

INTERNATIONAL
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of the



American
Accounting
Association

NO. 104



FORUM

INTERNATIONAL ACCOUNTING



American
Accounting
Association
International
Accounting

Editor: Jeannie J. Harrington
Middle Tennessee State University

President's Letter

Greetings, IAS members! I hope you are having a good summer. I look forward to hearing your summer tales in D.C. The annual meeting is just around the corner and Agnes Cheng and the Committee is working hard to make it a huge success. We have an exciting program and look forward to seeing many of you at the IAS events.

The IAS luncheon will take place on Monday (August 6). This year's luncheon speakers will be Daryl Buck (FASB) and Wei-Guo Zhang (IASB). We will also give out several awards, namely Outstanding Dissertation, Outstanding Educator, and Outstanding Service Awards, and recognize five IAS Ph.D. travel grant program winners at the luncheon. The winners receive a travel grant of \$750 to attend the annual meeting, and they will be serving on various roles at the meeting. This year's winners are: Mark Ma (Oklahoma), Linda Quick (South Carolina), Ankita Singvi (Texas – El Paso), Michael Wolfe (Oklahoma State), and Youli Zhou (Toronto).

At the meeting, the Section will vote on Bylaw amendments. Please take your time to stop by and vote at the IAS Business Meeting, which will take place after the luncheon on Monday. Paul Herz, the Advisory Board Chair, had sent out an email regarding this matter. If you have any suggestions/comments, please feel free to contact Paul.

Agnes Cheng and the Committee have lined up many (continued on page 2)



IAS President Tony Kang

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

interesting research (concurrent and poster) and panel sessions. Please be sure to attend and participate in the discussions!

I look forward to seeing many of you at the Section events. In closing, I would like to thank all of you for your support throughout the year. I especially would like to thank those who served on various IAS committees and provided valuable contributions to our Section activities. It has been my great honor to serve the Section!

Tony Kang, IAS President (2011-2012)

International Accounting Section
***Forum* Deadlines, Suggestions, Comments for 2012/2013**

Fall 2012 Issue - September 30, 2012

Spring 2013 Issue – January 31, 2013

Summer 2013 Issue—May 31, 2013

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 the new *Forum* editor:

Gia Chevis, *Forum* Editor
Accounting Suite 120, Room 121
Baylor University
One Bear Place #98002
Waco, Texas 76798-8002
Phone: (254) 710-1328
Fax: (254) 710-1067
Email: Gia_Chevis@baylor.edu



Forthcoming Forum Editor Gia Chevis



*Retiring Forum Editor
Jeannie Harrington
getting ready for the
Olympics with her dogs
Jill (left) and Jack
(right).*



INTERNATIONAL ACCOUNTING SECTION

2012-13 Nomination Slate

PRESIDENT-ELECT

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INTERNATIONAL PAPERS AND PRESENTATIONS FROM 2011/12 REGIONAL MEETINGS

Regional Programs Chair: Susan Hughes, University of Vermont

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

Section Coordinator: Minna Yu, Monmouth University

Session 1.4—International Accounting

Moderator: Michael Garner, Salisbury University

Has East Met West?

Frederick W. Lindahl, George Washington University

Discussant: Hannah Wong—William Paterson University of New Jersey

The Transfer of Stock Price Information of Internationally Cross-Listed Corporations

Hannah Wong, William Paterson University of New Jersey

Discussant: Frederick Lindahl, George Washington University

On the Effects of IFRS Implementation Intensity: Evidence from Europe

Arno Forst, Kent State University—Kent

Pervaiz Alam, Kent State University—Kent

Discussant: Jun Guo, SUNY-Binghamton

Foreign Ownership and Real Earnings Management: Evidence from Japan

Jun Guo, SUNY-Binghamton

Yan Zhang, SUNY-Binghamton

Nan Zhou, SUNY-Binghamton

Discussant: Leola Bennett, Peirce College

Midwest Regional, Indianapolis, Indiana (October 13-15, 2011)

Section Coordinator: Ray Rodriguez, Southern Illinois University

Session 1.02 - What Do Graduates Need to Know about IFRS?

Moderator: Keith Harrison, Truman State University

Session 3.03 - IFRS

Moderator: Thomas Lechner, Eastern Michigan University

What CPA Practitioners Should Know about International Financial Reporting

Alan Reinstein, Wayne State University

Natalie T Churyk, Northern Illinois University

Differential Information, Price and Volume Responses at IFRS and U.K. GAAP Earnings Announcement Dates

Kingsley O. Olibe, Kansas State University

(continued on page 5)

International Presentations at Regional Meetings *(continued from page 4)*

The Effect of IFRS, Information Asymmetry and Corporate Governance on the Quality of Accounting Information: An Empirical Study of the A, B Share in Mainland China's Stock Market

Hui-Sung Kao, Feng Chia University

Tzu-han Wei, Feng Chia University

Northeast Regional, White Plains, New York (October 27-29, 2011)

Section Coordinator: Ahmed Ebrahim, Fairfield University

Plenary Session

Whither IFRS in the USA: Peeling the Onion on Convergence with U.S. GAAP

Speaker: Thomas Selling, Accounting Onion

Session 1-1: Whither IFRS in the USA: Contrasting Perspectives from Investor Advocates, Accounting Professionals and Standard Setters

Moderator: Harry Howe, SUNY-Geneseo

Panelists:

Holger Erchinger, KPMG

Lynn Rees, Texas A&M University, FASB

Thomas Selling, The Accounting Onion

Session 4-3: RIF 3 - International Accounting

Moderator: Harry Howe, SUNY-Geneseo

IFRS Compliance and Audit Quality in Developing Countries: The Case of Income Tax Accounting in Egypt

Ahmed Ebrahim, Fairfield University

What CPA Practitioners Should Know about International Financial Reporting

Alan Reinstein, Wayne State University

Natalie T Churyk, Northern Illinois University

Internal Factors Associated with Business Failures of Public Companies in China from a Financial Analytical Perspective

Shih-Jen K Ho, Niagara University

Xiangping Zhu, Shandong Economic University

Lei Han, Niagara University

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International Presentations at Regional Meetings *(continued from page 5)*

Session 5-4: International Accounting

Moderator: Susan Hughes, University of Vermont

IFRS versus U.S. GAAP: Analyst Forecasts of Foreign Firms Listed in the U.S.

Chia-Hsuan Tseng, National Chengchi University

Chen Lung Chin, National Chengchi University

Discussant: Ahmed M. Ebrahim, Fairfield University

Tracking Financial Reporting Convergence: The Impact of Public Lobbying on the Adoption of FAS 141R and IFRS3R

Susan B Hughes, University of Vermont

Glenn Xiques, University of Vermont

Ohio Regional, Cincinnati, Ohio (May 10-12, 2012)

Section Coordinator: Jagjit Saini, Western Michigan University

Session 1.4 IFRS and Regulation

Moderator: Jagjit Saini, Western Michigan University

On the Effects of IFRS Implementation Intensity: Evidence from Europe

Arno Forst, Kent State University-Kent

Pervaiz Alam, Kent State University-Kent

Discussant: David Dennis, Otterbein College

Effects of the Exemption from IPO Regulatory Requirements in China

Wei Li, Kent State University-Kent

Yajing Li, University of Electronic Science and Technology of China

Hongyuan Zhu, Southwest Jiaotong University

Discussant: Philipp Schaberl, University of Cincinnati

IFRS Framework-Based Case Study: Barrick Gold Corporation

Patricia Goedel, University of Cincinnati, Clermont

Discussant: David Dennis, Otterbein College

Session 4.1 Panel: Teaching IFRS

Panelists:

Robert K. Larson, University of Dayton

Steve Arnold, Ernst and Young

Donna Street, University of Dayton

Cătălin Nicolae Albu, The Bucharest Academy of Economic Studies

Nadia Albu, The Bucharest Academy of Economic Studies

(continued on page 7)

International Presentations at Regional Meetings *(continued from page 6)*

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

Section Coordinator: Don Pagach, North Carolina State University

International Corporate Diversification and Market Performance: A Tobin's Q and Debt Analysis

Kingsley O. Olibe, Kansas State University

Effects of Selected Lease Capitalization Techniques on Key Measures of Financial Performance for Firms Reporting under U.S. GAAP and IFRS

Eric D. Bostwick, University of West Florida

Robert T. Fahnstock, University of West Florida

W. Timothy O'Keefe, University of West Florida

IFRS vs. U.S. GAAP: Will the Prohibition of LIFO Reduce the Information Quality of Earnings?

Robert Houmes, Jacksonville University

Denise Dickins, East Carolina University

Ruth O'Keefe, Jacksonville University

Southwest Regional, New Orleans, Louisiana (March 1 – March 3, 2012)

Section Coordinator: Cathy Ku, California State University – Monterey Bay

SESSION E IFRS – Are we There Yet?

Moderator & Panelist: Mary Fischer, University of Texas – Tyler

Panelist: IFRS Foundation Board Member

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

Section Coordinator: Cecilia Lin, University of Portland

Plenary Panel Session:

The Effects of Globalization on the Accounting Profession

Moderator: Jason Porter, University of Idaho

Panelists:

Peter Doubleday, Managing Partner, Portland Office, Ernst & Young LLP

Peter Farr, Director of International Accounting Operations, Boeing Shared Services

Marlene A. Plumlee, Academic Accounting Fellow, Securities and Exchange Commission, Faculty, University of Utah

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International Presentations at Regional Meetings *(continued from page 7)*

Accounting Quality under U.S. GAAP vs IFRS. The Case of Germany

Troy Pollard, University of Colorado

Marc Cussatt, University of Colorado

Discussant: Xuesong Hu, University of Oregon

International Accounting Research

Moderator: Roger Graham, Oregon State University

The Impact of Accounting Disclosure and Regulatory Environment Changes on the Information Content of Earnings Announcements: Evidence from an Emerging Economy

Isho Tama-Sweet, Oregon State University

Lisa Eiler, Oregon State University

Jose E Miranda-Lopez, Cal State University-Fullerton

Management Forecasts around the World

Yong Yang, The Chinese University of Hong Kong

Suresh Radhakrishnan, University of Texas-Dallas

Albert Tsang, The Chinese University of Hong Kong

Discussant: Jose Miranda-Lopez, Cal State University-Fullerton

The Economic Effects of Change in R&D Accounting in Taiwan

Yahn-Shir Chen, National Yunlin University of Science & Tech

Discussant: Isho Tama-Sweet, Oregon State University

Does the SEC's Waiver of Reconciliation of IFRS to U.S. GAAP Improve Accounting Quality for Listed Foreign Firms in the U.S.?

Chia-Ling Chao, National Chung Cheng University

Panel 2: International Teaching

Moderator: Anne Christensen, Montana State University

Panelists:

Peter Frischmann, Idaho State University

Lela Pumphrey, Idaho State University

Jeanne Yamamura, University of Nevada Reno

International Accounting Research

Moderator: Cecilia Lin, University of Portland

An Institutional Review of Earnings Quality in Japan

Mike Braswell, San Francisco State University

The Impact of Corporate Governance on the Value and Performance of Multinational Firms

Feras Mohamed Salama, American University of Sharjah

Karl Putnam, University of Texas-El Paso

Auditors in Japan: An Evolving Profession

Jeanne Yamamura, University of Nevada Reno

Michimasa Satoh, Nagoya University

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International Presentations at Regional Meetings *(continued from page 8)*

Panel 4: International Service Opportunities

Moderator: Kathleen Dunne, Rider University

Panelists:

Priscilla Reis, Idaho State University

Kristi Yuthas, Portland State University

AAA REGIONAL MEETINGS—2012/13

Mid-Atlantic – Parsippany, New Jersey (April 18-20, 2013)

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

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

Ohio—Huron, Ohio (May 9-11, 2013)

Southeast—Nashville, Tennessee (April 4-6, 2013)

Southwest – Albuquerque, New Mexico (March 14-15, 2013)

Western – San Francisco, California (April 25-27, 2013)

Unexpired submission deadlines will be posted on the AAA website.

**ATTEND THE FOLLOWING IAS EVENTS AT THE AAA
NATIONAL MEETING**

MONDAY, AUGUST 6

LUNCHEON (Ticket required) —12:00 —1:45 P.M.

Speakers: Daryl Buck, FASB and Wei-Guo Zhang, IASB

GENERAL BUSINESS MEETING—2:00—3:30 P.M.

*Brief meeting and vote for officers/committee members

*Vote on bylaw changes previously received by email

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.

Alali, Fatima. A., and P. S. Foote. March 2012. The Value Relevance of International Financial Reporting Standards: Empirical Evidence in an Emerging Market. *The International Journal of Accounting*, (Volume 47, Issue 1): 85-108.

This study examines the value relevance of accounting information under International Financial Reporting Standards (IFRS) in the Abu Dhabi Stock Exchange (ADX, henceforth). Based on models developed by Easton and Harris (1991), and Ohlson (1995) and using monthly market data from 2000 to 2006, this paper investigates the value relevance of accounting information of firms traded on the ADX. Our overall results show that earnings scaled by beginning of period price are positively and significantly related to cumulative returns and that earnings per share and book value per share are positively and significantly related to price per share. We also find that value relevance of accounting information has changed since the market inception in 2000. The results documented herein extend the literature on value relevance accounting information in an emerging market that requires the use of IFRS. The study therefore contributes to the debate over the mandatory adoption of IFRS and the value relevance of accounting information reported under IFRS.

Abdallah, Abed AL-Nasser., W. Abdallah, and A. Ismail. June 2012. Do accounting standards matter to financial analysts? An empirical analysis of the effect of cross-listing from different accounting standards regimes on analyst following and forecast error. *The International Journal of Accounting*, (Volume 47, Issue 2): 168-197.

This paper explores whether the effects of cross-listing on analyst following and forecast error differ among firms with different ac-

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Have you Seen (continued from page 10)

counting standards. The results reveal a higher increase in the number of analysts for cross-listed firms that follow their home country's GAAP prior to cross-listing and reconcile or switch to IAS/US GAAP or UK GAAP after cross-listing, compared to those that adopt IAS or US GAAP prior to cross-listing. We find that firms that switch to IAS/US GAAP have a higher increase in analyst following after cross-listing compared to firms that reconcile to IAS/US GAAP. In addition, we find a higher increase in analyst following after cross-listing for firms from low-level accounting standards environments compared to firms from high-level accounting standards environments. Our results show evidence of an increase in the magnitude of analysts' forecast error after cross-listing for firms that follow their home country's GAAP pre-cross-listing but reconcile post-cross-listing to IAS/US GAAP or UK GAAP. On the other hand, we report a decrease in forecast error for firms that switch to IAS/US GAAP.

Anantharaman, Divya. February 2012. Comparing self-regulation and statutory regulation: Evidence from the accounting profession. *Accounting, Organizations and Society*, (Volume 37, Issue 2): 55-77.

The accounting profession in the United States recently shifted from self-regulation by peer review to statutory regulation by the Public Company Accounting Oversight Board (PCAOB). Using this shift, I compare outcomes from self-regulation and statutory regulation for the same group of firms. I find that firms choosing their own reviewers, and firms choosing reviewers likely to be connected through prior relationships, tend to receive peer review opinions more favourable than their subsequent PCAOB reports, suggesting that some firms obtained 'friendly' reviews in the peer review era. On the other hand, reviewers with relevant industry knowledge are less likely to give such favourable reviews. Further, reviewers from the same geographic area are likely to give peer reviews that are more negative than the subsequent PCAOB reports. Additional analysis suggests that peer reviewers from similar industry or geographic areas bring greater firm-specific expertise to the reviewing process. In the PCAOB regime, I find that firms inspected later tend to receive PCAOB reports more favourable than their peer reviews, suggesting some trends over time in PCAOB reporting. Overall, the findings help in understanding the influences on each approach to regulation, and suggest a nuanced understanding of both approaches as having strengths as well as weaknesses.

Andon, Paul, 2012. Accounting-related research in PPPs/PFIs: present contributions and future opportunities. *Accounting, Auditing & Accountability Journal*, (Volume 25 Issue 5): 876 – 924.

The purpose of this paper is to review research investigating the implications of public private partnership (PPP) schemes for public investment, focusing on the role and effects of accounting as it relates to the assessment, management, control, reporting, accountability and policy direction of these arrangements. Based on this review, it aims to offer reflections on future directions for this research agenda. *Design/methodology/approach* – This paper derives five research themes adapted from the PPP research agenda outlined by Broadbent and Laughlin as a framework to guide a literature-based analysis and critique of the relevant PPP literature published up to December 2010. *Findings* – The review highlights the range of interesting contributions that extant accounting-related research has

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Have you Seen (continued from page 11)

made to current knowledge about PPP policy and procedure. From this, concentrations of research effort are identified (its largely technical, critical, procurement-oriented and Anglo-centric focus), and opportunities for future research are proposed. With regard to the latter, the opportunities proffered have in common a need to question the nature and functioning of PPPs, consider the complexities of PPPs in action, and explore connections between research and practice. *Originality/value* – The main contributions this paper makes relate to understanding the “state of the art” of accounting-related PPP research, the progress this research agenda has made in line with Broadbent and Laughlin's agenda, as well as insights into fruitful directions future research could take.

Balsam, Steven, Elizabeth A. Gordon, Xi Li, and Emmeli Runesson, 2012. Are CFOs paid higher after mandatory IFRS adoption? Working Paper, Feb. 29, 2012. Available at SSRN: <http://ssrn.com/abstract=2013653>.

In this paper, we examine the impact of the mandatory adoption of International Financial Reporting Standards (IFRS) on CFO compensation. We find that post adoption, CFOs in IFRS countries receive higher bonuses and salaries. We explore several potential explanations for this increase including a one-time bonus following a big corporate event, the need for more judgment and expertise from top executives under IFRS, and more extensive disclosure requirements, which may reduce opportunities for private benefits and expose executives to higher risk. Our results suggest that the compensation increase is permanent. It is also higher in countries where the distance between prior domestic GAAP and IFRS is larger, the private benefits of control are higher, and the legal enforcement is stronger. Lastly, we find that the increase in compensation is higher for CFOs than for other top executives, consistent with the view that CFOs are mainly responsible for firms' financial reporting.

Barker, Richard, J. Hendry, J. Roberts, and P. Sanderson. May 2012. Can company-fund manager meetings convey informational benefits?: Exploring the rationalization of equity investment decision making by UK fund managers. *Accounting, Organizations and Society*, (Volume 37, Issue 4): 207-222.

Conventional economic theory, applied to information released by listed companies, equates ‘useful’ with ‘price-sensitive’. Stock exchange rules accordingly prohibit the selective, private communication of price-sensitive information. Yet, even in the absence of such communication, UK equity fund managers routinely meet privately with the senior executives of the companies in which they invest. Moreover, they consider these brief, formal and formulaic meetings to be their most important sources of investment information. In this paper we ask how that can be. Drawing on interview and observation data with fund managers and CFOs, we find evidence for three, non-mutually exclusive explanations: that the characterization of information in conventional economic theory is too restricted, that fund managers fail to act with the rationality that conventional economic theory assumes, and/or that the primary value of the meetings for fund managers is not related to their investment decision making but to the claims of superior knowledge made to clients in marketing their active fund management expertise. Our findings suggest a disconnect between economic theory and economic policy based on that theory, as well as a corresponding limitation in research studies that

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Have you Seen *(continued from page 12)*

test information-usefulness by assuming it to be synonymous with price-sensitivity. We draw implications for further research into the role of tacit knowledge in equity investment decision-making, and also into the effects of the principal–agent relationship between fund managers and their clients.

Barth, Mary E., W. R. Landsman, M. Lang., and C. Williams. August 2012. Are IFRS-based and US GAAP-based accounting amounts comparable?. *Journal of Accounting and Economics*, (Volume 54, Issue 1): 68-93.

This study examines whether application of IFRS by non-US firms results in accounting amounts comparable to those resulting from application of US GAAP by US firms. IFRS firms have greater accounting system and value relevance comparability with US firms when IFRS firms apply IFRS than when they applied domestic standards. Comparability is greater for firms that adopt IFRS mandatorily, firms in common law and high enforcement countries, and in more recent years. Earnings smoothing, accrual quality, and timeliness are potential sources of the greater comparability. Although application of IFRS has enhanced financial reporting comparability with US firms, significant differences remain. Highlights: Accounting system and value relevance comparability with US firms is greater when IFRS firms apply IFRS. Comparability is greater for mandatory adopters, for firms in common law and high enforcement countries, and recent years. Earnings smoothing, accrual quality, and timeliness are potential sources of the greater comparability. Widespread application of IFRS has enhanced financial reporting comparability, but differences remain.

Bertolini, Michelle, and Pamela Q. Weaver, 2012. Mandatory arbitration with tax treaties: a need for a coherent international standard. Working Paper, Feb. 2012. Available at SSRN: <http://ssrn.com/abstract=2003897>.

As businesses expand operations globally, the threat of double taxation on income earned becomes a significant concern. The current Mutual Agreement Procedures (MAP) within the tax treaties frequently fail to provide equitable relief, exposing taxpayers to uncertain outcomes. The uncertainty causes compliance considerations under FAS 109, Accounting for Income Taxes and FIN 48, Accounting for Uncertainty in Income Taxes. In July 2008, the OECD Model Tax Convention began including a mandatory arbitration provision for taxpayers failing to reach agreement under MAP. The U.S. Model, while beginning to shift towards including non-binding arbitration in some of the later treaties, still relies on the voluntary MAP proceedings for resolution of disagreements. Data provided by the U.S. Treasury indicated that a wide range of taxpayer income covered by the U.S. treaties failed to receive partial or full relief from double taxation. The movement towards international accounting standards under IFRS provides the impetus to develop a universal procedure for avoiding double taxation. The U.S. should consider adopting the OECD Model Tax Convention for all tax treaties to remove the uncertainty of double taxation and promote international trade.

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Have you Seen *(continued from page 13)*

Borkowski, Susan C., and M. A. Gaffney. 2012. FIN 48, uncertainty and transfer pricing: (Im)perfect together?. *Journal of International Accounting, Auditing and Taxation*, (Volume 21, Issue 1): 32-51.

The nexus of Financial Accounting Standards Board Interpretation No. 48: Accounting for Uncertainty in Income Taxes (FIN 48) requirements and a company's transfer pricing practices has created significant reporting and disclosure issues for transnational corporations (TNC) in the United States and its major trading partners. Of interest are changes in TNC disclosures of uncertain tax positions and unrecognized tax benefits, both generally and specific to transfer pricing, and whether TNCs increased advance pricing agreement activities to mitigate transfer pricing-related uncertainty. This study found that FIN 48 implementation led to significant increases in the types and amount of information provided in annual report footnotes about the uncertain tax positions of TNCs, and the quantification of their related unrecognized tax benefits. FIN 48 increased both the quality and quantity of tax-related reporting in the annual reports of its adopters, making their transactions more transparent and understandable to the external users of their annual reports. FIN 48 also seems to have led to an increase in TNC interest in negotiating advance pricing agreements with their own and with related tax authorities in order to mitigate the effects of one of the largest and most uncertain tax positions, cross-border transfer pricing transactions.

Bradbury, Michael E., and L. B. Schröder, March 2012. The content of accounting standards: Principles versus rules. *British Accounting review*, (Volume 44, Issue 1): 1-10.

The Global Accounting Alliance has raised a call for different perspectives on principles-based accounting standards. Based on prior studies this paper identifies a number of characteristics of principles-based accounting standards. It uses content analysis to empirically test whether the asserted characteristics are consistent with the IASB and FASB standards on interest costs. We find that rules-based standards, relative to principles-based standards, have more rules, more justification, acknowledge less judgment is required, have more bright-line thresholds, have more scope exceptions, and are more verbose and complex. The main drafting difference between a rules-based or principles-based approach is whether extensional definitions or intentional definitions are used. Several policy implications are noted.

Bushman, Robert M., and C. D. Williams. August 2012. Accounting discretion, loan loss provisioning, and discipline of Banks' risk-taking. *Journal of Accounting and Economics*, (Volume 54, Issue 1): 1-18.

Examining banks across 27 countries, we estimate two measures of the forward-looking orientation reflected in discretionary loan provisioning practices within a country. We document that forward-looking provisioning designed to smooth earnings dampens discipline over risk-taking, consistent with diminished transparency inhibiting outside monitoring. In contrast, forward-looking provisioning reflecting timely recognition of expected future loan losses is associated with enhanced risk-taking discipline. Thus, proposals to change loan loss accounting embed significant risks of unintended consequences, as gains from reducing pro-cyclicality may be swamped by losses in transparency that dampen market discipline and increase the scope for less prudent risk-taking by banks. We model *(continued on page 15)*

Have you Seen *(continued from page 14)*

two aspects of discretionary forward-looking loan loss provisioning by banks around the world. Provisioning tied to current period earnings reduces bank discipline. Provisioning tied to current period earnings increases observed risk-shifting behavior in banks. Provisioning tied to future changes in non-performing loans increases the discipline of banks. Provisioning tied to future changes in non-performing loans decreases observed risk-shifting behavior in banks.

Dhaliwal, Dan S., Suresh Radhakrishnan, Albert Tsang, and Yong George Yang, 2012. Nonfinancial disclosure and analyst forecast accuracy: international evidence on corporate social responsibility. *The Accounting Review*, 87, 723 – 759.

We examine the relationship between disclosure of nonfinancial information and analyst forecast accuracy using firm-level data from 31 countries. We use the issuance of stand-alone corporate social responsibility (CSR) reports to proxy for disclosure of nonfinancial information. We find that the issuance of stand-alone CSR reports is associated with lower analyst forecast error. This relationship is stronger in countries that are more stakeholder-oriented-i.e., in countries where CSR performance is more likely to affect firm financial performance. The relationship is also stronger for firms and countries with more opaque financial disclosure, suggesting that issuance of stand-alone CSR reports plays a role complementary to financial disclosure. These results hold after we control for various factors related to firm financial transparency and other potentially confounding institutional factors. Collectively, our findings have important implications for academics and practitioners in understanding the function of CSR disclosure in financial markets.

Dharmapala, Dhammika, and Nadine Riedel, 2012. Earnings shocks and tax-motivated income shifting: evidence from European multinationals. Working Paper, April 25, 2012. Available at SSRN: <http://ssrn.com/abstract=2045989>.

This paper presents a new approach to estimating the existence and magnitude of tax-motivated income shifting within multinational corporations. Existing studies of income shifting use changes in corporate tax rates as a source of identification. In contrast, this paper exploits exogenous earnings shocks at the parent firm and investigates how these shocks propagate across low-tax and high-tax multinational subsidiaries. This approach is implemented using a large panel of European multinational affiliates over the period 1995-2005. The central result is that parents' positive earnings shocks are associated with a significantly positive increase in pretax profits at low-tax affiliates, relative to the effect on the pretax profits of high-tax affiliates. The result is robust to controlling for various other differences between low-tax and high-tax affiliates and for country-pair-year fixed effects. Additional tests suggest that the estimated effect is attributable primarily to the strategic use of debt across affiliates. The magnitude of income shifting estimated using this approach is substantial, but somewhat smaller than that found in the previous literature.

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Have you Seen *(continued from page 15)*

Ding, Rong, and Yuping Jia, 2012. Audit mergers, audit quality and audit fees: Evidence from the PriceWaterhouseCoopers merger in the UK. *Journal of Accounting and Public Policy*, 31, 69 – 85.

Focusing on the merger of Price Waterhouse and Coopers & Lybrand in 1998, we document increased audit quality (measured by earnings quality of the clients) for the merged firm and other big-X auditors (The big-X auditors are Ernst & Young, Deloitte, KPMG and Arthur Anderson.) during the post-merger period because: (1) controlling for economic conditions, clients of big-X auditors have lower levels of absolute discretionary accruals and (2) the value relevance of earnings has significantly increased. Furthermore, we find evidence that in the post-merger period, there is a significant increase in audit fees for PricewaterhouseCoopers and other big-X client firms, which suggests that the effect of collectively enhanced market power of big-X auditors (which tends to increase audit fees) dominates the effect of cost savings from the merger (which tends to lower audit fees). The results have implications for regulators and policy makers.

Fang Hu, and S.C.M. Leung .June 2012. Top management turnover, firm performance and government control: Evidence from China's listed state-owned enterprises. *The International Journal of Accounting*, (Volume 47, Issue 2): 235-262.

Using a sample of 916 Chinese listed state-owned enterprises (SOEs) from 2001 to 2005, we find that the likelihood of top management turnover is negatively associated with firm performance, suggesting the existence of an effective corporate governance mechanism in an emerging economy that is highly controlled by government. We also find that the negative turnover–performance relationship is stronger when the SOE is directly held by the central or local government, holding a monopolistic position in a local economy or in a strategic/regulated industry. The results indicate that the market-based corporate governance mechanism that disciplines top executives as a result of poor performance is not only used in Chinese SOEs, but is used more frequently when the governance control of SOEs is more intense. Our findings support the notion that government control strengthens rather than weakens the turnover–performance governance mechanism. Our additional analysis shows that this complementary effect is stronger in regions that lack pro-market institutions, such as investor protections and a functioning capital market.

Firth, Michael, O. M. Rui, and Xi Wu. March 2012. How Do Various Forms of Auditor Rotation Affect Audit Quality? Evidence from China. *The International Journal of Accounting*, (Volume 47, Issue 1): 109-138.

The Enron/Arthur Andersen scandal has raised concerns internationally about auditor independence, audit quality, and the need for regulatory action such as mandatory auditor rotation. China's unique institutional features provide a setting in which we can compare comprehensively the various forms of auditor rotation at different levels (partner vs. firm) and in different settings (voluntary vs. mandatory). In addition, institutional conditions vary dramatically across China, which provides us with an opportunity to test whether the development of market and legal institutions affects the impact of rotation on audit quality. We expect that auditors are less (more) constrained by market forces and less (more) self-disciplined to maintain audit quality in regions with less (more) developed

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market and legal institutions. Therefore, mandatory rotation may play a more (less) important role in less (more) developed regions. Using auditors' propensity to issue a modified audit opinion (MAO) as a proxy for audit quality, we find that firms with mandatory audit partner rotations are associated with a significantly higher likelihood of an MAO than are no-rotation firms. However, this effect is restricted to firms located in less developed regions. We find similar evidence for voluntary audit firm rotation although the significance level is much weaker than for mandatory partner rotation. Other forms of auditor rotations (i.e., mandatory audit firm rotation and voluntary audit partner rotation), have no effect on MAOs.

Florou, Annita, and Peter Pope, 2012. Mandatory IFRS adoption and institutional investment decisions. *The Accounting Review*, Forthcoming.

We examine whether the mandatory introduction of International Financial Reporting Standards leads to an increase in institutional investor demand for equities. Using a large ownership database covering all types of institutional investors from around the world, we find that institutional holdings increase for mandatory IFRS adopters. Changes in holdings are concentrated around first-time annual reporting events. Second, we document that the positive IFRS effects on institutional holdings are concentrated among investors whose orientation and styles suggest they are most likely to benefit from higher quality financial statements, including active, value and growth investors. This result is consistent with the holdings changes being associated with the financial reporting regime change. Finally, we show that increased institutional holdings are concentrated in countries where enforcement and reporting incentives are strongest, and where the differences between local GAAP and IFRS are relatively high. Overall, our study helps shed new light on the channels by which IFRS information becomes impounded in market outcomes.

Gordon, Elizabeth A., Adam J. Greiner, Mark J. Kohlbeck, Steven W. J. Lin, and Hollis Ashbaugh Skaife, 2012. Challenges and opportunities in cross-country accounting research. Working Paper, May 29, 2012. Available at SSRN: <http://ssrn.com/abstract=2070151>.

A concurrent session at the 2011 American Accounting Association Annual Meeting featured the panel discussion "Results, Challenges, and Opportunities in Cross-country Accounting Research." The panelists summarized major contributions from prior research in international settings, factors a researcher should consider when motivating and designing cross-country studies, and topical areas that could potentially contribute to future international accounting research. This paper summarizes the panelists' prepared remarks, develops a framework for designing cross-country research projects, and provides illustrations of the framework.

Gotti, Giorgio, and S. Mastrolia. March 2012. The Effect on Financial Reporting Quality of an Exemption from the SEC Reporting Requirements for Foreign Private Issuers. *The International Journal of Accounting*, (Volume 47, Issue 1): 44-71.

We test for differences in financial reporting quality between companies that are required to file periodically with the SEC and those that are exempted from filing reports with the SEC under Rule 12g3-2(b). We examine three

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earnings quality measures: conservatism, abnormal accruals, and the predictability of earnings. Our results, for all three measures, show different financial reporting quality for companies that file with the SEC than for companies exempt from the filing requirements. This paper provides empirical evidence of a link between filing with the SEC and financial reporting quality for foreign firms.

Iatridis, George. March 2012. Hedging and earnings management in the light of IFRS implementation: Evidence from the UK stock market. *British Accounting Review*, (Volume 44, Issue 1): 21-35.

This study examines the association between IFRS implementation, hedging and earnings management. It identifies the financial attributes of firms that utilise hedging and explores the IFRS transition process for hedgers and non-hedgers. This study also investigates the effects of a firm's decision to use hedging or earnings management on firm value. The findings show that the transition to IFRSs has affected the equity, earnings, leverage and liquidity of hedgers in a significantly positive manner as opposed to non-hedgers, who presented a generally significant negative change in their respective figures. Hedgers tend to be larger sized and exhibit higher profitability, growth, leverage and liquidity. Hedgers also tend to have foreign revenues, be cross-listed in foreign stock markets and audited by a Big 4 auditor. This study reports that hedging and earnings management display an inverse relation. Firm value is found to be positively related to hedging and negatively related to discretionary accruals and managerial opportunism. Effective corporate governance mechanisms are found to display a negative association with discretionary accruals and a positive relation with firm value.

Isidro, Helena, and David Grilo, 2012. Value-driving activities at Euro-zone banks. *European Accounting Review*, 21, 297 – 341.

We develop and test accounting-based valuation models for commercial banks. We extend Begley et al.'s framework (2006) and propose a valuation model where goodwill is generated by virtually all commercial and investment banking activities. Key features of our model are: the development of a relation between future cash flows from fee income and the bank value that depends on lending, borrowing and off-balance sheet business; and the inclusion of proprietary investment and trading as value-driving activities. Empirical tests on a sample of Euro-zone banks from 1998 to 2006 provide the following evidence. Unrealised expected cash flows from fee income are the most important source of unrecorded goodwill. This is consistent with the increasing importance of revenue from the sale of financial services to banks' income. The contribution of fee income to goodwill is higher for banks with large deposits and new loans. Equity securities are a source of unrecorded goodwill, but the introduction of fair value accounting, with the adoption of the International Financial Reporting Standards (IFRS), reduces their valuation role. Yet equity securities remain positively associated with unrecorded goodwill after IFRS adoption, suggesting that the fair value standards do not fully capture market expectations about future cash flows of investment assets.

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Jayaraman, Sudarshan. February-April 2012. The effect of enforcement on timely loss recognition: Evidence from insider trading laws. *The Journal of Accounting and Economics*, (Volume 53, Issue 1-2): 77-97.

I use the first-time enforcement of insider trading laws in sixteen countries as a shock to enforcement and examine its influence on timely loss recognition (*TLR*). Consistent with greater enforcement increasing the usefulness of accounting information in contracts and thereby the demand for higher quality reporting, insider trading enforcement is associated with a significant increase in *TLR*. No such increase is detected in neighboring non-enforcing countries. In addition to documenting how shocks to enforcement influence financial reporting outcomes, this is also the first study to extend the Khan and Watts (2009) measure of accounting conservatism to a cross-country setting. Highlights: I use first-time enforcement of insider trading laws across 16 countries as a shock to enforcement of securities laws and find a strong increase in timely loss recognition (*TLR*). Post-enforcement increases are not driven by alternative explanations such as IFRS adoption, financial market liberalization or changes in other macroeconomic factors. In addition to documenting how shocks to enforcement influence financial reporting outcomes, my study extends the Khan and Watts (2009) measure of accounting conservatism to a cross-country setting.

Kim, Jeong-Bon, Xiaohong Liu, and Liu Zheng, 2012. The impact of mandatory IFRS adoption on audit fees: theory and evidence. *The Accounting Review*, Forthcoming.

This study examines the impact of International Financial Reporting Standards (IFRS) adoption on audit fees. We first build an analytical audit fee model to analyze the impact on audit fees of the change in both audit complexity and financial reporting quality brought about by IFRS adoption. We then test the model's predictions using audit fee data from European Union countries that mandated IFRS adoption in 2005. We find that mandatory IFRS adoption has led to an increase in audit fees. We also find that the IFRS related audit fee premium increases with the increase in audit complexity brought about by IFRS adoption, and decreases with the improvement in financial reporting quality arising from IFRS adoption. Finally, we find some evidence that the IFRS-related audit fee premium is lower in countries with stronger legal regimes. Our results are robust to a variety of sensitivity checks.

Kim, Yongtae, H. Li, and S. Li. February-April 2012. Does eliminating the Form 20-F reconciliation from IFRS to U.S. GAAP have capital market consequences? *The Journal of Accounting and Economics*, (Volume 53, Issue 1-2): 249-270.

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 reconcil-

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iation results in information loss or greater information asymmetry. Highlights: Capital market consequences of eliminating the 20-F reconciliation. No evidence of a negative impact on liquidity or PIN. No evidence of a negative impact on other measures of capital market consequences. No evidence of a significant change in IFRS firms' disclosure frequency. Findings do not support the elimination resulting in greater information asymmetry.

Krivogorsky, Victoria, and Greg F. Burton, 2012. Dominant owners and performance of continental European firms. *Journal of International Accounting Research*, 11, 191 – 221.

We examine dominant ownership in Continental European firms to further refine the distinction between the ability to control and actual control and whether a particular distinct shareholder ownership type is associated with company performance. In addition, we empirically test whether the economic performance of the firms from different countries is consistently affected by the nature of the company's dominant owner. After disaggregating the overall sample by specific ownership type and by country, we find a positive relationship between dominant ownership and performance for firms in which banks and families/individuals are the dominant owners and a negative relationship when corporations are the dominant owners. Additional analysis discloses an even more complicated picture, suggesting that countries are not homogenous in terms of their ownership landscapes and, hence, their effects on performance.

Landsman, Wayne R., E. L. Maydew, and J. R. Thornock. February- April 2012. The information content of annual earnings announcements and mandatory adoption of IFRS. *The Journal of Accounting and Economics*, (Volume 53, Issue 1-2): 34- 54.

This study examines whether the information content of earnings announcements – abnormal return volatility and abnormal trading volume – increases in countries following mandatory IFRS adoption, and conditions and mechanisms through which increases occur. Findings suggest information content increased in 16 countries that mandated adoption of IFRS relative to 11 that maintained domestic accounting standards, although the effect of mandatory IFRS adoption depends on the strength of legal enforcement in the adopting country. Utilizing a path analysis methodology, we find evidence of three mechanisms through which IFRS adoption increases information content: reducing reporting lag, increasing analyst following, and increasing foreign investment. Highlights: We examine the information content of earnings announcements following mandatory IFRS adoption. Findings suggest information content increased in 16 countries that mandated adoption of IFRS relative to 11 that maintained domestic accounting standards. The effect of mandatory IFRS adoption depends on the strength of legal enforcement in the adopting country. We find evidence of three mechanisms through which IFRS adoption increases information content: reducing reporting lag, increasing analyst following, and increasing foreign investment.

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Lang, Mark, Karl V. Lins, and Mark Maffett, 2012. Transparency, liquidity, and valuation: International evidence on when transparency matters most. *Journal of Accounting Research*, 50, 729 – 774.

We examine the relation between firm-level transparency, stock market liquidity, and valuation across countries, focusing on whether the relation varies with a firm's characteristics and economic environment. We document lower transaction costs and greater liquidity (as measured by lower bid-ask spreads and fewer zero-return days) for firms with greater transparency (as measured by less evidence of earnings management, better accounting standards, higher quality auditors, more analyst following, and more accurate analyst forecasts). The relation between transparency and liquidity is more pronounced in periods of high volatility, when investor protection, disclosure requirements, and media penetration are poor, and when ownership is more concentrated, suggesting that firm-level transparency matters more when overall investor uncertainty is greater. Increased liquidity is associated with lower implied cost of capital and with higher valuation as measured by Tobin's Q. Finally, a mediation analysis suggests that liquidity is a significant channel through which transparency affects firm valuation and equity cost of capital.

Lee, Namryoung, and C. Swenson. June 2012. Are Multinational Corporate Tax Rules as Important as Tax Rates? , *The International Journal of Accounting*, (Volume.47, Issue 2): 155-167.

Previous research has documented the influence of statutory tax *rates* on international firms' effective tax rates, or ETRs. We add to this body of research by examining common factors of the income tax *base*, which affects ETRs. Specifically, this study examines the determinants of effective tax rates for publicly traded companies based in European Union (EU) countries. The time period examined is after 2004, when all EU firms were required to use standardized accounting principles under International Financial Reporting Standards (IFRS). We find that, across EU countries, such factors are relatively consistent with factors found in studies of U.S. companies' effective tax rates, which include inventory, leverage, depreciation tax shield, and R&D intensity. We also find that the presence of country book-tax conformity rules increases effective rates. Importantly, our finding that such *tax base (or rule) effects are at least as important as rate effects* adds to the international debate about uneven tax structures around the globe.

Lopes, Alessandro Broedel, and M. Walker. June 2012. Asset revaluations, future firm performance and firm-level corporate governance arrangements: New evidence from Brazil. *British Accounting Review*, (Volume 44, Issue 2): 53-67.

Using a sample of Brazilian listed firms for the period 1998–2004 we find evidence that revaluations of fixed assets are negatively related to future firm performance, prices and returns. We also find that the decision to revalue is negatively associated with scores on a Brazilian Corporate Governance Index (BCGI) and positively associated with indebtedness and illiquidity. Our results suggest that revaluations of fixed assets in Brazil are not designed to convey information to external users of financial statements but rather to improve equity positions – opportunistic moti-

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variations. Our evidence also corroborates the idea that firms that adopt superior voluntary governance arrangements are less likely to engage in actions designed to manipulate their financial statements. These results lend support to the recent amendment to the Company law which eliminated the revaluation option for Brazilian firms despite the current process of IFRS convergence.

Masulis, Ronald W., C. Wang, and Fei Xie. June 2012. Globalizing the boardroom—The effects of foreign directors on corporate governance and firm performance. *The Journal of Accounting and Economics*, (Volume 53, Issue 3): 527-554.

We examine the benefits and costs associated with foreign independent directors (FIDs) at U.S. corporations. We find that firms with FIDs make better cross-border acquisitions when the targets are from the home regions of FIDs. However, FIDs also display poor board meeting attendance records and are associated with a greater likelihood of intentional financial misreporting, higher CEO compensation, and a lower sensitivity of CEO turnover to performance. Finally, firms with FIDs exhibit significantly poorer performance, especially as their business presence in the FID's home region becomes less important. Highlights: About 13% of large U.S. public corporations have foreign independent directors (FIDs). FIDs help firms make better cross-border acquisitions. FIDs reduce board effectiveness in monitoring, incentivizing, and disciplining CEOs. The average effect of FIDs on firm performance is negative. FIDs contribute more to a firm's performance as its operation in the FID's home region grows.

Mouselli, Sulaiman, A. Jaafar, and K. Hussainey. March 2012. Accruals quality vis-à-vis disclosure quality: Substitutes or complements? *British Accounting Review*, (Volume 44, Issue 1): 36-46.

The impact of accruals quality and disclosure quality on stock returns is a topical issue in market-based accounting research. Most of the debate is centred on their incremental ability to predict future earnings. Recent studies suggest that higher information risk proxied by either lower accruals quality or lower disclosure quality results in higher stock returns. This paper examines the relationship between accruals quality and disclosure quality, and investigates whether they are complements or substitutes in explaining the time-series variation in portfolio returns. Applying portfolio groupings, we find a positive association between accruals quality and disclosure quality, suggesting that firms with higher disclosure quality engage less in earnings management and have higher accruals quality. Asset pricing tests show that an accruals quality factor and a disclosure quality factor explain the time-series variation in the excess returns of similar sets of portfolios. This suggests that they contain similar information and confirms the substitutive nature of accruals quality and disclosure quality factors.

Shaoul, Jean, A. Stafford, and P. Stapleton. April 2012. Accountability and corporate governance of public private partnerships. *Critical Perspectives in Accounting*, (Volume 23, Issue 3): 213-229.

Brennan and Solomon (2008) identify six new frontiers in accountability and corporate governance research to stimulate research. This paper contributes to such research by devising a reporting framework

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and research agenda that relates to Brennan and Solomon's fourth frontier, sectors and context, focusing on the regulated hybrid organizational forms of Public Private Partnerships, which operate at the interface of the public and private sectors.

As the framework shows, these organizations are subject to multiple influences and demands. There is a need for more and different reporting than is the norm under the private sector's decision-useful reporting framework. Although the framework focuses on what Mulgan (2000) describes as the core of accountability, it is not only a financial reporting framework but it also seeks to make concrete Kamuf (2007) argument that accountability might include accounting through narrative as well as the prevailing numeric evaluation.

The paper stresses the need for information to be accessible to the public, and in particular argues that a stream of information between the public and private sector partners needs to be developed and disseminated to achieve accountability for public money that is increasingly spent in the private sector.

Tsipouridou, Maria, and C. Spathis. 2012. Earnings management and the role of auditors in an unusual IFRS context: The case of Greece. *The Journal of International Accounting, Auditing and Taxation*, (Volume 21, Issue 1): 62- 78.

The mandatory adoption of International Financial Reporting Standards (IFRS) on January 1, 2005 aimed to improve the quality of financial reporting in Greece, which had been regularly criticized for the practice of earnings management and the ineffectiveness of external auditing. However, the unusual characteristics of the economic environment and institutional setting of code-law oriented Greece, has made the attempt even more challenging. To investigate the role of auditors in potentially approving managers' opportunistic behaviour in the post-IFRS period, we examine the relationship between earnings management, measured by signed discretionary accruals, and auditor reporting, measured by audit firm size (Big 4 vs. non-Big 4) and audit opinion type (unqualified vs. qualified). Using a sample of firms listed on the Athens Stock Exchange over a five-year period, we find that the size of the audit firm does not affect the level of earnings management, and the audit opinion qualification is not issued in response to management's opportunistic behaviour. The interpretation of the results is conditional on the Greek context, where the economic bonding of auditors with their clients is strong, investor protection is low, enforcement mechanisms are weak and there is low litigation and reputation loss, even in the post-IFRS period.

Valentinetti, Diego, and M. A. Rea. June 2012. IFRS Taxonomy and financial reporting practices: The case of Italian listed companies, *International Journal of Accounting Information Systems*, (Volume 13, Issue 2): 163-180.

XBRL taxonomies have a crucial role in digital financial reporting. On the one hand, they provide a unique set of computer-readable tags to allow the interchange of interactive information. On the other hand, a systematic, agreed-upon convention for naming each taxonomy tag is needed. In this context, the IFRS Foundation is playing a relevant role in developing well-structured taxonomies, which could simultane-

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ously favor both the interoperability and the homogenization of the firms' financial information at the global level. Due to its importance, XBRL is being applied in many countries, but according to different implementation schemas.

In this study, we attempt to verify if the IFRS Taxonomy released by the IFRS Foundation adequately reflects the reporting practices of the Italian listed companies for which XBRL is not yet required. The results reveal a general discrepancy between the financial items disclosed by the companies and the taxonomy tags. Specifically, we noticed that the financial statements items are more disaggregated than the taxonomy tags and that this depends on the sector and the size of the companies. Unless the XBRL implementation system explicitly allows companies to use and disclose taxonomy extensions, a loss of detailed information occurs if the taxonomy is applied.

Verleyen, Isabelle, and Ignace De Beelde, 2011. International consistency of auditor specialization. *International Journal of Auditing*, 15, 275 – 287.

The objective of this paper is to investigate whether auditor industry specialization is consistent across countries. If the specialized knowledge of auditors can be transferred from one country to another, we can expect that international audit firms show consistent patterns of industry specialization across countries. The literature uses two constructs to measure specialization: the market share of an auditor in a specific market, and a portfolio approach focusing on the major industries in the portfolio of clients of the auditor. Using both approaches on data relating to 28,352 European companies, we find that some European industries, and more specifically the chemical and the business services industries, show a high degree of consistency with respect to the market shares of the international audit firms. We also find evidence of specialization of individual audit firms in specific industry segments.

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