating vs. capital), we manipulate the accounting standard as rules-based or principles-based and the strength of the regulatory enforcement regime as strong or weak. Results indicate that under either enforcement regime a principles-based standard results in less aggressive reporting. The implications of the findings for research and public policy are presented.

Cullinan, C. P., Du, H. and Jiang, W. “Is Compensating Audit Committee Members with Stock Options Associated with the Likelihood of Internal Control Weaknesses?”, *International Journal of Auditing*, (Volume 14, 2010): 256–273.

We examine whether firms with a stock option plan for their audit committee members are more likely to have internal control weaknesses. Using a sample of 486 US firms, we find that firms with a stock option plan for their audit committee members are significantly more likely to report an internal control weakness than firms without such a stock option compensation plan. Our results support a UK government report which indicates that compensating outside directors with stock options may diminish the effectiveness of these directors. Our findings suggest that stock option compensation plans may adversely affect the functioning of a firm's audit committee.

Daske, H., “Economic Benefits of Adopting IFRS or US-GAAP – Have the Expected Cost of Equity Capital Really Decreased?”, *Journal of Business Finance & Accounting*, (Volume 33, 2006): 329–373.

The question of whether the adoption of International Financial Reporting Standards (IFRS) results in measurable economic benefits is of special interest, particularly in light of the European Union's adoption of IFRS for listed companies. In this paper, I investigate the common conjecture that internationally recognized financial reporting standards (IAS/IFRS or US-GAAP) reduce the cost of capital for adopting firms. Building on Leuz and Verrecchia (2000), I use a set of German firms that have adopted such standards and investigate the potential economic benefits of this reporting strategy by analyzing their cost of equity capital through the use and customization of available implied estimation methods. Evidence from the 1993–2002 periods fails to document lower expected cost of equity capital for firms applying IAS/IFRS or US-GAAP. During the transition period I analyze, the expected cost of equity capital in fact appears to have rather increased under non-local accounting standards.

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DeFond, Mark, Xuesong Hu, Mingyi Hung and Siqu Li, “The impact of mandatory IFRS adoption on foreign mutual fund ownership: The role of comparability”, *Journal of Accounting and Economics*, (Volume 51, Issue 3, April 2011): 240-258.

Proponents of IFRS argue that mandating a uniform set of accounting standards improves financial statement comparability that in turn attracts greater cross-border investment. We test this assertion by examining changes in foreign mutual fund investment in firms following mandatory IFRS adoption in the European Union in 2005. We measure improved comparability as a credible increase in uniformity, defined as a large increase in the number of industry peers using the same accounting standards in countries with credible implementation. Consistent with this assertion, we find that foreign mutual fund ownership increases when mandatory IFRS adoption leads to improved comparability. Research highlights: Foreign mutual fund ownership increases in the EU after mandatory adoption of IFRS. The increase in mutual fund ownership is larger when IFRS adoption improves comparability. Both implementation credibility and increased uniformity are important factors leading to improved comparability. The effects of improved comparability do not increase domestic mutual fund ownership. The effects of improved comparability on foreign fund ownership are primarily driven by foreign global funds, as opposed to foreign regional, country, and other funds.

Dennis, I., “‘Clarity’ Begins at Home: An Examination of the Conceptual Underpinnings of the IAASB's Clarity Project”, *International Journal of Auditing*, (Volume 14, 2010): 294–319.

This paper examines the IAASB's policy proposals arising out of their review of the drafting conventions in auditing standards that has become known as the Clarity Project. The objectives of the Project and how they changed during its evolution are reviewed. One motivation for the Project was to ensure that auditing standards drafted by the IAASB are ‘principles-based’. The failure to adequately consider the meaning of ‘principles-based standards’ was responsible for a lack of clear focus on what was wanted from the Project. This resulted in two main objectives for the Project. The first was a search for fundamental principles of auditing that was incompletely realized, officially abandoned and subsequently covertly pursued in the revisions made to ISA 200. The second was a desire to promulgate standards that were ‘objectives-based’ or ‘principles-based’. Unfortunately, there was inadequate enquiry into the idea of an objective and the related idea of ‘objectives-based’ standards.

The paper clarifies their nature. It examines the idea of a conceptual framework for auditing and the explanations of objectives and ‘objectives-based’ standards that emerged during the evolution of the Project. It considers the ideas objectives in ISAs, requirements and explanatory material in order to throw light on the nature of auditing standards that contain them. The question of whether an important distinction between ‘requirements’ and ‘presumptive requirements’ has been lost between the first and the second Exposure Draft is examined. This distinction can be explained and justified in terms of a distinction between different concepts of rules. It is suggested that the Clarity Project was a missed opportunity. The results are uncertain because there was a failure to undertake

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adequate conceptual enquiry into some of the concepts that directed its development. A start is made in rectifying this omission in the paper.

Ding, Yuan, Chen, Charles J. P., and Xu, Bin, “Convergence of Accounting Standards and Foreign Direct Investment” (November 5, 2010), *Finance and Corporate Governance Conference 2011 Paper*. Available at SSRN: <http://ssrn.com/abstract=1703549>

Since the development of the eclectic paradigm by Dunning (1977; 1988; 1993), many studies have investigated different forms of location advantages that attract foreign direct investment (FDI). In this study, we consider accounting standards as a component of the institutional infrastructure of a location and hypothesize that the convergence of domestic and International Financial Reporting Standards (IFRS) promotes FDI as it reduces information processing costs for foreign investors. We also hypothesize that the effect of reduced information costs is stronger for partner countries whose accounting systems showed greater pre-convergence differences because they magnify the facilitating role of accounting standard convergence for FDI. Using bilateral FDI data from 30 OECD countries between 2000 and 2005, we find evidence generally consistent with these hypotheses.

Fiechter, P., “The effects of the Fair Value Option under IAS 39 on the volatility of bank earnings” *Journal of International Accounting Research*, 10, 85-108.

Using an international sample of 222 banks from 41 countries, this study examines whether the fair value option (FVO) affects earnings volatility. Prior empirical studies associate higher levels of earnings volatility with fair value accounting (Barth et al. 1995; Hodder et al. 2006). In contrast, I find evidence that banks applying the FVO to reduce accounting mismatches exhibit lower earnings volatility than other banks. I assign this alternative outcome to the optional characteristic of the FVO. Banks can use the flexibility in accounting to reduce artificial earnings volatility. The cross-sectional results are robust against outliers and several model alterations, including controls for endogeneity bias. Furthermore, I predict and find that banks from countries with high regulatory quality are more likely to apply the FVO to reduce accounting mismatches. Overall, the findings confirm the IASB's initial intention on introducing the FVO. Hence, the study contributes to the current debate on the use of fair values in financial reporting.

Graham, John R., Michelle Hanlon, and Terry Shevlin, “Real Effects of Accounting Rules: Evidence from Multinational Firms’ Investment Location and Profit Repatriation Decisions”, *Journal of Accounting Research*, (Volume 49, Issue 1, March 2011): 137–185.

We analyze survey responses from nearly 600 tax executives to better understand corporate decisions about real investment location and profit repatriation. Our evidence indicates that avoiding financial accounting income tax expense is as important as avoiding cash income taxes when corporations decide where to locate operations and whether to repatriate

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foreign earnings. This result is important in light of the recent research about whether financial accounting affects investment and in light of the decades of research on foreign investment that examines the role of cash income taxes but heretofore has not investigated the importance of financial reporting effects. Our analysis suggests that financial reporting is an important factor to be considered in the policy debates focused on bringing investment to the United States.

Habib, A., Md. B. U. Bhuiyan, “Audit firm industry specialization and the audit report lag” *Journal of International Accounting, Auditing, and Taxation*, 20, 32-44.

This paper contributes to the audit report lag (ARL) literature by documenting the association between audit firm industry specialization and the ARL. ARL is one of the few externally observable audit output variables that allows outsiders to gauge audit efficiency, because it relates to the timeliness of both audit and earnings information. Although a sizable volume of literature exists on the determinants of the ARL in different countries, the effect of audit firm industry specialization on the ARL has not been investigated. Industry-specialist auditors are able to develop industry-specific knowledge and expertise and to familiarize themselves quickly with the clients’ business operations and, therefore, are likely to complete the audit sooner than their non-specialist counterparts. Using regression analyses with two different definitions of industry specialization, and controlling for known determinants of ARL, we demonstrate that the ARL is shorter for firms audited by industry specialist auditors. Our findings also reveal that the adoption of International Financial Reporting Standards (IFRS) has increased the ARL for all auditors except for industry specialist auditors.

Hanweck, Gerald A. and Ryu, Lisa H., “The Sensitivity of Bank Net Interest Margins and Profitability to Credit, Interest-Rate, and Term-Structure Shocks Across Bank Product Specializations” (January 2005). *FDIC Working Paper No. 05-02*. Available at SSRN: <http://ssrn.com/abstract=886727>

This paper presents a dynamic model of bank behavior that explains net interest margin changes for different groups of banks in response to credit, interest-rate, and term-structure shocks. Using quarterly data from 1986 to 2003, we find that banks with different product-line specializations and asset sizes respond in predictable yet fundamentally dissimilar ways to these shocks. Banks in most bank groups are sensitive in varying degrees to credit, interest-rate, and term-structure shocks. Large and more diversified banks seem to be less sensitive to interest-rate and term-structure shocks, but more sensitive to credit shocks. We also find that the composition of assets and liabilities, in terms of their repricing frequencies, helps amplify or moderate the effects of changes and volatility in short-term interest rates on bank net interest margins, depending on the direction of the repricing mismatch. We also analyze subsample periods that represent different legislative, regulatory, and economic environments and find that most banks continue to be sensitive to credit, interest-rate, and term-structure shocks. However, the sensitivity to term-structure shocks seems to have lessened over time for certain groups of banks, although the results are not universal. In addition, our results show that banks in general are not able to hedge fully against interest-rate volatility. The sensitivity of net interest margins

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to interest-rate volatility for different groups of banks varies across subsample periods; this varying sensitivity could reflect interest-rate regime shifts as well as the degree of hedging activities and market competition. Finally, by investigating the sensitivity of ROA to interest-rate and credit shocks, we have some evidence that banks of different specializations were able to price actual and expected changes in credit risk more efficiently in the recent period than in previous periods. These results also demonstrate that banks of all specializations try to offset adverse changes in net interest margins so as to mute their effect on reported after-tax earnings.

Ho, Sandra, and Marion Hutchinson, “Internal audit department characteristics and audit fees: some evidence from Hong Kong firms”, *Journal of International Accounting, Auditing and Taxation*, (Volume 19, Issue 2, 2010): 121-136.

This study provides preliminary support for the notion that internal audit function assists in reducing external audit effort and fees. Data on internal audit characteristics and activities are obtained from survey respondents of Hong Kong companies and audit fee model data are acquired from their annual reports. The results of this study suggest that the external auditor of firms in Hong Kong rely on the internal audit function and subsequently charge a lower fee. Lower external audit fees are associated with a larger internal audit department and certain activities carried out by the internal audit. Specifically, lower external audit fees are associated with more internal audit effort spent on activities relating to financial statements, systems development and maintenance, operating efficiency and effectiveness, fraud investigations and unlimited access to internal auditors’ working papers. The results of this study suggest that the contribution of the internal audit may substitute for some substantive external auditing processes and lower monitoring costs.

Hsu, J., Young, W. and Chu, C.-H. (2011), “Price Behavior of Qualified Companies around the Audit Report and Report Announcement Days: The Case of Taiwan”, *Journal of International Financial Management & Accounting*, (Volume 22, 2011): 114–130.

This study investigates the stock price behavior of companies with qualified opinions around (1) the audit report day and (2) the report announcement day. Using a sample of 106 Taiwanese public companies during 1999–2007, we find negative abnormal returns 5 days following the audit report day. Returns that are more negative are associated with a decrease in insider ownership during several months before the audit report day. These results imply that investors can infer qualified opinions or that there is information leakage of qualified opinions. We also find that the average cumulative abnormal return over the 20 days following the announcement day of qualified reports is about –25%, which is much more pronounced than that in Anglo-Saxon countries. We ascribe this finding to a rule unique to Taiwan: qualified companies are likely to be subject to mandatory delisting if they cannot restate reports with unqualified opinions.

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Hyndman, N., and C. Connolly, “Accruals accounting in the public sector: A road not always taken” *Management Accounting Research*, 22, 36-45.

The move from cash to accruals accounting by many governments is viewed as an aspect of an ongoing New Public Management agenda designed to achieve a more business-like and performance-focused public sector. Proponents argue that accruals accounting provides more appropriate information for decision makers and ultimately leads to a more efficient and effective public sector. The transition from cash to accruals accounting for UK central government departments was announced in the early 1990s and was embedded within approximately ten years. At that time there were clear indications that analogous changes, following a similar timeline, would occur in the Republic of Ireland (RoI). In reality, the changes were significantly less extensive. Utilising document analysis and interviews with key actors, this paper considers why a functioning accruals system was established in the UK whereas in the RoI the change to accruals accounting was a ‘road not taken’.

Killi, A., Marc S. Rapp, and T. Schmid, “Can financial flexibility explain the debt conservatism puzzle? Cross-country evidence from listed firms”, April 18, 2011 Working Paper, Available at SSRN: <http://ssrn.com/abstract=1814182>

The question why firms voluntarily forgo considerable portions of their debt capacity is puzzling financial economists. Across a wide range of industries and countries, empirically observed equity ratios are significantly higher as expected by classical capital structure theories. A potential explanation is provided by the financial flexibility theory, which was recently put forward in the theoretical literature. Under this view, firms choose long-run optimal target debt levels that balance tax advantages from debt against not only distress costs, but also against the opportunity cost of restricting their future financial flexibility. While theoretically financial flexibility theory may explain debt conservatism, empirical support for this view is still very limited.

In this paper we test the financial flexibility theory on a large sample of publicly traded European firms from 1998 to 2008. Based on a novel measure of financial flexibility our empirical analysis provides robust evidence that firms maintain lower leverage ratios if financial flexibility is particularly valuable for them. The impact of financial flexibility on leverage is of both high statistical and economic significance. Overall, our findings demonstrate that the desire to preserve financial flexibility is an important although hitherto largely ignored capital structure determinant.

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Kim, Y., H. Li, and S. Li, “Does eliminating the Form 20-F reconciliation from IFRS to U.S. GAAP have capital market consequences?” Forthcoming: *Journal of Accounting and Economics*.

This paper investigates the capital market consequences of the SEC’s decision to eliminate the reconciliation requirement for cross-listed companies following International Financial Reporting Standards (IFRS). We find no evidence that the elimination has a negative impact on firms’ market liquidity or probability of informed trading (PIN). We also find no evidence of a significant impact on cost of equity, analyst forecasts, institutional ownership, stock price efficiency and synchronicity. Moreover, IFRS users do not increase disclosure frequency nor supply the reconciliation voluntarily. Our results do not support the argument that eliminating the reconciliation results in information loss or greater information asymmetry.

Larson, Robert K. and Sara York Kenny, “The financing of the IASB: An analysis of donor diversity” *Journal of International Accounting, Auditing and Taxation*, (Volume 20, Issue 1, 2011): 1-19.

The U.S. Securities and Exchange Commission (SEC) and others are concerned about the funding of the International Accounting Standards Board (IASB), which is widely recognized as the global accounting standard-setting organization. Issues raised include the long-term viability and legitimacy of the IASB due to its historic reliance on voluntary donations, which in turn has led to questions about the IASB's independence and whether donors to the IASB might be able to exert undue influence in the standard-setting process. These issues are critical factors in the SEC's analysis of the adoption of International Financial Reporting Standards in the U.S. This exploratory study investigates these concerns by examining the funding of the IASB with a focus on the characteristics of donors and their national and stakeholder interest group diversity.

While the IASB's donor base is still relatively small and voluntary contributions from individual corporations and public accounting firms are still substantial, the findings suggest that many SEC concerns are being addressed. More permanent funding mechanisms are being developed and more transparency of donors and the size of their contributions exist. The IASB's donor base has expanded in both geographic and stakeholder interest group diversity. No single entity or group appears to provide such a large amount of funding to suggest undue influence on the IASB. This holds for questions of undue geographic influence, as donations by country are now significantly correlated with measures of a country's economic and equity market size.

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Marra, Antonio ,Pietro Mazzola and Annalisa Prencipe “Board Monitoring and Earnings Management Pre- and Post-IFRS”, *The International Journal of Accounting*, (Volume 46, Issue 2, June 2011): 205-230.

In this paper, we address the question of whether the board of directors is more effective in constraining earnings management after the mandatory application of IFRS. Specifically, we explore how two board characteristics — board independence and (2) the existence of an audit committee impact earnings management. Our empirical results suggest that board independence and audit committees play an important and effective role in reducing earnings management after the introduction of IFRS and that the accounting regulatory framework significantly contributes to the effectiveness of the two corporate governance mechanisms. Our findings also confirm that a company's corporate governance characteristics remain an important determinant of earnings quality; therefore, an analysis of the effects of new regulations must consider firm-level determinants.

Mohamad, Nor Raihan, Abdullah, Shamsul Nahar, Zulkifli Mokhtar, Mohd and Nik Kamil, Nik Fuad, The Effects of Board Independence, Board Diversity and Corporate Social Responsibility on Earnings Management (December 15, 2010). *Finance and Corporate Governance Conference 2011 Paper*. Available at SSRN: <http://ssrn.com/abstract=1725925>

This study extends earlier research on corporate governance by examining whether the interaction between independent directors, women directors, minority directors and corporate social responsibility practices is effective to mitigate earnings management. Using panel data from Malaysian firms for the financial years 2005-07, this study finds that only minority director has main effect on earnings management. This result suggests that firms which have board diversity tend to have lower earnings management. There is no interaction effect between corporate social responsibility and corporate governance variables on earnings management.

Navarro-García, Juan Carlos and Francisco Bastida, “An empirical insight on Spanish listed companies’ perceptions of International Financial Reporting Standards” , *Journal of International Accounting, Auditing and Taxation*, (Volume 19, Issue 2, 2010): 110-120

Since 2005, all publicly traded European Union companies must prepare their consolidated statements in accordance with the International Financial Reporting Standards (IFRS). This paper analyzes the consequences of IFRS adoption in a code-law country (Spain), whose context is very different from the Anglo-Saxon system. This study provides evidence on the way that environment can affect Spanish financial managers and chief accountants, when they have to prepare financial reports under high-quality standards such as IFRS. The study used a questionnaire-based survey, which was completed by 63 Spanish listed firms. The results show that IFRS are perceived as a high-quality regulation appropriate for decision-making. However, IFRS are also seen as (1) significantly different from Spanish standards, (2) troublesome, and

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(3) failing to meet a cost-benefit trade-off in some cases. IFRS are not considered by the survey respondents as more appropriate than Spanish standards. The results of the study indicate that statement preparers' overall views of IFRS could lead to less IFRS compliance and, therefore, lower quality financial reports than could be reached under strict IFRS application.

Ramanna, K., "The international politics of IFRS harmonization" June 21, 2011 Working Paper, Available at SSRN: <http://ssrn.com/abstract=1875682>

The globalization of accounting standards as seen through the proliferation of IFRS worldwide is one of the most important developments in corporate governance over the last decade. I offer an analysis of the international political dynamics of countries' IFRS harmonization decisions. The analysis is based on a field study of three jurisdictions in particular: Canada, China, and India. Across these jurisdictions, I first describe unique elements of domestic political economies that are shaping IFRS policies. Then, I inductively isolate two principal dimensions that can be used to characterize these jurisdictions' IFRS responses: proximity to existing political powers at the IASB; and own potential political power at the IASB. Based on how countries are classified along these dimensions, I offer predictions, *ceteris paribus*, on countries' IFRS harmonization strategies. The analysis and framework in this paper can help broaden the understanding of accounting's globalization.

Tang, Tanya, and Michael Firth, "Can book–tax differences capture earnings management and tax Management? Empirical evidence from China", *The International Journal of Accounting*, (Volume 46, Issue 2, June 2011): 175-204.

This study investigates the relationship between book–tax differences (BTDs) and earnings management, tax management, and their interactions in Chinese-listed companies. Using unique tax-effect BTDs obtained from Chinese B-share-listed firms, we find that firms with strong incentives for earnings and tax management exhibit high levels of abnormal BTDs. This suggests that BTDs can be used to capture both accounting and tax manipulations induced by managerial motivations. Our results indicate that earnings management explains 7.4% of abnormal BTDs, tax management accounts for 27.8% of abnormal BTDs, and their interaction explains 3.2% of abnormal BTDs. Tax-effect BTDs are more powerful than income-effect BTDs in capturing opportunistic reporting at both conceptual and empirical levels.

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Williams, Barry, and Rajaguru, Gulasekaran, “The Chicken or the Egg? The Trade-Off between Bank Non Interest Income and Net Interest Margins”, (2010), 20th Australasian Finance & Banking Conference 2007 Paper; Finance and Corporate Governance Conference 2011 Paper. Available at SSRN: <http://ssrn.com/abstract=1007166>

This study considers the time series relationship between bank non interest income and bank net interest margins in Australia using panel vector auto-regressions. It is found that increases in bank non-interest income are being used to supplement decreases in net interest margins, but that the magnitude of the increase in non-interest income is smaller than the decrease in net interest margins. It is also found that increases in non-interest income pre-date declines in margin income, suggesting that Australian banks were pro-active in the process of disintermediation. The agency risks of increased bank non-interest income are explored from the perspectives of regulators, consumers, bank shareholders, borrowers and bank management.

Ye, M., and P. Zhang, “The impact of auditing standards convergence on audit value” July 2011 Working Paper, Available at SSRN: <http://ssrn.com/abstract=1769051>

Based on an analytical model focusing on auditor liabilities and audit effort cost, this paper analyzes the impact of adopting the unified auditing standards on audit value for a country with its unique economic, political, legal and institutional features. We show that (1) converging standards are not likely to benefit countries whose domestic optimal auditing standards are very different from the unified standards due to their unique legal system or labor costs, if their business activities are conducted mainly domestically; (2) converging standards can be beneficial for countries extensively involved in international financing and investment, countries with a relatively high cost of developing and maintaining country-specific standards, and countries whose country-specific optimal standards are similar to or can be shifted to the converged standards by adjusting properties of their legal systems. Our analysis suggests that the international auditing standards would be similar to the optimal domestic auditing standards of those countries with mature capital markets and sound legal systems.



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