## Designing Empirical-Archival Capital Markets Research in Accounting

### Day 1 – Monday 1st February 2016

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>08.30 – 09.00am</td>
<td>Registration/Coffee</td>
</tr>
<tr>
<td>09.00 – 10.30am</td>
<td>Morning Session 1</td>
</tr>
<tr>
<td>10.30 – 11.00am</td>
<td>Morning Tea</td>
</tr>
<tr>
<td>11.00 – 12.30pm</td>
<td>Morning Session 2</td>
</tr>
<tr>
<td>12.30 – 1.30pm</td>
<td>Lunch</td>
</tr>
<tr>
<td>1.30 – 3.00pm</td>
<td>Afternoon Session 1</td>
</tr>
<tr>
<td>3.00 – 3.30pm</td>
<td>Afternoon Tea</td>
</tr>
<tr>
<td>3.30 – 5.00pm</td>
<td>Afternoon Session – PhD Candidate and Emerging Researcher presentations: Each presenter will have 30 minutes to present and 15 minutes for Q/A</td>
</tr>
</tbody>
</table>

Wei Li (University of Melbourne)  
“Short selling and firms’ disclosure of bad news: Evidence from Regulation SHO”

Aneesh Raghunandan (Stanford University)  
“Government Subsidies and Corporate Fraud”
Designing Empirical-Archival Capital Markets Research in Accounting

Day 2 – Tuesday 2nd February 2016

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>08.30 – 09.00am</td>
<td>Registration/Coffee</td>
</tr>
<tr>
<td>09.00 – 10.30am</td>
<td>Morning Session 1</td>
</tr>
<tr>
<td>10.30 – 11.00am</td>
<td>Morning Tea</td>
</tr>
<tr>
<td>11.00 – 12.30pm</td>
<td>Morning Session 2</td>
</tr>
<tr>
<td>12.30 – 1.30pm</td>
<td>Lunch</td>
</tr>
<tr>
<td>1.30 – 3.00pm</td>
<td>Afternoon Session 1</td>
</tr>
<tr>
<td>3.00 – 3.30pm</td>
<td>Afternoon Tea</td>
</tr>
<tr>
<td>3.30 – 5.00pm</td>
<td>Afternoon Session – PhD Candidate and Emerging Researcher presentations: Each presenter will have 30 minutes to present and 15 minutes for Q/A</td>
</tr>
</tbody>
</table>

Rita Gunn (Northwestern University)  
“The Paradoxical Impact of Corporate Inversions on US Tax Revenue”

Chuan Yu (University of New South Wales)  
“Voluntary Direct Method Cash Flow Disclosure in the U.S.: Determinants and Incremental Usefulness”
Our objective in these two days of seminars is to consider certain practical issues in designing, carrying out and interpreting empirical-archival capital markets research in accounting. The focus will be on thinking about and evaluating research questions and motivating questions, choices related to research designs, interpretation of results, and placement of research findings in the literature.

February 1, 2016, Morning and afternoon sessions: We will consider research on whether required financial reporting changes (that is, mandatory changes in accounting standards) have predictable effects on reporting outcomes and capital market outcomes, that is, causality. The specific setting we will use is research that can be interpreted as presenting empirical evidence that mandatory IFRS adoptions cause certain market outcomes or financial reporting outcomes.

The February 1 sessions will begin with a general discussion of identification and causality in empirical accounting research. The discussion will not take an econometric perspective and will not focus on econometric techniques. Rather, we will take a qualitative perspective that focuses on thinking about the question the researcher wants to answer and how the researcher will design a study that will answer that question. The first reading is a paper from the law and economics literature that describes several issues related to causal inference and “identification strategy.” The second, third and fourth readings, listed in alphabetical order by author name, are essays that arose from a December 2014 conference on causality (in marketing, finance, economics and accounting) at Stanford University.

- J. Gelbach and J. Klick, “Empirical law and economics,” Research paper No. 14-39, University of Pennsylvania Law School Institute for Law and Economics. Focus only on the qualitative discussion and examples and not at all on the econometrics.
- J. Bertomeu, A. Beyer and D. Taylor, “From casual to causal inference in accounting research: the need for theoretical foundations,” working paper. Do not read Section 4.2 (pages 36-42)
- Q. Chen and K. Schipper, “Comments and observations regarding the relation between theory and empirical research in contemporary accounting research,” working paper. Do not read Section III (pages 9-12)
- R. Khan and T. Whited, “Identification with models and exogenous data variation,” working paper
The February 1 discussions will also be based on three empirical-archival papers that consider various aspects of IFRS adoptions. We will use these papers to discuss (among other things) issues related to construct validity and to causal inference in empirical-archival accounting research. The three papers are listed in alphabetical order by author name.


General questions to consider about all three papers that address issues related to IFRS adoptions

1. Each of the three accounting papers considers some aspect of IFRS adoptions, at the country level. What do you think is the general and overarching question or issue to which all three papers are pertinent?
   a. What is the research question addressed in each paper? The research question is the question that the authors intend to answer.
   b. What is the motivating question in each paper? The motivating question is the question that makes the specific research question consequential.
2. What is the causal relation posited in each paper, and what is the ex ante support provided for that causal relation?
3. What is the null hypothesis in each paper and what is the ex ante support provided for that null hypothesis?
4. What would be the main features of a randomized controlled experiment for the research question addressed in each paper? Why is such an experiment not practicable for the research question?
5. For each paper, what are the main results? Do you find these results persuasive? Why or why not?
6. Some research on IFRS adoptions considers the effects of country-specific institutional arrangements, for example, enforcement. What do you think are the most important country-specific institutional arrangements that would influence the effects of IFRS adoptions on accounting and market outcomes, for example, earnings informativeness, value relevance, and comparability? What other factors do you think would also have an influence, and why? Among all these factors and institutional arrangements that influence reporting and market outcomes, how important do you think the specifics of the accounting standards are, and why?

Questions about Armstrong et al. (2010, The Accounting Review)

1. This paper uses an event study approach. What are the most important choices the authors made in designing this study?
2. What assumptions are needed in order to draw causal inferences from an event study?
3. What is the purpose of the cross sectional regression of cumulative market adjusted returns on firm characteristics (expression (1))?
Questions about Li (2006, *The Accounting Review*)
1. This paper uses a “difference-in-differences” approach. What are the most important choices the author made in designing this study?
2. What assumptions are needed in order to draw causal inferences from a study that uses “difference-in-differences”?
3. This paper considers the question of “self-selection bias.” How does the author address this question? Are you persuaded by this approach?

Questions about Yip and Young (2012, *The Accounting Review*)
1. This paper analyzes comparability. How do the authors define comparability? Is this definition the same as the definition in the IASB’s *Framework*? If not, how are the two definitions different?
2. How do the authors measure comparability? Do you agree that these measures have construct validity?

Tuesday February 2, 2016
Morning session: Research design choices.

Our objective in this portion of the seminar is to discuss certain research design choices, and the effects of those choices, in the context of empirical-archival research on financial reporting outcomes and on capital market uses of accounting information. We will consider (1) sample selection and (2) sensitivity of results to variations in research designs. The discussion will be based on the following papers, listed in order of date of publication.

- **B. Bratten, P. Choudhary and K. Schipper, 2013, “Evidence that market participants assess recognized and disclosed amounts similarly when reliability is not an issue,” *The Accounting Review, 1179-1210.***

Questions about research designs
1. For each of the three papers, what is the research question and what is the motivating question?
2. For each of the three papers, what are the key decisions related to sample selection and to research design?
   a. If you were asked to re-do each paper, which if any of these decisions would you change, and why?
3. For each paper, what are the main results? Do you find these results persuasive? Why or why not?
Questions about Ecker et al. (2013, *Journal of Accounting and Economics*)
1. This paper can be viewed as containing two parts. In part 1, the authors provide evidence that supports the use of lagged total assets similarity as the basis for selecting estimation samples for empirically separating normal accruals from abnormal accruals. In part 2, the authors provide an explanation for the part-1 results. In your view, is the second part essential for the paper to make a contribution? Why or why not?
2. The existing models used to separate normal from abnormal accruals have been criticized for various shortcomings. In your view, is it a waste of time to search for better estimation samples for these allegedly deficient models? Why or why not?

Questions about Bratten et al. (2013, *The Accounting Review*)
1. Bratten et al. make several claims about the desirability of their research setting as compared to other settings that have been used to examine similar research questions. Do you agree with these claims? Why or why not?
2. The contribution of the paper rests, in part, on not rejecting a null hypothesis. Evaluate the authors’ decision to structure the paper this way. Could they have used a different (and better, however defined) structure?

Questions about Ecker and Schipper (2014, *Contemporary Accounting Research*)
1. This paper is a comment/discussion on two other papers. In your view, can such a comment or discussion make a substantive contribution? If yes, what might be the nature of that contribution?
2. Ecker and Schipper analyze several design choices in the two papers discussed. Do you agree with their decisions as to which design choices to analyze?

Tuesday February 2, 2016

Afternoon session: Research on fair value measurement

Our objective in this portion of the seminar is to discuss research related to the application of the fair value measurement attribute in several reporting contexts. The discussion will be based on the following readings, listed by date.

- **L. Hodder, P. Hopkins and K. Schipper, 2014, “Fair value measurement in financial reporting,” *Foundations and Trends in Accounting*, 143-270.** Our discussion will focus on Sections 3, 4 and 5, and especially on research design issues (section 4.3 and section 5.2). Depending on your knowledge of financial reporting generally and your understanding of the fair value measurement attribute specifically, you may also wish to read pages 144-190.
- **J. Chircop and Z. Novotny-Farkas, 2015, “The economic consequences of extending the use of fair value accounting in regulatory capital calculations,” working paper.**
Questions about fair value measurement in financial reporting

1. Mandatory IFRS adoption within a jurisdiction changes more than one standard (and perhaps many standards) for a given reporting entity. Another approach to analyzing the effects of accounting standards would analyze one specified change, for example, a requirement to measure, at every balance sheet date, all financial assets and all financial liabilities at fair value with changes included in earnings. What changes in reporting outcomes and what capital market effects of such a change would be suggested by the IASB’s Framework and the FASB’s conceptual framework?

2. Is documenting the effects of a specific change in accounting standards the same as documenting the net benefits of that change in standards? Why or why not?

3. Hodder et al., sections 4.3 and 5.2, discuss several aspects of papers that pertain to the application of the fair value measurement attribute. In your view, have Hodder et al. have identified important aspects of these papers, or second-order aspects of these papers?
   a. Consider Hodder et al.’s discussion of the research design in Ramanna and Watts (Review of Accounting Studies, 2012).
      i. In your view, are the research design choices implied by this discussion are better (however defined) than the choices actually made by Ramanna and Watts?
      ii. Are the research design choices implied by this discussion practicable? If yes, how would you design a study that reconsiders the research question in Ramanna and Watts using the implied design choices in the Hodder et al. discussion? If no, are there ways to modify these implied research design choices to make them practicable?

Questions about Chircop and Novotny-Farkas (working paper, 2015)

1. What is the research question, and what is the motivating question, in this paper?
2. Evaluate the research design in this paper.
   a. What are the implicit or explicit assumptions needed to support this design? Are these reasonable?
   b. Can you think of ways to strengthen the research design?
3. What are the main results of the paper? Do you find these results persuasive? Do you think the results are generalizable beyond the specific setting considered? Why or why not?