

INTERNATIONAL
ACCOUNTING SECTION
of the



American
Accounting
Association

NO. 78

FORUM

INTERNATIONAL ACCOUNTING

EDITOR: Jeannie J. Harrington
Middle Tennessee State University

SPRING 2003

President's Message

Greetings to all members of the International Accounting Section. In this message, I want to report to you on some of the major accomplishments of the Section and the progress we are making in implementing other initiatives aimed at improving delivery of services to our members.

The recently concluded annual Midyear Meeting, held in Orlando, Florida on February 7–8, was a great success. We had over 80 participants in attendance and a balanced program devoted to international accounting practice, education, and research. Laid-back lunches and two receptions provided ample opportunities to mix and interact. Since all attending the Midyear Meeting share a passion for international accounting, the conversations are always rich and stimulating.

Friday afternoon featured updates on international accounting from the practice and regulatory world. Pat Edgar, KPMG and the Section's Vice President-Practice, discussed the implications of Sarbanes-Oxley with specific reference to foreign registrants in the U.S. capital markets. Jim Leisenring, IASB member, provided an update on IASB convergence activities. Paul Pacter, Deloitte Touche Tohmatsu, discussed the benefits and implementation issues surrounding international convergence of accounting standards. Paul was also very kind to provide all attendees with a copy of his firm's recent publication, *International Financial Reporting Standards: A Practical Guide*. A PDF version of this publication is also available on the firm's website: <http://www.iasplus.com>. Ian Hague, member, Canadian Accounting Standards Board (CASB), discussed the challenges national standard setters such as the CASB are facing as a result of the international accounting convergence movement. A very lively Q&A session capped the afternoon. The practice/regulatory sessions are one of the highlights of our Midyear Meeting and provide valuable insights into



Ajay Adhikari

current developments in international accounting.

Saturday was a full day with 20 research papers presented at concurrent sessions, panels and workshops on education, and a workshop conducted by Paul Pacter on "Accounting in China." The research papers were interesting and of high quality. As always, the session devoted to international research of doctoral students was very well-attended; it is always stimulating to learn about the new research areas being explored in international accounting and to provide encouragement and support to new scholars. The doctoral scholarship program for the Midyear Meeting is an outstanding program and enables doctoral students to attend the meeting and share their research. The Section provided \$500 travel scholarships for each of the doctoral students and waived their registration fees.

Sessions devoted to international accounting education were an added bonus this year. The education committee of the International Federation of Accountants (IFAC) discussed proposed international education standards that they have been developing. It was fascinating to see that developing international standards for education is no less complex than developing international accounting standards. Our own David Sharp conducted a workshop on teaching international accounting through a case-study approach. Thanks to Cheryl Fulkerson, Chair of the Section's Teaching Resources Committee, who helped organize the session.

The complete Midyear Meeting program is available in this issue of the *Forum* and also on our website. Additionally, several of the presenters have kindly

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5717 Bessie Drive
Sarasota, FL 34233-2399

President's Message (continued from page 1)

agreed to have their presentation outlines posted on our website. I thank everybody (plenary speakers, presenters, moderators, reviewers, and meeting attendees) who contributed to making this year's Midyear Meeting a resounding success. I would be remiss not to acknowledge the steadfast support we have received from KPMG Foundation; their generous contribution enables us to organize a smaller high-quality meeting every year. Needless to say, our biggest thanks go to Nancy Nichols who did all the heavy lifting for the meeting with assistance from Donna Street. Nancy and Donna have done an outstanding job running the Mid-year Meetings for the past few years and I am truly impressed with their commitment and dedication.

Another major accomplishment for the Section was the publication of the first issue of *Journal of International Accounting Research*, the Section's new journal. I am sure after going through the first issue you will agree with me that it was worth the wait. I view the journal as the epitome of the collective effort by all in the Section. Just this first issue is the product of countless hours of effort put in by authors, reviewers, and the editorial team. We have to continue to strive to build the reputation of the journal as an outlet for high-quality research in international accounting. I am confident that in time the Section's journal will emerge as one of the leading journals in international accounting. With the foundation of the journal firmly established, the Executive Committee endorsed the Publications Committee's recommendation to move to two issues for the journal. I am also happy to announce that Segun Wallace, the journal's editor, has been re-appointed for another one-year term. Segun has worked tirelessly in the last two years to establish a solid foundation for the Section's journal and we owe him and his editorial team a major debt of gratitude. Thanks are also due to Marilyn Zarzeski and the Publications Committee who have been quite busy deliberating on several initiatives related to the journal.

One of the goals that we are seeking to achieve this year is for the Section to more strongly reconnect with our membership and to take more of our services to the grassroots. In that context, I view the upcoming AAA regional programs as an excellent avenue to generate greater excitement in international accounting education and research. Mahendra Gujarathi, Chair Regional Programs, is leading the charge to make the Section more visible at the regional level by working with our regional coordinators. I have asked the Executive Committee and all committee chairs to assist regional coordinators in putting together innovative programming for the regional programs. Internationally, our International Relations Committee under the leadership of Hector Perera has been very active in promoting the interests of the Section. This year the committee is playing an important role in providing

suggestions regarding the programs the Section offers to make them more attractive to our international constituencies. For example, the committee is taking the lead in organizing a research panel on international accounting research for the Annual Meeting.

Don Herrmann and his committee are busy putting together the Section's program for the Annual Meeting in Honolulu. This year, we have recorded over a 50 percent increase in paper submissions. Eighty-three papers have been submitted and several panels are also under consideration. This increase partly reflects the attractiveness of Honolulu, however, the surge in submissions of international accounting papers is quite heartening. On a more practical level, Don has approached and will be approaching many more of us to serve as reviewers, discussants, and moderators. Please make some time to assist him and the Section.

The Teaching Resources, headed by Cheryl Fulkerson, has developed a fully searchable database that will house international accounting syllabi, examples of class assignments, projects, and reading lists. Once fully populated, the database should be a valuable resource to all of us teaching international accounting. I encourage everyone in the Section to contribute to the development of this database by sending in examples of teaching resources that you use. Please send in your items to cfulkerson@utsa.edu.

Tim Sale, our webmaster, is working on giving our website a more visual look. To get a perspective on how the Section has developed over the years, I invite you to visit the historical site developed by Norlin Rueschhoff, our historian. Norlin continues to update the site on a regular basis. Links to the historical pages

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INTERNATIONAL ACCOUNTING SECTION

Forum Deadlines and

Announcement of Change in Editor

Summer 2003 Issue — May 1, 2003

Fall 2003 Issue — September 15, 2003

Spring 2003 Issue — January 15, 2004

Please submit items via email using a Microsoft® Word format file as an attachment. Submit to jharrington@mtsu.edu.

If sending materials, please send to:

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Department of Accounting, Box 50
Middle Tennessee State University
Murfreesboro, TN 37132

Phone: (615) 898-2038

Fax: (615) 898-5839

2002 OUTSTANDING INTERNATIONAL ACCOUNTING EDUCATOR AWARD



The 2002 recipient of the Outstanding International Accounting Educator Award is Christopher Nobes, the PricewaterhouseCoopers Professor of Accounting at the University of Reading. Prior to teaching at the University of Reading, Professor Nobes taught at eight universities across the world and has taught international accounting at University of Exeter, London Business School, Strathclyde University, University of London, State University of University of New York, and University of San Diego.

Professor Nobes has published extensively and has served on numerous professional committees across the world, including his role as a board member on the International Accounting Standards Committee from 1993 to 2001. Additional information about Professor Nobes appears in the Fall 2002 *Forum*. Congratulations to this outstanding international educator!

EVERYONE

If you are teaching International Accounting, **please** help the Section create a searchable database of international accounting syllabi, course reading lists, cases, projects, and assignments/exercises. Send your syllabi and examples of class assignments, projects and reading lists to Cheryl Fulkerson, Chair of the Teaching Resources Committee.

Simply email your items to cfulkerson@utsa.edu or, if you prefer, mail them to:

Cheryl L. Fulkerson
Department of Accounting
College of Business
University of Texas at San Antonio
San Antonio, TX 78249-0632

Thank you!

If not indicated in the document, indicate the level at which you have used the syllabi/assignment/reading list/exercise (i.e., undergraduate, master's, Ph.D., or some combination).

President's Message (continued from page 2)

can be found in the Section's website. Mitch McGhee and his Membership Committee are devising an aggressive membership campaign. With the journal coming online and international accounting coming to the forefront, we have a good window of opportunity to attract new members to the Section. The Continuing Education Committee chaired by Hollis Ashbaugh continues to provide support to the various meetings that we host.

Our Awards committees, the Outstanding Educator Award Committee headed by Steve Salter, the Outstanding Dissertations Committee headed by John Wild, and the Nominations Committee headed by Teresa Conover, have received several nominations and are busy evaluating the various candidates. In the same vein, I draw your attention to a call from President-elect Rob Larson for volunteers to serve on committees for 2003-2004. I encourage you to volunteer for one or more positions.

Finally, I would like to thank Jeannie Harrington, our *Forum* editor. Jeannie has added several exciting new features to the newsletter. In this *Forum*, you will find an IASB Update column written by Mary Barth,

IASB member. Mary has kindly agreed to contribute this column on a regular basis to update Section members on IASB activities. In addition, Pat Edgar, KPMG and Vice President-Practice, has agreed to write a Practice Update column, which will appear in a later issue of the *Forum*. These updates will be very valuable in helping us stay current with the latest developments in international financial reporting. I thank Mary and Pat for taking time from their busy schedules to provide us with these updates.

On a related matter, the Executive Committee is considering a proposal to discontinue publication of the *Forum* in a hard-copy format from Fall 2003. Instead, like several other AAA sections, the *Forum* will be available on our website. This will lead to significant savings in printing and mailing costs that can be devoted to expanding our services in other areas. The Executive Committee would like to receive your feedback on this proposal. If you would like to respond to this proposal or have any suggestions and comments regarding the Section, please feel free to contact me at aadhika@american.edu.

I wish everyone a happy and productive 2003.

IASB UPDATE – SHARE-BASED PAYMENT

January 2003

Mary Barth, IASB Member, Atholl McBean Professor of Accounting and Senior Associate Dean for Academic Affairs, Stanford University

The International Accounting Standards Board (IASB) has been in operation since April 2001. It has been very busy since then, but only recently is the world beginning to see the fruits of its labors. In the summer of 2002, it issued two exposure drafts of proposed improvements to existing International Accounting Standards, and an exposure draft of its first International Financial Reporting Standard, *First-Time Application of International Financial Reporting Standards*. This article briefly summarizes its second exposure draft ED 2, *Share-Based Payment*, which it issued in November 2002, together with its Basis for Conclusions and Implementation Guidance. ED2 is the first major standard exposure draft issued by the new board. Further details on the IASB's agenda and projects can be obtained on the IASB's website: <http://www.iasb.org.uk>.



Mary Barth

Project Background

The IASB's project on share-based payments benefited not only from the work of the Financial Accounting Standards Board (FASB) in Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, but also from the work of the International Accounting Standards Committee (IASC) Board, the IASB's predecessor. In particular, the G4+1, where the "+1" was the IASC Board, issued a discussion document in July 2000 on share-based payments. The IASB considered comments received by it and by other members of the G4, i.e., Australia, Canada, New Zealand, the U.K., and the U.S., in response to that document and reissued the document for additional comments, which the IASB also has considered. To aid it in its decision-making process, the IASB also formed an Advisory Group of persons from a variety of backgrounds, including the investment, corporate, audit, academic, compensation consultancy, valuation, and regulatory communities. The group's advice and counsel have been very helpful to the Board. The IASB plans to issue a final standard in the second half of 2003.

Why Issue a Standard on Share-Based Payment?

Accounting for share-based payment, or stock-based compensation as it is referred to in the U.S., is

perhaps the most controversial issue facing accounting standard setters. The IASB added the project to its agenda because the use of share-based payments is widespread and increasing and there is no international accounting standard on the topic. The only standard in the world on share-based payments is the FASB's SFAS No. 123. Thus, without a standard covering these transactions, there is a large hole in the IASB literature. The IASB felt compelled to address the topic with the aim of issuing a high-quality international standard. Standard setters in Germany, Denmark, and the U.K. had begun developing standards on the topic, but put their projects on hold when the IASB placed it on its agenda. Their preference is for an international standard, which is applied consistently everywhere.

Standard setters are not the only constituency that perceives a need for a standard on share-based payment; users of financial statements do too. Many user responses to the G4+1 Discussion Paper support expense recognition. Also, the Association for Investment Management and Research conducted an international survey that found 83 percent of analysts believe options should be expensed. The majority of analysts responding to the survey are U.S. analysts, but the view is shared across countries. Major institutional investors also support expense recognition. In fact, TIAA-CREF sent a letter to all of its major investees in the U.S. asking them to recognize stock option expense under SFAS No. 123 and Standard and Poor's "core earnings" now includes stock-based compensation expense. This level of support and interest on the part of financial statement users in recognizing stock-based compensation expense represents a shift from when the FASB considered the topic in the early 1990s, and is important to the thinking of the IASB. This level of support also indicates that lack of a standard on share-based payment is not acceptable if international accounting standards are to be comprehensive and high quality.

Although much of the focus of the controversy is in the U.S., the IASB is keenly aware of the sensitivity of the topic. Interestingly, there seems to be more support for recognizing an expense relating to share-based payments outside of the U.S. However, there also is a sense that there should be an international answer and that convergence between the U.S. GAAP and an international standard is important. Thus, although the IASB approached the topic as a clean slate, it was

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IASB Update

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mindful of reaching conclusions that differ from those reached by the FASB in SFAS No. 123. Because of this, some ask why did the IASB not just adopt U.S. GAAP? In the IASB's view, SFAS No. 123 could be improved. For example, SFAS No. 123 permits different accounting for fixed at-the-money and options with any other terms, and different accounting for options issued to employees and nonemployees. Both of these compromise neutrality. The fact that under SFAS No. 123 expense is reversed in subsequent periods if the options are forfeited bothered some IASB members.

Major Features of the Proposed Standard

The major principles underlying ED2 are quite similar to those underlying SFAS No. 123, issued by the FASB in 1995. In particular, ED2 would require recognition of an expense for employee services received in exchange for the granting of stock options, the expense would be recognized over the vesting period, the amount of the expense would be based on the fair value of the options granted, and the measurement date for the value of the options granted would be grant date. Thus, on the major principles, the IASB and the FASB are in agreement.

As with other goods and services, ED2 proposes that entities recognize assets received in a share-based payment transaction when the goods or services are received. Because employee services typically are consumed when they are received, this results in recognizing an expense for employee services received in exchange for equity interests, such as stock options.¹ The expense is recognized over the vesting period because that is when the employee renders the services that "pay for" the option. It is important to note that although the employee does not receive the option itself until vesting date, s/he does receive a contractual right to receive the option, provided specified criteria are met, e.g., vesting conditions. The right to receive an option is a valuable right—not as valuable as the option itself, but valuable nonetheless.

ED2 reminds us that the objective of accounting for share-based payments is to recognize the asset received, i.e., employee services, in exchange for the equity interests issued, i.e., the rights to receive stock options. In most exchange transactions, we assume that the value of the asset received equals the value of the consideration given. In this case, the consideration is an equity interest. Thus, to account for the asset received, we measure the value of the granted stock options. In some cases in financial accounting,

we measure the value of the asset received, if its value is more reliably estimable than the value of the consideration. ED2 argues that this is not the case for employee services. Thus, to measure the services received, ED2 proposes the usual approach in which the entity measures the value of the granted stock option. ED2 would require the value of the granted options be estimated using option-pricing techniques. Although it does not specify a particular estimation technique, ED2 would require that the value be estimated taking into account all of the option features, including vesting conditions. This is because, e.g., an unvested option is not worth as much as a vested option.

Why grant date measurement? Recall that the objective of measuring the option value is to measure the value of the services received. The IASB believes that the date that the parties entered into the transaction, i.e., the grant date, is the date at which the value of the granted rights and the services are equal. Thus, the option value at grant date is the best surrogate for value of services rendered. Changes in value of the option subsequent to grant date are unlikely to have a high correlation with changes in the value of the services received. Basing accounting amounts on transaction amounts is common in financial reporting for this same reason. Some advocate using the vesting date or exercise date. However, it is important to note that any accounting subsequent to initial recognition would adjust the amount of equity recognized. This is not done in financial reporting. Thus, not only is the value at these dates less likely to reflect the value of the services rendered, but also using these dates would require marking-to-market equity once it is recognized, which we do not do.

Comparison to SFAS No. 123

The FASB and the IASB are standard-setting partners, as are the standard-setting bodies in Australia, Canada, France, Germany, Japan, New Zealand, and the U.K. Each of these standard setters issued ED2 in its jurisdiction in an effort to solicit comments on the proposal. The invitation to comment issued by the FASB highlights the major differences between ED2 and SFAS No. 123. A key objective in doing so is to focus U.S. constituents' attention on these differences so that during the redeliberation phase of the project, the IASB and FASB can work together to determine the best approach for the final standard. Although the FASB has not formally added stock-based compensation to its agenda, it has stated that it plans to monitor the IASB's project with an eye toward achieving international convergence on this issue. Thus, resolving the differences between SFAS No. 123 and ED2 will be a focus of the IASB and FASB in the months to come.

¹ If the employee services relate to recognized assets, such as inventory, the expense occurs when the related asset is charged to expense, such as cost of goods sold.

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What Does the International Accounting Section Do? Which Committees and Positions Are Involved?

THE INTERNATIONAL ACCOUNTING SECTION:

Organizes international accounting sessions/panels at AAA Annual and Regional Meetings:

- Annual Program Committee
- Regional Programs Committee and Regional Coordinators (one for each AAA region)

Organizes international accounting continuing education seminars at AAA Annual and Regional Meetings:

- Continuing Education Committee

Sponsors and organizes a Midyear Meeting:

- Midyear Meeting Committee

Publishes the newsletter *Forum* and the *Journal of International Accounting Research*:

- *Forum* Editor
- *Journal* Editor
- Publications Committee (oversight role)

Maintains a website:

- Information Technology Committee (Webmaster)

Makes information available on the website including:

- Teaching materials (Teaching Resources Committee)
- Data sources (Research Committee)

Recruits new members:

- Membership Committee

Presents awards:

- Outstanding International Accounting Dissertation Award Committee
- Outstanding International Accounting Educator Award Committee

Cooperates with other organizations (including cosponsoring conferences outside the U.S.) and solicits AAA gift memberships for developing countries:

- International Relations Committee

Is administered and maintained through:

- Executive Board (Chair, Vice President–Academic, Vice President–Practice, Secretary, Treasurer, Advisory Board Chair)
- Advisory Board (responsible for proposing changes to bylaws)
- Nominations Committee (responsible for nominating executive board members)
- Section Historian (responsible for preserving the history of the Section)
- Strategic Planning Committee (responsible for obtaining input from Section membership to develop long-range plan)

IASB Update

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As ED2 explains, the major differences relate to how the main principles are implemented. Among these differences are:

- 1) As noted above, under ED2 grant date, fair value includes all option features, including probability of forfeiture and all performance conditions. Under SFAS No. 123, the value does not include these features. Because of this, under SFAS No. 123 the expense, which is based on a higher value per option, is reversed in subsequent periods if the op-

tions are forfeited. Under ED2, the expense, which is based on a lower value per option, is not reversed. It is recognized as services are received using a notion of a “per unit of service” amount.

- 2) Under ED2, the entire tax effect associated with share-based payment is recognized as part of tax expense in the income statement. This is because the IASB does not view the government as an equity holder and, thus, transactions with the government are assets or liabilities, not equity.
- 3) ED2 proposes no exemption from fair value measurement for nonlisted firms; SFAS No. 123 permits

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**CALL FOR MEMBERS TO SERVE ON
INTERNATIONAL ACCOUNTING SECTION COMMITTEES
FOR 2003–2004**

Below is a list of International Accounting Section committees for the period August 2003 to August 2004. Section members interested in serving on a committee should complete the form and either mail or email it to:

Rob Larson
School of Business Administration
Department of Accounting
University of Dayton
300 College Park
Dayton, Ohio 45469-2242
Phone: (937) 229-2497
Fax: (937) 229-2270
Email: Robert.Larson@notes.udayton.edu

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

- | | |
|---|--|
| <input type="checkbox"/> Annual Program
<input type="checkbox"/> Midyear Meeting
<input type="checkbox"/> Continuing Education
<input type="checkbox"/> Membership
<input type="checkbox"/> Teaching Resources
<input type="checkbox"/> International Relations
<input type="checkbox"/> Information Technology
<input type="checkbox"/> Outstanding Dissertation Award
<input type="checkbox"/> Outstanding Educator Award
<input type="checkbox"/> Regional Programs
<input type="checkbox"/> Strategic Planning
<input type="checkbox"/> Membership—Indicate: <input type="checkbox"/> United States <input type="checkbox"/> Outside U.S. (country: _____) | Regional Program
<input type="checkbox"/> Northeast Region
<input type="checkbox"/> Mid-Atlantic Region
<input type="checkbox"/> Ohio Region
<input type="checkbox"/> Midwest Region
<input type="checkbox"/> Southeast Region
<input type="checkbox"/> Southwest Region
<input type="checkbox"/> Western Region |
|---|--|

Name _____

Affiliation _____

Address _____

Phone _____ Fax _____

Email _____

IASB Update

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nonlisted firms to use the minimum value method to value its options. See ED2, available on the IASB website, and the invitation to comment issued by the FASB, available on its website, for further discussion of these differences.

Next Steps

The comment period ended on March 7, 2003. After that, in accordance with its dues process procedures, the IASB will analyze the comments received

and redeliberate issues raised in the comment process as appropriate. As noted above, the IASB will work with the FASB in analyzing the comments received relating to the differences between ED2 and SFAS No. 123. Once that process is complete, a final standard will be issued. Currently, the IASB expects to issue a final standard in the second half of 2003.

The IASB welcomes comments from all constituents and I strongly encourage members of the AAA to share your insights with the IASB by submitting a comment letter.

Journal of International Accounting Research

CALL FOR PAPERS

Editor: R. S. Olusegun Wallace King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia

EDITORIAL POLICY

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

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

SUBMISSION OF MANUSCRIPTS

1. Manuscripts currently under consideration by another journal or other publisher should not be submitted. At the time of submission, the author must state that the work is not submitted or published elsewhere.
2. To expedite the process, an electronic submission and review process can be employed. To preserve anonymity, place the cover page and the remainder of the document in separate Microsoft® Word or PDF files. In the case of manuscripts reporting on field surveys or experiments, the instrument (e.g., questionnaire, case, interview plan) should also be submitted in a separate file, with the identity of the author(s) deleted. Email the cover page, manuscript, and, if applicable, the instrument as attached files to R. S. Olusegun Wallace, Editor, at: wallace@kfupm.edu.sa. The submission fee is \$25.00 in U.S. funds for members of the AAA International Section, or \$50.00 for others, made payable to the American Accounting Association. The submission fee is nonrefundable. To charge the fee, access the AAA web site at: <https://rarc.rutgers.edu/aaa/jiarsubmit.htm> [site forthcoming] Please indicate in the email that you have charged the fee. Alternatively, the submission fee may be paid by check to the American Accounting Association, and mailed to R. S. Olusegun Wallace, Editor, *Journal of International Accounting Research*, King Fahd University of Petroleum & Minerals, KFUPM Box 1995, Dhahran 31261, Saudi Arabia.
3. If electing to submit hard copies, four copies of manuscript should be mailed to R. S. Olusegun Wallace at the address above. In the case of manuscripts reporting on field surveys or experiments, four copies of the instrument (e.g., questionnaire, case, interview plan) should be submitted. Information that might identify the author(s) must be deleted from the instrument. The submission fee should be enclosed or charged at the AAA web site (per above).
4. Revised manuscripts must be submitted within 12 months from request; otherwise they will be considered new submissions.

Books for review should be sent to the Book Reviews Editor: Dr. Wayne Thomas, School of Accounting, Price College of Business, University of Oklahoma, 307 W. Brooks # 200, Norman, OK 73019-4004, USA. Scholars interested in reviewing books are requested to forward their names and particular interests to the Book Reviews Editor.

MANUSCRIPT PREPARATION STYLE

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

AAA INTERNATIONAL ACCOUNTING SECTION MIDYEAR MEETING

Orlando, Florida

Funding Provided by
THE KPMG FOUNDATION

FRIDAY, February 7, 2003

PLENARY SESSIONS

Moderator, Pat Edgar, KPMG

1:00 – 1:30

Pat Edgar, KPMG and Vice Chair–Practice AAA International Accounting Section

“Practice Post Sarbanes-Oxley”

1:30 – 2:45

Jim Leisenring, International Accounting Standards Board

“Update on IASB Convergence Activities”

3:00 – 3:30

Paul Pacter, Deloitte Touche Tohmatsu—Hong Kong

“Convergence—The Benefits and Implementation Issues”

3:30 – 5:00

Panel Discussion of Convergence Issues

Panel Members: Pat Edgar, Jim Liesenring, Paul Pacter, and Ian Hague
Canadian Accounting Standards Board

SATURDAY, February 8, 2003

8:00 – 9:30 Plenary Session: Panel Discussion

Moderator: Gary Holstrom, University of South Florida

“The Impact of the Proposed International Education Standards (IES) on Accounting Educators, Future Accounting Education, and Global Accounting Development”

Panel Members:



*International Education Panelist
Michael Walsh*

Walsh, Director of ACCA (Association of Chartered and Certified Accountants), Technical Advisor to the U.K. Member of the IFAC Education Committee

Gary Holstrom, U.S. Member of the IFAC Education Committee, University of South Florida;

Charles Calhoun, NASBA Technical Advisor to IFAC Education Comm., University of North Florida;

Beatrice Sanders, AICPA, Director of Academic and Career Development, Technical Advisor to the IFAC Education Committee;

Claire Egan, Technical Manager, IFAC Education Committee
Michael



International Education Panel: Charles Calhoun, Claire Egan, and Beatrice Sanders



Ajay opening the 2003 Midyear Meeting



Convergence Issues Panel: Pat Edgar, Jim Leisenring, Paul Pacter, and Ian Hague



*International Education Panelist
Gary Holstrom*

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Midyear Meeting

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9:30 – 10:30 International Research of Doctoral Students

Moderator: Bruce Behn, University of Tennessee

“Corporate Internet Reporting in Australia and Korea: A Comparative Study of Voluntary Disclosures on Intangible Assets”

Helen Kang and Mandy Kang, both at the University of New South Wales

“Expected Earnings Growth and the Cost of Capital: An Analysis of the European Financial Market”

Christina Dargenidou and Stuart McLeay, both at the University of Wales, Bangor

10:45 – 12:15 Breakout Session #1

Session A: Accounting Issues in China

Presented by Paul Pacter, Deloitte Touche Tohmatsu—Hong Kong

The session included an introduction to the Chinese capital markets and regulatory environment and then addressed the current accounting issues in China including PRC GAAP and IAS.

Session B: Analyst Following and Forecasts: An International Perspective

Moderator: Donna Street, University of Dayton

“Analyst Following and the Influence of Disclosure Components, IPOs and Ownership Concentration”

Ole-Kristian Hope and Joseph L. Rotman, both at the University of Toronto

“Analysts’ Forecast Accuracy and Bias of ADRs (American Depository Receipts)—A Developed versus Emerging Economy Enterprise Comparison”

Tony Kang, University of Illinois

Japanese Corporate Groupings (*Keiretsu*) and the Characteristics of Analysts’ Forecasts

Edward B. Douthett, Jr., George Mason University; Kooyul Jung, Korea Advanced Institute of Science and Technology; and Wikil Kwak, University of Nebraska at Omaha

Session C: International Diversification Issues

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

“Psychic Distance and Budget Control of Foreign Subsidiaries: A Research Note”

Lars G. Hassel, Åbo Akademi, and Gary M. Cunningham, all at the American University of Beirut

“International Diversification and Pay-for-Performance Sensitivity”

Augustine Duru, American University, and David M. Reeb, The University of Alabama

“A Review of Empirical Tests of Gray’s (1988) Hypotheses and Suggestions for Future Research”

Timothy S. Doupanik and George T. Tsakumis, both at the University of South Carolina

1:30 – 3:00 Breakout Session #2

Session A: Teaching International Accounting—A Case Study Approach

Presented by David Sharp, University of Western Ontario

This session continued during Breakout Session #3.

Session B: The Impact of Accruals and Accounting Regime on Earnings and Cash Flow

Moderator: Richard Briston, University of Hull

“The Impact of Accruals and Accounting Regime on Earnings and Cash Flow Earnings and Accruals During the Asian Financial Crisis: The Case of Malaysia and Singapore”

Li Li Eng, Oklahoma State University, Tulsa and National University of Singapore; Trevor Wilkins, National University of Singapore; and Sung Lai Wong, National Institute of Education Singapore

“The Effect of Accounting Regime Characteristics on the Prediction of Future Cash Flows: An International Comparison”

Joan Hollister, Marist College; Victoria Shoaf, St. John’s University; and Gregory Tully, Marist College

“An Evaluation of Abnormal Accruals Measurement Models in an International Context”

Roger Meuwissen, Frank Moers, Erik Peek, and Ann Vanstraelen, all at Maastricht University

Session C: The Impact of Accounting Standards

Moderator: Teresa Conover, University of North Texas

“External Financial Dependence and Accounting Disclosures around the World”

Jere R. Francis, Inder K. Khurana, and Raynolde Pereira, all at the University of Missouri–Columbia

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Midyear Meeting

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“The Usefulness of Developed Country Accounting Standards in Emerging Stock Markets: South Africa and Mexico”

Cynthia McDonald and Jenice Prather-Kinsey, both at the University of Missouri

“The Effect of International Accounting Standards on Earnings Quality: Preliminary Results”

Timothy S. Douppnik, University of South Carolina; Cheryl L. Fulkerson, University of San Antonio; and Scott B. Jackson, University of South Carolina

3:15 – 4:45 Breakout Session #3

Session A: A Continuation of the Teaching Session from Breakout Session #2

Session B: Contemporary Evidence of Earnings Management

Moderator: Hollis Ashbaugh, University of Wisconsin–Madison

“Earnings Management and Effective Tax Rates: Evidence from Large Malaysian Firms”

Chek Derashid, Universiti Utara Malaysia and Hao Zhang, Leeds University

“Earnings Management around Initial Public Offerings in Thailand”

Kanogporn Narktabtee, Kasetsart University; Ervin L. Black, Brigham Young University; and Thomas A. Carnes, University of Arkansas

“The Extent of Earnings Management in the U.S. and Germany”

Martin Glaum, University of Giessen; Karl Lichtblau, Institut der Deutschen Wirtschaft, Cologne; and Jens Lindemann, University of Giessen

Session C: International Dimensions of Value Relevance

Moderator: Nancy Nichols, James Madison University

“The Effect of Macroeconomic Changes on the Value Relevance of Accounting Information: The Case of Mexico and the 1995 Financial Crisis”

Paquita Y. Davis-Friday, University of Notre Dame and Elizabeth A. Gordon, Rutgers University

“The Value Relevance of Purchasing Power Parity Deviations Inherent in the Reporting of Foreign Currency Translation Adjustments”

David A. Ziebart, University of Illinois at Urbana–Champaign and Jong-Hag Choi, Hong Kong University of Science and Technology

“The Relative Value Relevance of Earnings and Book Values for German Firms Using U.S. GAAP and International Accounting Standards”

John J. White, Elmhurst College and Ervin L. Black, Brigham Young University



A big thanks to Nancy Nichols and Donna Street for an outstanding Midyear Meeting

MINUTES OF INTERNATIONAL ACCOUNTING SECTION EXECUTIVE COMMITTEE AND COMMITTEE CHAIRS MEETING

9:00 – 11:15 AM, FRIDAY, FEBRUARY 7, 2003 — ORLANDO, FLORIDA

Members Present:

Ajay Adhikari, President; Pat Edgar, Vice President–Practice; Donna Street, Secretary; Bruce Behn, Treasurer; David Sharp, Immediate Past Chairperson; Nancy Nichols, Midyear Meeting Chair; Don Herrmann, Annual Program Chair; Tim Sale, Information Technology Chair; Mitch McGhee, Membership Chair; Marilyn Zarzeski, Publications Committee Chair; Segun Wallace, Editor *Journal of International Accounting Research*; Mahendra Gujarathi, Regional Programs; Judy Beckman, Northeast Coordinator; Ervin Black, Western Coordinator; John Eichenshler, Member Outstanding Dissertation Committee; Cheryl Fulkerson, Teaching Resources Chair.

Meeting called to order.

Adhikari called the meeting to order and requested that the agenda be accepted. A motion was made and seconded. The agenda was approved.

Adhikari indicated Rob Larson (Vice President–Academic) and Hollis Ashbaugh had sent their regrets but were unable to attend due to illness.

Adhikari expressed his thanks to Nancy Nichols for putting together a great Midyear Meeting program.

Treasurer's Report

Behn distributed a Statement of Cash Flows for the period September 1, 2002 through December 31, 2002. He noted the Section is financially sound and has a restricted cash balance of \$79,042.02 (for the journal) and an unrestricted cash balance of \$55,896.40. He explained the Section will conclude the 2002/2003 year with a deficit because two issues of the *Journal of International Accounting Research* will be charged to the period. However, it is important to note that sufficient funds to cover these expenditures are held in a restricted cash balance. He also noted that the Section will receive \$10,000 from the KPMG Foundation to fund the 2003 Midyear Meeting.

Committee Reports

Midyear Meeting. Nichols reported that a great series of plenary sessions were scheduled for the opening day. Speakers would include: Pat Edgar of KPMG, Jim Leisenring of the IASB, Paul Pacter of Deloitte Touche Tohmatsu, and Ian Hague of the Canadian Accounting Standards Board. Additionally, several members of the IFAC Education Committee would participate in a plenary session on Saturday morning.

Nichols reported some members had expressed concerns about holding the meeting in February (as opposed to January), but an equal number had been pleased with the change. She explained the meeting date had been postponed to allow an IASB board member to participate. She reported seven papers had

requested fast-track review by the *Journal of International Accounting Research*. There were some complications with the fast-track process, but these will be resolved for next year's meeting. All paper submissions were by email and the process worked well.

Adhikari indicated Vice President–Academic Larson had requested we provide some input to assist in planning the 2004 Midyear Meeting. Specifically, he wanted input regarding the possibility of coordinating with a regional meeting. Several members raised various concerns relating primarily to timing of the meeting and losing control of the program. The consensus of those in attendance was that there was no interest in coordinating with regional meetings due to timing. The group's preference is to have the Midyear Meeting in January or February of 2004 (and consistency should be maintained year to year) and that we could consider coordinating with another section such as Auditing or Financial. McGhee reminded the group that this conclusion is consistent with member input obtained during the Strategic Planning Survey. Edgar noted that while January to March is difficult for the Vice President–Practice, this conflict clearly cannot be avoided.

Annual Meeting. Herrmann indicated 83 papers had been submitted. The Section will be guaranteed the same number of sessions we had during the 2002 meeting (nine). The luncheon speaker will be Mary Barth of the IASB. Several panels are being planned (Hector Perera / International Accounting Research; Bea Sanders of the AICPA / International Education; Mary Barth / International Accounting Standards).

Herrmann reminded the Outstanding Dissertation Committee and the Outstanding International Accounting Educator Committee that the deadline for award decisions is May 1 when the names must be submitted to the AAA Headquarters.

Information Technology. Sale indicated no upgrades have yet been made to the website. He continues to post materials as received. He requested we consider adding a members-only section to the website.

Zarzeski recommended that as new items are added to the website the date of posting should be specified.

Adhikari stated he believes the website needs a visual "feel" that is consistent with the AAA site and that this issue should be addressed. The Section has budgeted funds for this specific purpose and we can subcontract the work to the AAA to update the website.

International Relations. Adhikari reported for Hector Perera. The Committee is developing a panel for the Annual Meeting and is reviewing the guest member

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Minutes

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program. The Section needs to consider the impact of declining contributions to the guest member program as some universities are losing their gift journal subscriptions. Additionally, the Section should consider bundling the *Journal of International Accounting Research* as part of the gift subscription package.

Membership. McGhee distributed a report on membership trends from 1994 to 2002. Membership has declined in each year. The percentage of non-U.S. membership has generally grown. McGhee indicated the Section needs to provide additional membership value for non-U.S. members. He suggested the Section consider videotaping the Midyear plenary sessions. The consensus of those in attendance was that they did not approve making a “paper” transcript of the plenary sessions available.

McGhee was asked to obtain a list of former Section members that are still AAA members and contact them regarding rejoining the Section. It was also recommended that McGhee ask the AAA for information regarding maintenance of membership in other sections. Our current membership is comprised of 675 U.S. members, 46 Canadian members, and 472 Other.

Edgar suggested that to increase practitioner membership the Section could provide a “one-stop” source on our website or in print to provide practitioners with the various types of information they need on international accounting issues.

It was also recommended that the Section attempt to include more non-U.S. members in the leadership group. This recommendation will be passed on to the Nominations Committee.

Nominations. Adhikari reported that Nominations Committee Chair Conover would like to encourage the submission of additional nominations for the various elected positions.

Outstanding Dissertation. On behalf of John Wild, Eichenshler reported several submissions had been received.

Outstanding Educator. On behalf of Steve Salter, Adhikari reported several nominations had been received. It was recommended that Adhikari send out an email encouraging additional nominations. The possibility of compiling and publishing (perhaps in the

Journal of International Accounting Research) abstracts of doctoral dissertations in International Accounting was discussed.

Publications. Zarzeski thanked Wallace for getting the first issue of the journal out.

Zarzeski reported that the Publications Committee would like to recommend that the Section begin making the *Forum* available online and discontinue hard copies except for those members that specifically request a hard copy.

After a review of the bylaws and considerable discussion, it was concluded that the Advisory Board should draft a bylaw change that will allow the Committee’s recommended policy to be implemented immediately following the August Annual Meeting. Fulkerson volunteered to draft recommended wording to forward to the Advisory Committee.

Wallace submitted a detailed report of journal submissions. Acting on the recommendation of the Publications Committee, those in attendance unanimously recommended the Executive Committee approve publication of two issues of the journal per year (following the meeting the Executive Committee voted in favor of this recommendation).

Regional Programs. Gujarathi reported that input from the various regions revealed that submissions were generally low. Beckman reported she is working on a panel for the Northeast Region that will focus on the impact of convergence on small practitioners. Street indicated she and Larson had offered to coordinate a panel for the Ohio Region.

Teaching Resources. Fulkerson indicated her Committee had arranged for Sharp to conduct a case teaching workshop at the Midyear Meeting.

Fulkerson also explained her Committee is developing a searchable database for the website that will include course syllabi and reading assignments. Fulkerson will email those in attendance requesting they forward recommended reading assignments for both International Accounting courses and integrating international materials throughout the curriculum.

Other Business. Wallace noted that an IASB Board member had discussed with him the great need for a high-quality textbook on international accounting standards. Edgar confirmed the need for a strong U.S. text on international standards, indicating such a book would be very useful to the accounting firms.

Adhikari adjourned the meeting at 11:15 AM.

INTERNATIONAL ACCOUNTING SECTION STATEMENT OF CASH FLOWS

SEPTEMBER 1, 2001 – AUGUST 31, 2002	ACTUAL YTD
Cash Inflows	
Dues: Full Members	\$20,913.50
Dues: Associate Members	426.00
Journal Submission Fees	1050.00
Midyear Meeting Registration	4850.00
Interest Income	1701.48
Contributions	<u>12,587.99</u>
Total Cash Inflow	<u>\$41,528.97</u>
Cash Outflows	
Journal	
Copying, Printing, Mailing	<u>157.87</u>
Total Journal	157.87
Newsletter	
Printing	3,132.00
Mailing	2,023.73
AAA Staff Support	<u>720.00</u>
Total Newsletter	5,875.73
Annual Meeting	
Plaque for Outgoing Chair	91.88
Program Chair: Administrative Expenses	<u>544.03</u>
Total Annual Meeting	635.91
Midyear Meeting	
AAA Staff Support	735.00
Hotel: Rooms/Food/Beverage	9,505.58
Speakers	2,823.12
Meeting Coordinator Expenses	1,254.94
Printing and Postage	1,112.31
AAA Doctoral Scholarships	2,000.00
Miscellaneous	<u>23.20</u>
Total Midyear Meeting	17,454.15
General/Administrative	
Postage and Printing	34.58
Awards	775.62
Council Fee	1,000.00
Gift Memberships and other miscellaneous	<u>630.00</u>
Total General/Administrative	2,440.20
Committee	
Officer Travel and Committee Meetings	<u>562.25</u>
Total Committee	562.25
Total Cash Outflow	<u>\$27,126.11</u>
Net Change in Cash	\$14,402.86
Cash Balance, September 1, 2001^a	\$110,310.97
Cash Balance, August 31, 2002	\$124,713.83
Current Restricted Balance	\$74,589.75
Current Unrestricted Balance	\$50,124.08

^a Cash flow presentation has been changed from a July 1/June 30 format to a September 1/August 31 format to coincide with AAA's fiscal year reporting period.

HAVE YOU SEEN...?

Wayne B. Thomas, University of Oklahoma

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

Behn, Bruce K., Nancy B. Nichols, and Donna L. Street, "The Predictive Ability of Geographic Segment Disclosures by U.S. Companies: SFAS No. 131 vs. SFAS No. 14," *Journal of International Accounting Research* (Vol. 1 No. 1, 2002).

This research considers whether recent modifications to segment reporting adequately address analysts' concerns regarding the usefulness of geographic data. Forecast errors for models utilizing SFAS No. 131 geographic sales data are compared to forecast errors for models utilizing SFAS No. 14 geographic sales data. The results indicate a significant improvement in the predictive accuracy of geographic sales disclosures provided under SFAS No. 131. Additional analysis suggests this enhanced predictability may be associated with the revised requirements that companies report sales for the country of domicile and for each individually material country. Overall, our findings appear to support the FASB's argument that segment information by country is more informative and useful. Based on our findings, recommendations are presented regarding possible amendments to SFAS No. 131 that may further enhance the predictive ability of geographic segment data.

Berri, David J., and Martin B. Schmidt, "Instrumental versus Bounded Rationality: A Comparison of Major League Baseball and the National Basketball Association," *Journal of Socio-Economics* (Vol. 31 No. 3, 2002): 191-214.

The professional team sports industry is characterized by an abundance of information, defined objectives, and clear consequences. Given these characteristics, researchers have generally assumed that economic actors follow the dictates of instrumental rationality. The purpose of this research is to present evidence that in professional baseball, where player statistics have historically been tabulated and utilized, information is employed efficiently. However, economic agents in professional basketball, where player statistics are less intuitive and not historically tabulated, fail to process information in a fashion consistent with the precepts of instrumental rationality.

Campbell, Terry L., and Phyllis Y. Keys, "Corporate Governance in South Korea: The Chaebol Experience," *Journal of Corporate Finance* (Vol. 8 No. 4, 2002): 373-391.

Utilizing a large sample of South Korean firms, this paper explores the impact of corporate governance in

an emerging market country dominated by a few large business groups. Firms affiliated with the top five groups (chaebol) exhibit significantly lower performance and significantly higher sales growth relative to other firms. Furthermore, top executive turnover is unrelated to performance for top chaebol firms, indicating a breakdown of internal corporate governance for the largest business groups. Internal corporate governance appears much more effective for firms unrelated to the top chaebol, as managers at poorly performing firms are significantly more likely to lose their job. These results imply that the lack of properly functioning internal corporate governance among the top chaebol, which dominate the Korean economy, may have increased the severity of the recent financial crisis.

Chan, K. H., and P. L. L. Mo, "The Impact of Firm Characteristics on Book-Tax-Conforming and Book-Tax-Difference Audit Adjustments," *Journal of the American Taxation Association* (Vol. 24 No. 2, 2002): 18-34.

This study empirically investigates the differential impact of firm characteristics on book-tax-conforming and book-tax-difference noncompliance. Tax noncompliance is measured in terms of tax audit adjustments made by tax authorities in response to the violation of tax laws. We decompose the tax audit adjustments into book-tax-conforming adjustments (adjustments that affect both book and tax incomes) and book-tax-difference adjustments (adjustments that affect only tax income) using archival tax audit data. Based on the decomposed noncompliance, we explicitly examine the tax and nontax cost trade-off for exporters and high-tech companies when they underreport both book and tax incomes. Our results indicate that export-oriented and high-tech companies, respectively, have larger book-tax-conforming adjustments but smaller book-tax-difference adjustments than domestic market-oriented and non-high-tech companies. Our study contributes to the literature by further explaining the determinants of corporate tax noncompliance, and is the first to provide archival evidence of tax noncompliance on such a decomposed basis. These archival evidences on noncompliance help us understand more about the incentives or disincentives for corporations to comply with tax laws. Our results also offer guidance for public policy makers, especially those in developing economies, to design their tax policies to attract foreign investment, and for tax authorities to plan more effective and efficient tax audits.

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Change, Millicent, Isabel Dallas, and Juliana Ng, "Analyst Forecast Revisions and Asset Allocation in Asia-Pacific Markets," *Journal of Multinational Financial Management* (No. 4-5 Vol. 12, 2002): 391-409.

An indicator derived from analyst forecast revisions was used to investigate the relationship between revisions and subsequent stock returns in 15 Asia-Pacific markets. From an investment strategy based on forecast revisions, positive abnormal returns were earned in emerging markets, and negative abnormal returns in developed markets. This pattern was stronger in the three-year period after July 1997 than in the prior three years. Significant market imperfections or irrational behavior of market participants in emerging markets are possible reasons for the results. The difference in results between subperiods could also be due to an increased reliance on near-term earnings information in stock valuation after the burst of the Asian bubble economy.

Chen, Shimin, Zheng Sun, and Yuetang Wang, "Evidence from China on Whether Harmonized Accounting Standards Harmonize Accounting Practices," *Accounting Horizons* (Vol. 16 No. 3, 2002): 183-197.

While international harmonization of accounting is gaining momentum in recent years, there is little empirical evidence on whether the harmonization of accounting standards leads to harmonized accounting practices and comparable financial reports. Benefiting from a unique research opportunity in China, this study provides such evidence. Since January 1, 1998, a newly promulgated Accounting Regulation for Listed Companies is in effect. This new regulation is the most comprehensive effort at harmonizing Chinese generally accepted accounting standards (GAAP) with International Accounting Standards (IAS). Based on a sample of listed companies required to reconcile accounting earnings from Chinese GAAP to IAS, the study found no evidence that the Chinese government's efforts eliminated or significantly reduced the gap between Chinese and IAS earnings despite harmonized accounting standards. Reasons for the continued earnings gap after the 1998 regulation are explored, and it was found that a lack of adequate supporting infrastructure, manifested in excessive earnings management and low-quality auditing, may explain the gap.

Clinch, Greg, Baljit Sidhu, and Samantha Sin, "The Usefulness of Direct and Indirect Cash Flow Disclosures," *Review of Accounting Studies* (Vol. 7 No. 4, 2002): 383-404.

We investigate the ability of disclosed operating cash flow and indirect accruals components to explain annual returns for a sample of Australian firms. Consistent with claims made by accounting standard setters, we find evidence of significant explanatory power for disclosed operating cash flow components beyond

aggregate operating cash flows when they also have significant incremental predictive power for future (one year ahead) operating cash flows. Accrual components also have incremental explanatory power for returns. In addition, we find evidence of significant explanatory power for operating cash flow components beyond estimates of the components (based on other financial statement disclosures) for firms with large differences between disclosed and estimated components.

Denis, David J., Diane K. Denis, and Keven Yost, "Global Diversification, Industrial Diversification, and Firm Value," *The Journal of Finance* (Vol. 57 No. 5, 2002): 1951-1979.

Using a sample of 44,288 firm-years between 1984 and 1997, this paper documents an increase in the extent of global diversification over time. This trend does not reflect a substitution of global for industrial diversification. The paper also finds that global diversification results in average valuation discounts of approximately the same magnitude as those for industrial diversification. Analysis of the changes in excess value associated with changes in diversification reveals that increases in global diversification reduce excess value, while reductions in global diversification increase excess value. These findings support the view that the costs of global diversification outweigh the benefits.

Fan, Joseph Po-Hung, and T. J. Wong, "Corporate Ownership Structure and the Informativeness of Accounting Earnings in East Asia," *Journal of Accounting and Economics* (Vol. 33 No. 3, 2002): 401-425.

This study examines the relations between earnings informativeness, measured by the earnings-return relation, and the ownership structure of 977 companies in seven East Asian economies. Our results are consistent with two complementary explanations. First, concentrated ownership and the associated pyramidal and cross-holding structures create agency conflicts between controlling owners and outside investors. Consequently, controlling owners are perceived to report accounting information for self-interested purposes, causing the reported earnings to lose credibility to outside investors. Second, concentrated ownership is associated with low earnings informativeness as ownership concentration prevents leakage of proprietary information about the firms' rent-seeking activities, which are prevalent and profitable in East Asia.

Gabrielsen, Gorm, Jeffrey D. Gramlich, and Thomas Plenborg, "Managerial Ownership, Information Content of Earnings, and Discretionary Accruals in a Non-U.S. Setting," *Journal of Business Finance & Accounting* (Vol. 29 No. 7/8, 2002): 967-988.

This study employs Danish data to examine the empirical relationship between the proportion of managerial ownership and two characteristics of accounting

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Have You Seen...? (continued from page 16)

earnings: the information content of earnings and the magnitude of discretionary accruals. In previous research concerning American firms, Warfield et al. (1995) document a positive relationship between a managerial ownership and the information content of earnings, and a negative relationship between managerial ownership and discretionary accruals. This study questions the generality of the Warfield et al. (1995) result, as the ownership structure found in most other countries, including Denmark, deviates from the U.S. ownership configuration. In fact, Danish data indicate that the information content of earnings is inversely related to managerial ownership.

Koedijk, Kees G., Clemens J. M. Kool, Peter C. Schotman, and Mathijs A. van Dijk, "The Cost of Capital in International Financial Markets: Local or Global?" *Journal of International Money and Finance* (Vol. 21 No. 6, 2002): 905-929.

This paper analyzes to what extent international and domestic asset pricing models lead to a different estimate of the cost of capital for an individual firm under the maintained assumption of perfect international financial integration. We distinguish between (1) the multifactor Solnik-Sercu ICAPM including both the global market portfolio and exchange rate risk premia, and (2) the single factor domestic CAPM. We use a sample of 3,293 stocks from nine countries in the period 1980-1999. The domestic CAPM yields a significantly different estimate of the cost of capital from the multifactor ICAPM for only five percent of the firms in our sample. We attribute the close correspondence between local and global pricing to strong country factors in individual stock returns, which are probably due to lack of real integration. Our results reinforce the home bias puzzle.

Lam, Keith S. K., "The Relationship between Size, Book-to-Market Equity Ratio, Earnings-Price Ratio, and Return for the Hong Kong Stock Market," *Global Finance Journal* (Vol. 13 No. 2, 2002): 163-179.

This paper investigates the relation between stock returns and β , size (ME), leverage, book-to-market equity ratio, and earnings-price ratio (E/P) in the Hong Kong stock market using the Fama and French (FF) [*J. Finance* 47 (1992) 427] approach. FF find that two variables, size and book-to-market equity, combine to capture the cross-sectional variation in average stock returns associated with β , size, leverage, book-to-market equity, and E/P ratios. In this paper, similar to previous studies in Hong Kong and U.S. stock markets, we find that β is unable to explain the average monthly returns on stocks continuously listed on the Hong Kong Stock Exchange for the period July 1984-June 1997. But three of the variables, size, book-to-market equity, and E/P ratios, seem able to capture the cross-sectional variation in average monthly returns over the period. The other two variables, book leverage and market, are also able to capture the cross-sectional

variation in average monthly returns. But their effects seem to be dominated by size, book-to-market equity, and E/P ratios, and are considered to be redundant in explaining average returns when size, book-to-market equity, and E/P ratios are also considered. The results are consistent across subperiods, across months, and across size groups. These suggest that the results are not driven by extreme observations or abnormal return behavior in some of the months or by size groups.

Nichols, Linda M., and Kurt H. Bueger, "An Investigation of the Effect of Valuation Alternatives for Fixed Assets on the Decisions of Statement Users in the United States and Germany," *Journal of International Accounting, Auditing and Taxation* (Vol. 11 No. 2, 2002): 155-163.

This study examines the effect of differing methods of fixed asset valuation on lending decisions made by bankers in the U.S. and Germany. Bankers from both countries were asked to make a lending decision for a hypothetical company that used either historical cost or fair value for reporting fixed assets. The results reveal a significant interaction effect between the home country of the respondent and the valuation method used.

Nobes, Christopher, "An Analysis of the International Development of the Equity Method," *Abacus* (Vol. 38 No. 1, 2002): 16-45.

The equity method was used as an early form of consolidation for all subsidiaries in the U.K. and for certain subsidiaries in the U.S. Another use of the method in some countries, even in the era of full consolidation, has been in the financial statements of investor legal entities. This seems to result from using the equity method as a technique for valuation or as an aid in the preparation of consolidated statements rather than as a form of consolidation. The method has also been used as a substitute for consolidation for excluded subsidiaries or for controlled companies not included in the definition of subsidiaries. Later, the equity method was introduced for joint ventures and then for other forms of "strategic alliance," but the latter bring definitional problems, which have led to a consensus around an arbitrary threshold of 20 per cent of voting rights. This article traces these developments across time and space, and criticizes several of the past and present applications of the equity method. There is also an examination of the development of the terms "equity method" and "associated company."

Ota, Koji, "A Test of the Ohlson (1995) Model: Empirical Evidence from Japan" *The International Journal of Accounting* (Vol. 37 No. 2, 2002): 157-182.

This paper investigates the validity of the Ohlson (1995) information dynamics (Linear Information Model: LIM) and attempts to improve the LIM. The difficulty concerning the empirical tests of the LIM lies in

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Have You Seen...? (continued from page 17)

identifying v , which denotes information other than abnormal earnings. Recent papers, such as those of Myers (1999), Hands and Landsman (1999), and Barth et al. (1999), all try to specify v by using various accounting information. Instead of tackling this difficult task, this paper focuses on serial correlation in the error terms caused by omitting the necessary variable v from the regression equation. The results indicate that adjustment for serial correlation leads to an improvement of the LIM.

Otchere, Iasaac, and Matthew Ross, “Do Share Buy-Back Announcements Convey Firm-Specific or Industry-Wide Information? A Test of the Undervaluation Hypothesis,” *International Review of Financial Analysis* (Vol. 11 No. 4, 2002): 511–531.

In this paper, we examine the information content (firm-specific) and information transfer (other firm) effects of share buy-back announcements using unique Australian data where the stated reason for the buy back is undervaluation of the firm's stock price. Consistent with the U.S. studies, we find that such share buy-back announcements signal positive information about the values of both announcers and rivals, suggesting that both the announcing firms and their industry rivals were previously undervalued by the market. The results show that while shareholders of firms announcing share buy-backs that are motivated by undervaluation of the stock price earned statistically significant abnormal returns of 1.25 percent on the announcement day, the shareholders of rival firms earned significant abnormal returns of 0.39 percent on Day +2. The market reaction by industry counterparts thus appears to occur with a lag. Also, for the 3 days surrounding the announcement day, announcing firms' shareholders earned a statistically significant abnormal return of 4.30 percent, while rival firms' shareholders earned abnormal returns of 1.39 percent. Consistent with our conjecture, we find that the magnitude of the abnormal returns of the share repurchases that are motivated by undervaluation of shares is larger than have been documented for the U.S. market where managers are not legally required to disclose the motives for the share repurchase. We also examine whether the first share buy-back announcement in the industry or in a buy-back program conveys more information than subsequent announcements, but do not find any significant results. The degree of similarity in cash flow and investment opportunities between the repurchasing firms and their industry counterparts and the degree of competition within the industry were found to significantly explain the variation in the observed industry effects.

Prevost, Andrew K., Ramesh P. Rao, and Mahmud Hossain, “Determinants of Board Composition in New Zealand: A Simultaneous Equations Approach,” *Journal of Empirical Finance* (Vol. 9 No. 4, 2002): 373–397.

This paper models the composition of New Zealand boards of directors as a function of alternative corporate governance mechanisms, other control variables, and legislation designed to improve corporate monitoring. We find evidence that board composition and firm performance jointly impact each other in a positive manner. We document that the proportion of outsiders on the board is positively related to board size and is negatively related to future growth, nonlinearly related to inside ownership, and is not related to debt and ownership concentration. Firm performance is inversely related to firm size, positively impacted by future growth, and appears to be nonlinearly related to insider ownership. Passage of the new Companies Act in 1994 is associated with increased representation of outside board members. However, this increase is not associated with enhanced firm performance, which may be a consequence of increased liability placed on directors.

Stock, Howard, “ADRs Face Tough New Regulations amid Market Slowdown,” *Investor Relations Business* (October 21, 2002): 1.

In the midst of market slowdown, foreign issuers listed in the U.S. as American Depositary Receipts have something else to worry about, and it comes not from Wall Street, but from Capitol Hill—namely the Sarbanes-Oxley Act. Provisions that are likely to have the most immediate effect on non-U.S. companies are an amendment to the Securities Exchange Act of 1934 that makes it illegal to extend a personal loan to any director or executive officer, as well as a requirement that periodic financial statements filed with the SEC are accompanied by a written certification by the CEO and CFO, with heavy penalties for misconduct. Already, some European companies—including German heavyweights Bayer AG and BASF AG—have voiced their objections at being forced to comply with new regulations and penalties that could include a \$5 million fine and jail term of up to 20 years for executive officers signing off on fraudulent or misleading financials.

Sunder, Shyam, “Regulatory Competition among Accounting Standards within and across International Boundaries,” *Journal of Accounting and Public Policy* (Vol. 21 No. 3, 2002): 219–234.

Most financial reporting jurisdictions across the world allow a local monopoly in financial reporting standards for publicly held corporations. In the United States, for example, the statutory authority over these standards is vested in the Securities and Exchange Commission, which delegates the task of writing standards to the Financial Accounting Standards Board, retaining an oversight function for itself. In some countries these standards are specified through statutes in varying levels of detail. Few countries permit their corporations to choose among two or more sets of competing standards; monopoly is the reigning norm.

This paper examines regulatory competition as a model for writing and implementing corporate financial

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Have You Seen...? (continued from page 18)

standards. Under this model, two or more approved standard-setting bodies are allowed to compete for the allegiance of the reporting entities. Each corporation can choose which of the two or more sets of competing standards it wishes to use in preparing its financial reports. Corporations must choose an entire set of standards, clearly mark the reports with the set of standards used to prepare them, and pay a fee to the body who wrote the standards. We examine the consequences of such regulatory competition for the quality and efficiency of standards, quality of information provided to shareholders and other interested parties, and the efficiency of corporate governance and managerial actions. A debate on the merits of monopoly versus competitive standards may help direct the formation of national and international regimes for setting accounting standards.

Anonymous, "Non-U.S. Firms May Escape SEC Oversight," *International Tax Review* (Vol. 13 No. 10, 2002): 6.

Foreign audit firms were offered hope in October when Harvey Pitt, the Chairman of the SEC, said that the organization might exempt non-U.S. accounting firms from supervision by the U.S. accounting regulator. The news was mentioned in a speech at the conference of the Institute of Chartered Accountants of England and Wales in Brussels as well as at a conference in London a few days earlier. It means that accounting firms based outside the U.S. but preparing audit reports for an SEC-registered issuer, may not have to fear being regulated in the U.S. as well as in their home country. The news has left the U.K. accounting industry particularly optimistic.

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Abstracts of accepted papers will be published in the *Conference Proceedings*. They should be presented uniformly on a single A4 page, typed, single-spaced, Times New Roman, 12 point, headed by title, author(s), affiliation(s), and address for correspondence, mentioning the name of the author who will present the paper.

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Deadline for submission of papers	April 15, 2003
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INDIAN ACCOUNTING REVIEW

STATEMENT OF POLICY, REQUIREMENTS AND GUIDELINES POLICY

Indian Accounting Review (IAR) is a biannual research journal sponsored by the Indian Accounting Association Research Foundation. It is published in June and December each year. It is a refereed international journal with the review process being double blind.

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REFERENCES

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- 1. Book** : Choi, F. D. S., Frost, C.A. and Meek, G.K. (1999). *International accounting*, Upper Saddle River, NJ.: Prentice Hall, 24–31.
- 2. Journal** : Rivera, J.M. (1991). Prediction performance of earnings forecasts : the case of U.S. multinationals. *Journal of International Business*, 22, 265–288.

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