9th WORKSHOP ON ACCOUNTING AND REGULATION

SIENA, ITALY, JUNE 19-21, 2023

CO-ORGANISED WITH

	Monday, June 19th, 2023
13:00 – 14:15	Registration
	Aula Magna
14:15 - 14:30	Welcome
14:30 – 16:00	**Opening Session** (Chair: Roberto Di Pietra)
	Sustainability Accounting: An Overview of Current Regulatory Developments, and the Identification of Research Opportunities Charl de Villiers Discussant: Luzi Hail
	Enforcement of Principle-Based IFRS Standards: What have we Learned? Holger Daske Discussant: Araceli Mora
16:00 – 16:30	Coffee Break
	Parallel sessions
16:30 - 18:00	Financial Reporting (Chair: Bharat Sarath) – Aula Magna
1	Voluntary Turn Away from IFRS and Analysts' Information Environment (Andrei Filip, Anne Jeny & Louis Mangeney) The Interplay between International Financial Reporting and Local Disclosure Rules: Evidence from the Oil and Gas Industry (Niclas Hellman, Mariya Ivanova & Zeping Pan) Information Shocks and Voluntary Disclosure (Luzi Hail, Clare Wang & Rachel Xi Zhang)

	Analytical Solutions (Chair: Joshua Ronen) – Aula Magna Storica
2	Managerial Overconfidence, Internal Controls, and Optimal Incentive Contracts (Bettina Mandl) Trade-Offs in the Design of Fair Value Standards (Sandra Katarina Kronenberger, Sebastian Kronenberger & Anna Waldner) More than just Regulatory Capture: The Intricate Effects of Political Connections on Corporate Reporting (Christopher Bleibtreu & Roland Königsgruber)
	Non-Financial Reporting (Chair: Jörg-Markus Hitz) – Aula Consiliare
3	CSR Reporting under the Non-Financial Reporting Directive: Evidence from Non-Publicly Listed Firms (Maryna Gulenko, Saskia Kohlhase & Urska Kosi) Bigger Fish to Fry: The Interdependence of Earnings and ESG News in Investor Screening (Austin Moss, James Naughton, Clare Wang & Ira Yeung) ESG Disclosure and Financial Performance: The Consequences of the EU Non-Financial Reporting Directive in Italy (Laura Bini, Michela Cordazzo & Giuseppe Marzo)
	Parallel Sessions
18:00 – 19:30	Financial Reporting (Chair: Anne d'Arcy) – Aula Magna
4	Development Expenditure Capitalization in Private Firms – Determinants and Predictive Ability (Tjaša Redek & Aljoša Valentinčič) Does Private Firms' Disclosure Affect Public Peers' Information Environment? (Bianca Beyer, Vanessa Flagmeier & Urska Kosi) The Choice of Accounting Standards under Competing Tax and Capital Market Incentives: Evidence from Intangible Asset Reporting in Small Private Firms (Niclas Hellman, Jamil Najjar & Milda Tylaite)
	Analytical Solutions (Chair: Joshua Ronen) – Aula Magna Storica
5	Can Reporting Bias Aid in Corporate Decarbonization? (Martin Klösch & Theresa Wittreich) CSR Reporting and Market Competition – A Welfare Analysis (Theresa Wittreich) Real Effects of Disclosure on Human Capital Investments (Toshiaki Wakabayashi)
	Non-Financial Reporting (Chair: Jörg-Markus Hitz) – Aula Consiliare
6	Does the Adoption of Mandatory Sustainability Reporting Reduce Firm Risk? Evidence from China (Bonnie Buchanan, Qinglan Huang & Hanna Silvola) Extending Corporate Governance Tools in the Sports Industry. An Exploratory Analysis of the Italian Football Clubs (Roberto Aprile, Daniele Gervasio & Andrea Pulcini) There and Back Again: Sustainability Value Transmission Among Small Family Businesses. (Jonida Carungu, Matteo Molinari, Alessia Patuelli).
19:30 – 20:30	Welcome Cocktail – Rectorate Building cloister

	Tuesday, June 20th, 2023
	Parallel Sessions
9:00 – 11:00	Financial Reporting (Chair: Paola Ramassa) – Aula Magna
7	Voting on Reporting (Israel Klein) Adapt or Adopt? A Luhmannian Perspective on the Current State of International Accounting Regulation (Esther Pittroff & Matthias Schmidt) The Politics of Prudence in Accounting Standards (Omiros Georgiou) Windfalls and Subjective Goodwill in Accrual Accounting Income Concepts (Yuko Asami & Carien van Mourik)
8	Bank Accounting (Chair: Hal Schroeder) – Aula Magna Storica
	Current Expected Credit Losses (CECL) Standard and Banks' Information Production (Sehwa Kim, Seil Kim, Anya Kleymenova & Rongchen Li) The Determinants of Expected Credit Losses Overlays Recognition (João Minhota, Ana Isabel Morais & Inês Pinto) IFRS 9 under Stress: Loan Loss Provisioning during COVID-19 (Zoltán Novotny-Farkas, Romain Oberson & Elisabeth Renner)
	Non-Financial Reporting (Chair: Jonida Carungu) – Aula Consiliare
9	Effect of CSR Information Presentation Order on Stakeholder Decision-Making (Dennis Fehrenbacher & Naomi Soderstrom) Social Pillar Score and the CSR Committee: An Empirical Analysis of Corporate Governance Mechanisms (Adriana Bruno, Elbano De Nuccio, Sabrina Pisano & Matteo Pozzoli) The Role of Managers in Firm, Social and Environmental Risk (Amadeus Bach & Nicolas Rudolf)
11:00 – 11:30	Coffee Break
11:30 – 13:00	**Panel Session** (Chair: Begoña Giner) – Aula Magna
	Connectivity between Sustainability Reporting and Financial Reporting Vincent Papa (EFRAG Associate Director) Maria Costante (Banca MPS) Alfred Wagenhofer
13:00 – 14:00	Lunch
14:00 – 15:30	**Panel Session** (Chair: Angelo Riccaboni) – Aula Magna
	Non-Financial Reporting: An Ongoing Challenge to Preparers and Regulators Introduction: Charl de Villiers Manuela Berra (Estra) Sabrina Miniati (Banca Mps) Fabiana Lungarotti (Mercitalia) Concetta Testa (Gruppo Autostrade) Manuela Baudana (A2A) Comments: Hal Schroeder, Joshua Ronen
	Accounting and Language (Chair: Carien van Mourik) – Aula Magna Storica
10	Towards the Regulation of Non-Financial Reporting: The Impact on Environmental Disclosure within the Oil & Gas Sector (Caterina Cantone, Pietro Fera, Nicola Moscariello & Gianmarco Salzillo) The Standardization of Accounting Language (Holger Daske, Carol Seregni & Matthias Uckert) How the Spread of Risk Information Affects the Informativeness of Firms' Textual Risk Disclosures (Dieter Smeulders & Amin Tavakkolnia)

15:30 – 16:00	Coffee Break
	Parallel Sessions
16:00 – 17:30	Financial Reporting (Chair: Michela Cordazzo) – Aula Magna
11	Former Executives as Supervisors: Conflicts of Interest and Accounting Discretion (Vincent Giese & Clemens Lauer) CFC Rules and Investment: The Role of the ATAD in Reducing the Tax Incentive to Invest in Low-tax Countries (Martina Rechbauer, Silke Rünger & Benedikt Sieghartsleitner) Externalities of Financial Reporting Regulation on Management Control Systems (Beatriz Garcia Osma, Jacobo Gomez Conde & Araceli Mora)
	Bank Accounting (Chair: Hal Schroeder) – Aula Magna Storica
12	Accounting Changes and Enforcement of Bank Capital Requirements in a Crisis (Natalija Kostic, Christian Laux & Viktoria Muthsam) Is Risk Disclosure in Banks' Pillar 3 Reporting Informative? Analyzing Tone Consistency with Annual Reports (Anne D'Arcy, Minyue Dong, Michael Rockinger & Huajuan Yuan) The Effect of the IFRS 9 Transition on Non-Performing Loan Sales (Madeline Kalista & Zoltán Novotny-Farkas)
	Non-Financial Reporting (Chair: Urska Kosi) – Aula Consiliare
13	Reporting on Sustainable Development Goals and the Adaptation of Corporate Accounting Systems: A Case Study (Jonida Carungu, Matteo Molinari & Roberto Di Pietra) Sustainability Reporting on Waste Management: The Case of ASM Pavia (Michela Magliacani, Stefano Santucci & Valentina Toscano) You Never Stop Learning: Challenges and Potential Benefits from External Assurance of Mandatory Non-Financial Reporting. Evidence from Poland (Anna Bartoszewicz, Patrice De Micco, & Maria Pia Maraghini)
	Parallel Sessions
17:30 – 19:00	Financial Reporting (Chair: Andrei Filip) – Aula Magna
14	Pain at the Pump: Excise Tax-induced Earnings Management in the US Oil Industry (Giulio Greco & Alessandro Paolo Rigamonti) Accounting Institutions and the Value of Corporate Political Activity (Christopher Bleibtreu, Akram Khalilov & Roland Königsgruber) Financial Reporting Enforcement and the Cost of Public Debt (Florian Dreyer)
	Bank Accounting (Chair: Hal Schroeder) – Aula Magna Storica
15	Fair Value Accounting for Equity Securities: Does Gain Realization Matter for Investment Decisions? (Jannis Bischof, Holger Daske & Clemens Lauer) TruPS, I Did It Again: The Impact of Fair Value Circuit Breakers on Banks' Impairment and Trading Decisions (Ferdinand Elfers, Igor Goncharov & Zoltán Novotny-Farkas) FDIC Strategies, Accounting Representations and Investor Reactions during the Financial Crisis 2008-2009 (Steven Lilien, Bharat Sarath & Yan Yan)

	Governance and Accounting (Chair: Araceli Mora) – Aula Consiliare
16	Does the Current EU Audit Committee Legal Framework Impact Positively on Audit Quality? (Raul Laureano & Daniela Monteiro) Mandatory Non-Financial Disclosure and Firms' Financial Performance: A Multidimensional Short-Term Analysis of Global Listed Manufacturing and Non-Manufacturing Corporations (Sebastiano Cupertino, Patrice De Micco, Angelo Riccaboni & Gianluca Vitale) Investor Style and Domicile and Financial Reporting Comparability (Stefano Coda)
20:00-20:30	Wine tasting Azienda Agricola Losi and Chianti Unisi (Orto de' Pecci)
20:30-23:59	Dinner at Orto de' Pecci Restaurant (Orto de' Pecci)
	Wednesday, June 21st, 2023
	Parallel Sessions
9:00 – 11:00	Financial Reporting (Chair: Carien van Mourik) – Aula Magna
17	A Comparison of Comparability Characteristic between US GAAP and IFRS: An Empirical Analysis of Cross-Border Listed Firms (Francesco De Luca, Giorgio Gotti, Ho-Tan-Phat & Phan Xue Yang) What Factors Affect Preparers' Attitude towards IFRS? Another View from Listed Firms' Decision in Japan (Sidney Gray, Kyoko Nagata, Miho Nakamura & Chikako Ozu) An Examination of the Proposed Regulations for Review Assurance in Finland Through Public Interest and Innovation Theory Lenses (Elina Haapamäki) Proportional Appropriation Systems and Financial Statement Quality in Municipally Owned Entities (Francesco Capalbo, Luca Galati, Claudio Lupi & Margherita Smarra)
	Auditing (Chair: Willem Buijink) – Aula Magna Storica
18	The Effect of the Group Composition in an Audit Engagement Team on Modified Audit Opinions: Evidence from Japan (Masaki Kusano, Yoshihiro Sakuma & Noriyuki Tsunogaya) Skin in the Game: The Consequences of Audit Partner Clawback Provisions (Tjibbe Bosman) Do Expanded Audit Reports Impact Financial Reporting Quality and Audit Fees? (Viktoria Kern & Benedikt Sieghartsleitner)
	Governance and Accounting (Chair: Ivana Raonic) – Aula Consiliare
19	How Do Global Crises Impact Accounting Regulation? The 2008 Financial Crisis and COVID-19 in the European IFRS Regulatory Space (Alberto Quagli, Paola Ramassa & Marco Venuti) Hedge Accounting Usage under Different IASB Regulations: The Effect on Capital Investment across European Listed Firms (Alessandra Allini, Marco Maffei, Rosalinda Santonastaso & Flavio Spagnuolo) Investors' Reaction to Banning IFRS Use by Domestic Firms in Alternative Market (Anna Białek-Jaworska & Paulina Szymanek) Accounting for Crypto-Assets: A Comparative Analysis and Overview of Accounting Rules and Practices (Phu Dao-Le Flécher, Sondes Mbarek & Nirjhar Nigam)

11:00 – 11:30	Coffee Break
	Parallel Sessions
11:30 – 13:00	Financial Reporting (Chair: Aljoša Valentinčič) – Aula Magna
20	Geographical Location and Regulatory Oversight: Evidence from China (Qiaoling Fang, Li He, Zhi Jin & Bharat Sarath) Accounting for Goodwill and Managerial Discretion in Mergers and Acquisitions: A Focus on Italian Listed Acquirers (Marina Carabelli, Carlotta D'Este & Ilaria Galavotti) Capital vs. Income Approach, Capital Maintenance Conceptions, and Bases of Measurement. A Paradigm for a Possible 'Fusion of Horizons' (Massimo Costa & Giuseppe Valenza)
	Auditing (Chair: Esther Pittroff) – Aula Magna Storica
21	An Appraisal of Public Oversight Body (POB) Inspections of Statutory Audits in the EU (Willem Buijink) Audit Quality and its Relevance to Gender Diversity and Purpose Management: Implications for Future Research (Hiroshi Shuto) Higher Auditor Fees and Financial Reporting Quality. Evidence from the US Banking Context (Alessandra Allini, Riccardo Macchioni, Martina Prisco & David A. Ziebart)
	Governance and Accounting (Chair: Araceli Mora) – Aula Consiliare
22	Investment Decisions of Private Firms under a Bonus Depreciation Provision (Luca Menicacci) Independent Minority Directors against Self-serving and Manipulative Practices in Non-Financial Reporting (Francesca Cappellieri, Michele Pizzo, Antonio Ricciardi & Rosa Vinciguerra) Board Gender Diversity, ESG Controversies and Circular Economy Disclosure (Luigi Lepore, Raffaela Nastari, Sabrina Pisano & Matteo Pozzoli)
13:00 – 14:00	Lunch

ORGANISING CONTACT IN SIENA

Roberto Di Pietra (University of Siena)

STEERING COMMITTEE

Roberto Di Pietra (University of Siena); Günther Gebhardt (Goethe-University Frankfurt); Stuart McLeay (The University of Sussex); Joshua Ronen (Stern School of Business, New York University); Luzi Hail (University of Pennsylvania); Jörg-Markus Hitz (University of Tübingen); Araceli Mora (University of Valencia); Carien van Mourik (Open University); Ivana Raonic (Bayes Business School, City University of London); Alfred Wagenhofer (University of Graz)

ORGANISING COMMITTEE

Jonida Carungu (London Metropolitan University); Matteo Molinari (Kent Business School)

Orto de’ Pecci

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ABSTRACTS

1 1 Andrei Filip, Anne Jeny & Louis Mangeney

Voluntary Turn Away from IFRS and Analysts' Information Environment

This paper aims to contribute to the debate on the net benefits of the growing complexity and detailed disclosure requirements of International Financial Reporting Standards (IFRS). We take advantage of the Swiss context that allows listed companies to voluntary switch from IFRS to Swiss domestic accounting standards (Swiss GAAP) and investigate the impact on financial analysts' information environment in this country-specific setting. Using difference-in-differences analysis, we find that firms voluntarily switching from IFRS to Swiss GAAP experience a decrease in the number of analysts following and forecasts' accuracy. Additional analysis reveal that these effects are mainly driven by analysts without prior experience with Swiss GAAP and not by foreign analysts. Our results highlight the role of financial analysts' accounting expertise in shaping the analysts' information environment.

1 2 Niclas Hellman, Mariya Ivanova & Zeping Pan

The Interplay between International Financial Reporting and Local Disclosure Rules: Evidence from the Oil and Gas Industry

We examine the informational effects of loosening the connection between parallel existing financial reporting and jurisdiction- and industry-specific nonfinancial disclosures. We focus on the setting of Canadian oil and gas (O&G) firms, where IFRS adoption weakens the connection between financial reporting and O&G reserve reporting. We document a significant decrease in value relevance of O&G reserve disclosures after IFRS adoption. We posit and find that loosening connections with financial statements affects the informativeness of O&G reserve estimate by reducing its earning implications. Accordingly, we show that IFRS adoption changes firms' disclosure practices, leading to less precise and consistent accounting practices information regarding how O&G reserves are used as inputs for financial statements. Consistently, we find declined discussions on reserves during the Q&A section of conference calls. Finally, we find suggestive evidence that managers use the interaction between different mandatory disclosure channels strategically and IFRS adoption introduces reserve disclosure manipulation. Collectively, our results indicate a negative spillover effect on non-financial information associated with the transition from jurisdictionally tailored accounting standards to IFRS.

1 3 Luzi Hail, Clare Wang & Rachel Xi Zhang

Information Shocks and Voluntary Disclosure

We examine changes in the timeliness and content of voluntary disclosures after exogenous shocks to firm-specific information. How do firms respond when unexpected events lead markets to place a premium on information that firms may or may not be in a position to provide? Using a global panel containing observations from 33 countries over the 2004 to 2019 period, we identify extreme stock price movements as proxy for information uncertainty and show that firms are both more likely to issue voluntary disclosures and more timely in doing so after such shocks. The effects are stronger when managers are likely endowed with private information and weaker or even opposite in periods of high macroeconomic uncertainty. We further show that the voluntary disclosures following exogenous shocks contain more "hard," financial information and investors perceive them as more informative relative to other voluntary disclosures, as measured by larger absolute stock returns and trading volume. Overall, our findings are consistent with management responding to increased demand for information in times of investor uncertainty.

2 1 Bettina Mandl

Managerial Overconfidence, Internal Controls, and Optimal Incentive Contracts

The previous empirical research shows that managerial overconfidence is positively associated with internal control weaknesses and that overconfident managers cannot mitigate the negative consequences of ineffective internal controls. However, this paper shows the opposite result: under certain conditions, overconfident managers can mitigate internal control weaknesses. Internal controls also represent a particular interest for regulators but the actual problem is that the enforcement is not perfect because the regulation requires that a manager in the firm implement effective internal controls but this is costly for the manager and therefore, he has low incentives to carry out effective internal controls. For this reason, it is important to analyze the manager's personal characteristics and to incentivize him to carry out effective internal controls. I develop a one-period agency model to investigate the effect of the manager's characteristics on his incentives to exert internal control effort to increase the precision of the internal control system. Specifically, I examine the effects of managerial overconfidence and contracting on internal controls and analyze how optimal contracting can motivate the overconfident manager to maintain effective internal controls. I find that the owner benefits from managerial productive and internal control overconfidence. The reason is that a lower compensation is sufficient to motivate the overconfident manager to choose the high productive effort and to reduce internal control weaknesses as for the case if the manager is not overconfident.

2 2 Sandra Katarina Kronenberger, Sebastian Kronenberger & Anna Waldner

Trade-Offs in the Design of Fair Value Standards

This paper analyzes the information quality of the current fair value standard in US-GAAP and IFRS in terms of value relevance and faithful representation. The current standard favors reliable market-based inputs over sometimes more relevant entity-specific inputs as it requires preparers to use the measurement approach, which maximizes observable inputs and minimizes unobservable inputs. We apply a model of rational expectations in line with Fischer and Verrecchia (2000) and introduce an information structure including public market-wide signals and managerial private signals. In contrast to common intuition, we find that maximizing observable inputs does not necessarily lead to a better faithful representation in the sense of a lower managerial bias. In fact, an alternative standard, which requires the maximization of unobservable inputs, can simultaneously provide a lower managerial bias and a higher value relevance than the current standard, depending on the information environment. This is the case, for example, when the corporate governance system is moderate and the uncertainty about the underlying asset is sufficiently high. The results are important for regulators and scholars since they show that the trade-offs for standard setters are not as clear-cut as commonly suggested.

2 3 Christopher Bleibtreu & Roland Königsgruber

More than just Regulatory Capture: The Intricate Effects of Political Connections on Corporate Reporting

Empirical studies on the effects of corporate political connections on accounting quality often interpret their findings as suggesting that political influence on enforcement institutions lead to lower reporting quality. In this paper, we provide a more nuanced view on this issue. In line with corporate political connections research from the fields of economics and finance, we argue that firms possibly obtain a variety of benefits from their political connections. Some of them align the interests of corporate insiders and outside investors and others aggravate conflicts of interest. We propose a model that incorporates two forms of political connectedness benefits, namely direct economic benefits (e.g., bailouts) and leniency benefits which diminish enforcement strictness. We show that while leniency affects the extent of financial reporting bias, economic benefits affect both the extent and the direction of bias. Endogenizing audit quality choice, we show that audit quality is a complement to enforcement strictness if enforcement is lax but is crowded out if enforcement becomes very strict. We identify circumstances in which more lenient enforcement leads to more biased reports in equilibrium due to the interplay of political reporting incentives and audit quality choice.

3 1 Maryna Gulenko, Saskia Kohlhase & Urska Kosi

CSR Reporting under the Non-Financial Reporting Directive: Evidence from Non-Publicly Listed Firms

We descriptively explore variation in mandatory CSR reporting practices based on a large sample of non-publicly listed savings banks in Germany. They do not have typical shareholders but rather are established by municipal trustees and can serve clients only in their distinct operating area. This setting permits us to identify relevant stakeholder groups – municipal trustees and private and corporate clients. We analyze to what extent banks' CSR reporting reflects the interests and information needs of all relevant stakeholders. We find that representatives of municipal trustees, particularly the supervisory board chairperson, belonging to a left-wing or green party are positively associated with longer CSR reports and more disclosure on environmental, social, employee and human rights matters. Additional tests document even stronger effects for banks which perceive CSR reporting in line with holistic accountability. Also, banks operating in the vicinity of the Hambach Forest, the occupation of which gained significant media attention in 2018, report more extensively after the event. These findings imply that savings banks' incorporate information needs of relevant stakeholders, particularly more salient ones, into their materiality assessment process and the outcome is consequently reflected in their CSR reports.

3 2 Austin Moss, James Naughton, Clare Wang & Ira Yeung

Bigger Fish to Fry: The Interdependence of Earnings and ESG News in Investor Screening

We examine how investors respond to the combination of financial and ESG news and the implications of their response for investors' portfolio selections. Our analyses show that earnings news strongly impacts investors' reaction to ESG news. There is a differential investor pricing response to salient ESG news when earnings news is positive, but none when earnings news is negative. This latter result suggests that investors do not incorporate even the most salient ESG news when earnings news is negative. In addition, the investor response to salient ESG news outside of the earnings announcement period varies based on the most current earnings news, implying that earnings performance plays a critical role in the evaluation of subsequent ESG news. Collectively, our results highlight a number of potential shortcomings associated with empirical tests that analyze ESG news without considering earnings news, and contribute to a more complete understanding of the joint importance of financial and ESG performance news in evaluating investment decisions.

3 3 Laura Bini, Michela Cordazzo & Giuseppe Marzo

ESG Disclosure and Financial Performance: The Consequences of the EU Non-Financial Reporting Directive in Italy

The EU Directive on non-financial information makes the ESG disclosure mandatory for the largest listed European firms. The paper offers an empirical analysis of the association between ESG disclosure and financial performance in the application of the EU Directive in Italy. The study uses a disclosure-score index to measure the level of ESG disclosure, while a multivariate analysis is conducted to analyse the reverse causality between ESG disclosure and financial performance. We find a positive relationship from financial performance to ESG, but no evidence of a reverse relationship from ESG to financial performance. Furthermore, our results show a moderate impact of the EU Directive on the disclosure practices that raise some doubts on the efficacy of the EU Directive, as it allows firms providing only a minimum amount of information or any information. Our study makes two main contributions. First, it contributes to the ongoing debate on the regulation of non-financial disclosure. Second, it widens the scope of other studies investigating the relationship between ESG disclosure and financial performance, as it offers theoretical and empirical arguments on the relationship between ESG disclosure and financial performance over the transition from a voluntary to a mandatory disclosure setting.

4 1 Tjaša Redek & Aljoša Valentinčič

Development Expenditure Capitalization in Private Firms – Determinants and Predictive Ability

We study the decision to capitalize the development expenditure of private firms (the "D" part of R&D). Despite a number of studies dedicated to R&D capitalization and, separately, to private firms, existing research is almost silent on the role of capitalization in the financial reporting process of private firms, particularly for the small and micro segment. We first study the decision and the magnitude of capitalizing development expenditures. We find that less profitable firms, more levered firms and firms with restricted access to trade finance are more likely to capitalize development expenditures. We include factors that increase the demand for reporting true firm performance: ownership complexity, legal form, bank relations and audit status. We then examine the association of capitalized development expenditure with future operating performance and find a negative relation. Finally, capitalization is positively associated with future operating performance when operating risk is high. Collectively, these findings indicate that development expenditure capitalization is primarily an earnings management tool in the financial reporting process of private firms rather than a credible signal of expected future economic benefits. However, capitalization mediates information uncertainty when operating risk is high.

4 2 Bianca Beyer, Vanessa Flagmeier & Urska Kosi

Does Private Firms' Disclosure Affect Public Peers' Information Environment?

This study examines how private firms' disclosure creates information externalities for public firms' information environment. Exploiting a setting with varying importance of private firms' financial information, we document that public firms' forecasted earnings are less accurate and more dispersed when private firms play a major role in the respective industry. Further, holding the importance of private firms' disclosure constant and varying the supply of such information – by splitting the sample by the disclosure requirements for private firms – reveals that these effects are driven by private major players from opaque countries. Additional tests indicate that these externalities only manifest when the availability of information about public firms is relatively poor. Overall, our findings support a cost argument explaining the negative relation between analysts' information acquisition and processing costs and the availability of private firms' disclosure. Further, preliminary results from an event study suggest that this effect is causal.

4 3 Niclas Hellman, Jamil Najjar & Milda Tylaite

The Choice of Accounting Standards under Competing Tax and Capital Market Incentives: Evidence from Intangible Asset Reporting in Small Private Firms

In 2014, all Swedish small private firms (legal entities) were required to choose between a capital markets-oriented reporting standard (K3) based on IFRS for SMEs (2009 version) and a simplified reporting standard designed to minimize tax-accounting differences (K2). Using this shock to the reporting environment, we study firms' reporting choices in the context of the trade-offs between the tax and capital market incentives. We provide direct evidence of the interplay between tax and capital market considerations in firm-level reporting and highlight the importance for such firms to be able to report internally generated intangible assets. We document the extent and intensity of firms' choice to report internally generated intangible assets and the costs they are willing to accept for such choices. These are important insights for regulators reviewing the reporting requirements applicable to private firms. Specifically, we contribute to the debate on the regulation of accounting for intangible assets. We show that a significant and growing portion of private firms with an option to capitalize and report their R&D spending on the balance sheet do so even when that increases their current tax expenses, and that this option is a significant driver behind the reporting standard choice. This is an important insight as prior and current versions of IFRS-for-SMEs have not allowed for any capitalization of R&D costs, raising the question of whether this reporting framework adequately responds to the reporting demands of the private firms for which it has been developed. Our findings thus have implications both for the IASB but also for national standard setters and regulators considering potential venues for regulatory development.

5 1 Martin Klösch & Theresa Wittreich

Can Reporting Bias Aid in Corporate Decarbonization?

This paper examines whether carbon and financial reporting discretion can incentivize corporate decarbonization in a rational expectations model with a single firm. If emitting carbon is costly and financial and carbon information are correlated, the capital market reacts to the reports disclosed, thereby affecting the manager's disclosure and investment decision. We examine two different channels that cause financial consequences of emitting carbon -- shareholder pressure arising from warm-glow preferences and a carbon pricing mechanism. First, we find that a higher carbon price and a higher proportion of warm-glow investors increase the capital market's response to carbon reporting, the manager's greenwashing activities, and the optimal investment in decarbonization. Second, with respect to the real effects of reporting on decarbonization, we find that, for both channels of financial repercussions, a laxer financial reporting regime can increase investment in decarbonization. However, while with shareholder pressure, a laxer carbon reporting regime always dampens the investment in decarbonization, with a carbon pricing mechanism, a laxer carbon reporting regime can boost decarbonization. Finally, depending on the relation between the carbon pricing rate and the proportion of warm-glow investors, either channel may provide stronger investment incentives.

5 2 Theresa Wittreich

CSR Reporting and Market Competition – A Welfare Analysis

Over the past decade, there has been a significant increase in mandatory disclosure of corporate social responsibility (CSR) information, e.g., the European Union's Corporate Sustainability Reporting Directive (CSRD). However, the welfare effects of increased CSR disclosure requirements – in terms of quantity and quality of disclosure – are ex-ante unclear. Without a disclosure mandate, a firm is free to choose whether to disclose a CSR report or to remain silent and if it discloses, it can determine the level of precision. In contrast, a mandatory disclosure regime requires the firm to disclose the information at a specific level of precision. To provide more intuition behind the economic effects CSR disclosure, in this paper, I model the disclosure of CSR information when firms compete in a duopoly product market and release externalities through their business activities. Firms internalize a fraction of the production externalities released and differ in the extent to which they internalize externalities. By internalizing externalities, firms have to bear internalization costs, and further, affect consumer demand. In the main setting, firms compete in prices and final consumers positively value a firm's commitment to internalizing externalities and a low level of released externalities. I find that firms will disclose or withhold their private CSR information depending on the level of consumer preference for CSR relative to the degree of product differentiation and the fraction of externalities internalized by each firm. For intermediate values of the consumer preference parameter, a firm withholds its information, while for sufficiently small or large values, it voluntarily discloses its information. For certain intervals of the consumer preference parameter for CSR, mandatory disclosure creates economic benefits as total welfare measured in terms of the sum of duopoly profits and consumer surplus is higher then. From a regulatory perspective, the results imply that the desirability of mandatory disclosure depends on the type of competition, i.e., price or quantity competition, and consumer market characteristics, i.e., the valuation for CSR. Moreover, I find that firms may wish to deviate from their ex-ante disclosure policy ex-post.

5 3 Toshiaki Wakabayashi

Real Effects of Disclosure on Human Capital Investments

This study analyzes how investment and spending in human capital interact with human capital disclosure regulations by relying on mathematical models from the perspective of managers' Human Resource Management (HRM) abilities. In other words, we analyze the real effects of sustainability reporting and the reporting of non-financial information especially human capital disclosure regulations. There is evidence that investment in and spending on human capital affect a firm's productivity and future financial performance. Thus, information on policies for human capital is helpful for investors' decision-making. Various standard-setting bodies have developed standards and frameworks for voluntary human capital disclosure, and a significant recent trend is establishing regulations of mandatory human capital disclosure by government. Since disclosure to the capital market and management behavior are interrelated, it is crucial to analyze human capital disclosure in terms of its real effects. The main conclusions of this study are as follows. First, depending on the characteristics of the human capital information disclosed, greater mandatory disclosure of human capital may discourage its investments. Second, firms are more likely to disclose human capital voluntarily if they have directors with a certain level of HRM ability and increase shareholders' expected utility through the voluntary disclosure of human capital. Although mandatory human capital disclosure enhances investors' comparability with firms, it is essential to note that disclosure regulation itself is not a firms' objective in solving their problems.

6 1 Bonnie Buchanan, Qinglan Huang & Hanna Silvola

Does the Adoption of Mandatory Sustainability Reporting Reduce Firm Risk? Evidence from China

This study examines whether the adoption of mandatory sustainability reporting reduces firm risk. This study focuses on the context of China where mandatory sustainability reporting was imposed on certain types of listed companies at the end of 2008. Using a PSM sample of A-share listed firms on the Shanghai Stock Exchange during the 2006 to 2011 period, we find that firms subject to the disclosure mandate experience a

decrease in both total risk and systematic risk. However, there is no evidence to support a reduction in idiosyncratic risk. Additional analysis indicates that the risk-reducing effect originates from firms in energy-intensive industries rather than firms in non-energy-intensive industries. Our findings contribute to the sustainability accounting literature by providing empirical evidence on the disclosure-risk relationship and have important implications for stakeholders such as investors, who are economically tied to the firm value, and regulators who are actively pursuing sustainability reporting mandates.

6 2 Roberto Aprile, Daniele Gervasio & Andrea Pulcini

Extending Corporate Governance Tools in the Sports Industry. An Exploratory Analysis of the Italian Football Clubs

One of the pillars of Corporate Governance (CG) is represented by the anti-corruption regulation, whose first framework can be found in the Organization for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed on 17 December 1997 and in force since 15 February 1999. It has been introduced in the Italian legal system with the Legislative Decree No. 231/2001, suggesting the adoption of a Model of Organizational, Management, and Control (MOMC) aimed at preventing such crimes and avoiding connected sanctions. In recent years, we have assisted in increasing the corporatization of the sports industry, particularly football clubs. Italian Football Federation has required the adoption of the MOMC, since the sports season 2013/2014 for the major league (Serie A) and the second league (Serie B), and since sports season 2017/2018 for the third league (Lega Pro). In this paper, we analyse how Italian football clubs, playing in Serie A, have adopted the MOMC to comply with corporate criminal law 231/2001. This research, which represents an exploratory analysis, focused on a fraud-sensitive industry such as football, characterized by several scandals, aims to define possible quality parameters able to judge the quality of this CG tool. In this way, we contribute to the theoretical debate about CG quality, by analysing a specific CG tool, and we expect useful pitfalls also in the practical scope since this research can contribute to improving the quality of such MOMCs and findings might inform policymakers to understand if and how to enhance the regulation to grant more quality and transparency.

6 3 Jonida Carungu, Matteo Molinari, Alessia Patuelli.

There and Back Again: Sustainability Value Transmission Among Small Family Businesses.

With a target of 2030, the United Nations established 17 Sustainable Development Goals (SDGs), which are aimed at the three main dimensions of development, namely the economic, social, and environmental ones. The goals involve every member of society with businesses as key development players. Family businesses, which constitute the backbone of the European and the UK economy, are no exception. Taking an interdisciplinary approach, this paper explores the accounting practices related to the SDGs challenges in small family businesses. We adopt a case study approach to enquire two small family businesses based in the United Kingdom, triangulating data retrieved from semi-structured interviews, documents, the firm's websites, screenshots gathered from the Internet Web Archive, and social media. We analyze data through the Gioia method. In line with the SDGs' principle of "leave no one behind", the study brings theoretical and practical implications, calling for higher accounting education initiatives and support small family businesses to understand the terminology and an easy-to-use framework to account for and report on SDGs. Our research aims also to progress and nurture the academic debate on (1) the drivers for the implementation of UN SDGs from small businesses; (2) transmission of sustainable values and activation of a cultural and "social contagion" process; (3) the relevance of accounting and "Accounting for Sustainable Development '' practices and reporting within family firms.

7 1 Israel Klein

Voting on Reporting

Studies show the usefulness of public companies' annual reports has been consistently declining. In the past, financial metrics disclosed in regulated financial statements, such as a company's book value or operating income ("GAAP metrics") provided a meaningful explanation of stock prices and thus allowed for an efficient market-based allocation of capital among publicly-traded firms, as well as the economy at-large. Disturbingly, GAAP metrics no longer provide a strong correlation with stock prices, nor with the economy at-large: while enjoying a booming economy, nearly half of all U.S. public companies reported losses in their pre-Covid financial statements. Meanwhile, publicly traded companies have been increasing disclosures of alternative metrics, i.e., newly-created adjustments to the GAAP metrics ("non-GAAPs") appearing in press releases and in formats other than audited statements thereby exacerbating the potential for opportunistic and misleading reporting by managers. The reporting and content of non-GAAPs are carried out at the discretion of management alone, do not follow any consensually binding practices and are not a result of negotiations with stakeholders. Not surprisingly, findings show managers opportunistically disclose non-GAAP earnings to conceal reported losses and to meet or beat analysts' expectations. When faced with deficiencies in the regulated financial disclosure, private parties are able to negotiate alternative novel metrics that substitute the use of GAAP metrics in contractual arrangements. Executives of publicly traded firms act alike, and use tailormade financial indicators in compensation schemes. Investors in publicly traded companies, however, do not enjoy similar privileges, cannot negotiate financial metrics disclosed, and remain bound to a flawed generic

financial disclosure regime. Juxtaposing private parties' negotiation over the financial metrics used in voluntary contracts with the limitation investors in public companies face, this article proposes a novel approach for financial disclosure regulation—a Voting on Reporting regime under which companies, after gaining the consent of their shareholders, are allowed to report alternative but audited financial metrics that replace GAAP metrics and better fit their shareholders' information needs. At present, financial metrics disclosed by publicly traded companies are either dictated by the regulator (GAAP) or opportunistically used and governed by managers alone (non-GAAPs). By allowing shareholders to participate in devising and regulating a company's financial reporting, the new regime could kill two birds with one stone: (i) it would allow financial statements to better cater to investors' interests and information needs; and (ii) it would curtail managers' opportunistic reporting of non-GAAPs.

7 2 Esther Pittroff & Matthias Schmidt

Adapt or Adopt? A Luhmannian Perspective on the Current State of International Accounting Regulation

Global accounting has been distinctively shaped by the IASB. Application of IFRS in 146 countries makes clear that the IASB is accepted as a legitimate standard setter. The legitimacy of the IASB is also broadly supported by academic literature. A closer look at the worldwide application of IFRS, though, reveals an interesting phenomenon. Many countries adapt IFRS rather than opting for a full adoption of those standards (Nobes & Zeff, 2016; Zeff & Nobes, 2010).Adaption essentially means a slight or significant modification of IFRS – or the scope of IFRS application – to national legal or other particularities. This "adaption vs. adoption phenomenon" (AAP) seems to challenge the perceived legitimacy of the IASB (DeLuca & Prather Kinsey, 2018). However, in order to understand and evaluate the AAP, we argue that it is fruitful to put it into a broader sociological context. Niklas Luhmann's theory of social systems, in particular his work on legal systems, can help to understand why – conceptually – adaption of IFRS is a necessity and full adoption a rather unlikely case. Luhmann's approach offers a different perspective since it completely neglects any sui generis legitimacy of social systems. His perspective on how social systems develop and differentiate into sub-systems is rather functional and focuses on how systems evolve from inside of those systems. From Luhmann's perspective, IFRS are an outside challenge to existing social sub-systems with little chance to replace evolved elements without adaptive procedures. A specific adaptive process we focus on to further this point is the EU endorsement procedure for IFRS. We argue that a Luhmannian perspective allows us to better understand specific adaptive processes. It also permits us to evaluate possible future strategies of the IASB to sustain its social meaning. We finally suggest consequences for further research on accounting regulation.

7 3 Omiros Georgiou

The Politics of Prudence in Accounting Standards

In the most recent revision of the conceptual framework underlying accounting standards the concept of prudence became the focus of an extraordinary public political dispute. This dispute is explored here by taking an ANT-oriented perspective on politics, a 'dingpolitik' (Latour, 2005a) or 'material politics' (Barry, 2013a), that revolves around things and matters of concern, rather than just interests and ideologies. The analysis unveils how a multiplicity of human actors, including regulators, preparers, auditors, and users of accounts, academics, lawyers, politicians, and journalists, but also material actors such as IASB due process documents and responses, parliamentary debates, official statements, speeches, legal opinions, and financial press articles, come together and raise concerns that are unpredictable and evolving. These concerns ultimately expose the political qualities of prudence that are connected to other controversies relating to other financial reporting issues. At the peak of the political drama that unfolds we see a group of long-term investors commissioning a legal opinion challenging the legality of IFRS standards on the grounds that the removal of prudence violates the legal requirement for accounts to show a true and fair view. Both the politics and anti-politics that take place around the concept of prudence lead us to challenge conceptions of an unrelenting financialisation of accounting standards and of their (potential) functions in organisations and society

7 4 Yuko Asami & Carien van Mourik

Windfalls and Subjective Goodwill in Accrual Accounting Income Concepts

To answer Beaver and Demski's (1979, p. 45) primitive question of the propriety of the accrual concept of income, this paper reconciles cash flows, two ideal-types of accrual accounting income, and economic income under four market conditions over a period of three years. It does so in the four different market conditions that, according to Beaver (1998), determine the relationship between accounting information, the value of the net assets of a reporting entity, and the market value of its common stock. The reconciliations using a scenario adapted from Edwards and Bell (1961, p. 39 and 45) illustrate and provide an explanation for how the two ideal-type concepts of accrual income, historical cost profit and loss realizable profit, each provide more information about windfall and the change in subjective goodwill than cash flows or economic income. Under uncertainty with imperfect and incomplete markets, realizable profit and historical cost profit or loss provide different, but complementary, accruals-type information about the expected and unexpected parts of the divergence between cash and economic income. Realizable profit includes realised and unrealised windfall ex ante (which are both unexpected) plus the expected and unexpected change in subjective goodwill for the period. Historical cost profit or loss includes only realised windfall ex ante plus the realised expected and

unexpected changes in subjective goodwill for the period. These findings suggest, where possible, a policy of dual measurement and dual income disclosure for IFRS Accounting Standards that deal with the recognition, measurement and disclosure of value created under uncertainty in imperfect and incomplete markets.

8 1 Sehwa Kim, Seil Kim, Anya Kleymenova & Rongchen Li

Current Expected Credit Losses (CECL) Standard and Banks' Information Production

We examine whether the adoption of the current expected credit losses (CECL) model,which reflects forward-looking information in loan loss provisions (LLP), improves banks' information production. Consistent with better information production, we find changes inCECL banks' financial reporting and operations. First, these banks' loan loss provisions become timelier and better reflect future local economic conditions. Second, CECL banks disclose longer, more forward-looking, and more quantitative LLP information. Lastly, they have fewer loan defaults after adopting CECL. These improvements are greater for banks that invest more in CECL-related information systems and human capital and even more salient for larger banks. Our findings suggest that banks' information production is improved under a more forward-looking accounting standard. However, these improvements are greater for banks with more resources to invest in related technology and human capital.

8 2 João Minhota, Ana Isabel Morais & Inês Pinto

The Determinants of Expected Credit Losses Overlays Recognition

One of the main changes resulting from the replacement of the International Accounting Standard (IAS) 39 by the International Financial Reporting Standard (IFRS) 9 is the introduction of a new Expected Credit Loss (ECL) model to estimate impairment losses on financial assets measured at amortized cost. The inclusion of a more forward-looking approach represented an improvement on the prior standard, enhancing transparency and facilitating an earlier and fuller recognition of impairment losses. However, the environment of uncertainty caused by COVID-19 crisis, hampered the new model's ability to predict credit losses and forced banks to adjust the impairment model through discretionary overlays. In this context, this study investigates the overlay determinants to identify the roots of such discretionary decisions and mitigate potential biases arising from it. The results, based on a sample of the most significant banks in Europe, between 2020 and 2021 (pandemic crisis period), show that size, profitability, and credit quality positively influence overlay amounts. While the regulatory capital association with overlays shows a negative sign. The results also suggest that, during a pandemic crisis, banks felt the need to signal their financial position through overlays, and earnings management. The signalling effect is stronger for banks that received government protection, which suggests that banks take advantage of government support to take sharper responses to the pandemic crisis and increase the signalling effect to outside investors.

8 3 Zoltán Novotny-Farkas, Romain Oberson & Elisabeth Renner

IFRS 9 under Stress: Loan Loss Provisioning during COVID-19

This study investigates loan loss provisioning (LLP) under IFRS 9's expected credit loss (ECL) model, first challenged by the COVID-19 pandemic. Using quarterly data from the European Banking Authority's (EBA) transparency exercises and hand-collected data, we examine banks' discretion and the performance of the ECL model in periods of economic turmoil. First, we define a loan-loss-determinant model based on the ECL paradigm and observe that smoothing behavior is economically large. Second, LLP tends to be pro-cyclical, primarily in the stages 1 and 2 of the ECL model. Third, most banks increasingly rely on highly discretionary post-model adjustments for ECL recognition during the pandemic. Finally, we use the 2021 EBA's stress test results as a benchmark against which to estimate the appropriateness of allowances for credit losses (ACLs) at the end of 2020, i.e., at the end of the acute stage of the pandemic. Surprisingly, we find that banks understate the ACL in stage 3, indicating that IFRS 9 has not cured the shortcomings of IAS 39. Overall, these results suggest that economic disruptions pose a practical challenge on the application of the ECL model.

9 1 Dennis Fehrenbacher & Naomi Soderstrom

Effect of CSR Information Presentation Order on Stakeholder Decision-Making

A growing number of diverse stakeholders are demanding information about broader social and environmental dimensions of organizational performance and standard-setters are increasing disclosure requirements for companies. We examine how the order of data presentation impacts the way that decision-makers incorporate sustainability information into their judgments about company performance and whether such an effect depends on the decision-maker's goal preferences. Results from an experiment that includes eye tracking observations provide evidence that corporate social responsibility (CSR) measures are processed longer than financial measures and both goal preferences and information contained in the first set of information they see impacts how decision-makers frame their performance evaluations. We also examine relative processing effort on labels vs. figures and find that decision-makers spend more time examining CSR data labels rather than CSR figures. This result is conditional to goal preferences and does not hold for financial data labels vs. financial figures.

9 2 Adriana Bruno, Elbano De Nuccio, Sabrina Pisano & Matteo Pozzoli

Social Pillar Score and the CSR Committee: An Empirical Analysis of Corporate Governance Mechanisms

This is empirical research on corporate governance mechanisms. Specifically, this study addresses the potential impact of the corporate social responsibility committee (CSRc) on the social pillar score (SP). Based on a sample of 457 listed European companies from the Refinitiv Thomson-Eikon database over a one-year period (2021), this paper examines the effect of the existence of a corporate social responsibility (CSR) committee and the moderating effect of gender diversity on the social pillar score. From our analysis, we show that the more firms have CSR committees, the more likely they are to adopt “socially responsible policies and practices”. In addition, the presence of female directors on the board positively moderates the previous relationship. Therefore, this research stresses that gender diversity in conjunction with CSR committees is a significant predictor of a firm's social initiatives. Thus, our findings show that CSR committees and gender diversity are socially sensitive variables. Finally, the analysis also demonstrates that there is a positive relation between the variables of firm size, board size, role duality and board independence and the social pillar score.

9 3 Amadeus Bach & Nicolas Rudolf

The Role of Managers in Firm, Social and Environmental Risk

We examine the role of managers in explaining firm, social and environmental risk. Specifically, we explore the determinants of risk-taking and ESG performance by exploiting the connectedness between managers and firms to quantify the relative importance of individual managers and firm characteristics. Our main results show that 32.5% (25.2%) of the explained variation in firm risk (ESG performance) is captured by manager fixed effects, 10.9% (42.3%) by firm fixed effects and 24.6% (20.4%) by time-varying covariates. Furthermore, we find a significant negative relationship between managers’ influence on ESG activities and their risk-taking preferences. We also find differences between genders, as female managers are associated with more ESG activities and less risk-taking. Our study contributes to the literature by providing evidence on the relative importance of time-invariant manager and firm-specific factors in explaining the variation in different types of risk.

10 1 Caterina Cantone, Pietro Fera, Nicola Moscariello & Gianmarco Salzillo

Towards the Regulation of Non-Financial Reporting: The Impact on Environmental Disclosure within the Oil & Gas Sector

In response to growing stakeholder interest in social and environmental policies, recent European regulatory developments have made non-financial disclosure mandatory for large companies with more than 500 employees. Following the institutional theories, this study investigates the effects of this regulatory process on environmental corporate disclosure through a multi-case content analysis with the aid of the Latent Semantic Analysis (LSA) technique. Specifically, this study aims to understand if the ongoing normative changes are having an impact both the quantity and the quality of information released about environmental issues and whether there is a panel or a cross-sectional homogenization process in the release of environmental disclosure. By exploring the annual report of four pivotal companies, within the Oil & Gas sector, this research shows an increase in the quantity of information released with a slight increase in the disclosure quality. Moreover, no evidence of any disclosure homogenization process has been found since the disclosure provided preserves both time- and firm-specific information. Although at an early stage, this paper shows an overall positive effect of the regulatory process on environmental corporate disclosure.

10 2 Holger Daske, Carol Seregni & Matthias Uckert

The Standardization of Accounting Language

The communication of accounting information requires a special vocabulary, and, in specialized languages, standardization is a key to clear communication. We provide the first largesample evidence on the level, determinants, and implications of accounting terminology standardization for a global corpus of annual reports written in English, the lingua franca of capital markets. Three main takeaways emerge from our analyses. First, we describe the use and properties of accounting terminology and find that cognitive and dialectal causes (e.g., accounting systems and English proficiency) are the most important drivers of terminology standardization. Second, the adoption of a new reference framework of accounting terms or tags (i.e., the introduction of IFRS and XBRL) increases standardization but conceals linguistics-related heterogeneities. Third, terminology standardization is negatively associated with both the incompleteness within and differences across accounting databases, consistent with the idea of standardized language being instrumental for users in extracting accounting information and reducing information processing costs.

10 3 Dieter Smeulders & Amin Tavakkolnia

How the Spread of Risk Information Affects the Informativeness of Firms’ Textual Risk Disclosures

Companies in Europe and the US are required to explain the significant risk factors they face in their annual reports. Prior studies provide mixed evidence of the informativeness of such textual risk disclosures, suggesting that these disclosures are an amalgam of both boilerplate and informative risk factors. In this study, we differentiate between specific disclosed risk factors rather than considering the report as a whole. We find that the informativeness of disclosed risk factors depends on the extent to which new information is conveyed by

each, which depends on the prior disclosures of that factor by the firm itself or by other firms in the same industry. We use a clustering-based topic modeling technique to categorize textual risk factors based on their semantic similarity and distinguish between new risk factors and those previously disclosed. We identify 3766 specific risk factor clusters from 1, 245, 475 individual risk factors disclosures by 7559 US-listed firms from 2006 to 2021. We find that new risk factors added to a firm's annual report increase the investors' risk perception and uncertainty, measured by the stock return volatility and average bid-ask spread around the filing date, while reported risk factors that were already disclosed in the previous year's annual report are less informative. Moreover, we find that in general, the informativeness of disclosed risk factors decreases the more the same risk factors are also disclosed by other firms in the same industry

11 1 Vincent Giese & Clemens Lauer

Former Executives as Supervisors: Conflicts of Interest and Accounting Discretion

Do former executives use their information advantage to be more effective supervisors on the board or does their lack of independence exacerbate conflicts of interest? Despite often being criticized, transitions of managers from executive to supervisory roles within the same firm happen frequently. This study examines the effects of former executives serving as supervisors on the exercise of accounting discretion, more specifically, on accounting for goodwill impairments. We use goodwill impairments as setting because former executives are likely to have strong personal preferences regarding goodwill impairments and because the accounting rules for goodwill impairment contain a particularly large room for managers to exercise discretion. Investigating how incentives map into the use of discretion and reporting outcomes is important, as prior literature shows that the way in which accounting discretion is exercised affects a wide range of stakeholders. Supervisory board members do not directly decide about firms' accounting policies, but they can influence accounting practices through a) their legally mandated independent review of the annual report, b) their involvement in the drafting of strategic plans and forecasts that are the basis for impairment tests, and c) "unofficial" communications with executives. We expect all these channels to be more prevalent in the case of a former executive as supervisor. Based on a largely hand-collected sample of 111 such transition events, we find a decreased propensity (-11pp) and lower magnitudes of such impairments (decrease of approx. 20% of the average impairment size) following the transitions. This effect is robust to restricting the sample to firm-years with impairment indicators and correcting observed impairments amounts for predicted amounts. To alleviate selection concerns, we show that firms with former executives on the board tend to respond with fewer and smaller goodwill impairments to exogenous shocks that are likely associated with economic impairments of goodwill. Further analyses reveal that the effect is muted for transitions of more experienced executives, transitions into larger boards that are more difficult to influence and transitions that happen after longer cooling-off periods. Overall, our findings suggest that former executives as supervisors exacerbate executives' tendency to postpone goodwill impairments. Thereby, we add to the assessment of an important governance phenomenon and relate to regulatory debates around mandatory cooling-off periods and the impairment-only approach for goodwill accounting.

11 2 Martina Rechbauer, Silke Rünger & Benedikt Sieghartsleitner

CFC Rules and Investment: The Role of the ATAD in Reducing the Tax Incentive to Invest in Low-tax Countries

In this paper, we study whether the controlled foreign corporations (CFC) rule provided by the Anti-Tax Avoidance Directive (ATAD) of the EU affects investment in low tax countries. We use data on foreign subsidiaries of 65,367 parent firms from 26 European countries over the years 2016 to 2021 and examine whether parent firms from countries that had to introduce a CFC rule in 2019 due to the requirements of the ATAD reduced the share of subsidiaries in low tax countries. Our results show that parent firms did anticipate the effects of the ATAD CFC rule and started to decrease the share of subsidiaries in low-tax countries already in the year prior to the introduction of the CFC rule. Additionally, we find a significant decrease in the share of subsidiaries in low-tax countries for the three years after the introduction of the ATAD CFC rule. In cross-sectional tests, we examine whether the effects of the ATAD CFC rule depend upon which income of a low-taxed subsidiary is included in a parent firm's corporate tax base, the provision of an economic substance exemption and the provision of a safe-haven rule. The results from these tests increase our understanding of single aspects of the ATAD CFC rule and advise policymakers on how to design CFC rules to make them an effective but proportionate response to base erosion and profit shifting (BEPS) concerns.

11 3 Beatriz Garcia Osma, Jacobo Gomez Conde & Araceli Mora

Externalities of Financial Reporting Regulation on Management Control Systems

Do IFRS-driven exogenous changes in management control affect firm outcomes? We argue that the adoption of financial reporting standards leads to changes in management control systems (MCS) and that, in turn, regulation-driven exogenous variation in MCS affects firm performance. We examine this unexplored externality of accounting regulation by studying the adoption of revenue and operating lease recognition standards (IFRS 15 and IFRS 16). Our evidence, collected from interviews with key stakeholders as well as survey and archival data, confirms that the implementation of IFRS 15 and IFRS 16 led to changes in the design and use of MCS. We examine the consequences of these changes to MCS on firm performance using a difference-in-differences methodology in a large sample of European companies. Our results show positive

externalities of IFRS 15 and IFRS 16 adoption, via its impact on MCS design and use. This adds to our understanding of the IFRS post-implementation reviews and cost-benefit analysis beyond financial reporting quality.

12 1 Natalija Kostic, Christian Laux & Viktoria Muthsam

Accounting Changes and Enforcement of Bank Capital Requirements in a Crisis

A common response by regulators in the case of systemic shocks is to reduce the impact of losses on banks' regulatory capital by changing the accounting rules that determine regulatory capital. We show that these changes can increase banks' incentive to raise capital. Banks trade off the cost of raising equity and the cost of violating regulatory capital requirements. A systemic crisis weakens the enforcement of capital requirements, which reduces banks' incentives to recapitalize. Reducing the impact of fair value or expected credit losses on banks' regulatory capital lowers the amount of equity that banks have to raise to fulfill regulatory capital requirements. Banks that have no incentive to recapitalize under initial accounting rules can find it optimal to raise the necessary (lower) amount of equity to avoid regulatory intervention after the relaxation of the accounting rules. We discuss ex ante implications of relaxing accounting rules and differences to other mechanisms, such as relaxing capital requirements.

12 2 Anne D'Arcy, Minyue Dong, Michael Rockinger & Huajuan Yuan

Is Risk Disclosure in Banks' Pillar 3 Reporting Informative? Analyzing Tone Consistency with Annual Reports

We assess the informativeness of tone in risk disclosure by analyzing tone consistency between two different bank reports: the regulatory report according to the Pillar 3 requirements (hereafter P3) compared to annual reports according to IFRS. We identify the paired samples based on tone (in-) consistency between the two reports. Our results suggest that tone consistency between the P3 report and the annual report has a mutually reinforcing effect on their informativeness. Standardization of P3 disclosure and a not severe supervision lower the informativeness of tone consistency. In all tests, we control for bank-specific characteristics in business models and other textual scores. Our study provides the first evidence regarding tone consistency among different channels of disclosure in banks' communications with different stakeholders. We conclude that the indirect effect of P3 reporting on banks' disclosure quality, in general, could be higher than prior research suggested.

12 3 Madeline Kalista & Zoltán Novotny-Farkas

The Effect of the IFRS 9 Transition on Non-Performing Loan Sales

This study examines the impact of IFRS 9 adoption on managerial incentives to record loan losses and on the non-performing loan (NPL) strategy of European banks. Unrecognized loss overhangs due to delayed loss recognition under the incurred loss model of IAS 39 and low market prices of NPLs would have required management to increase the write-downs of NPLs in order to enter the NPL market. These increased write-downs previously made management reluctant to enter the secondary market for NPLs because write-downs decrease net income and regulatory capital. The transition to IFRS 9 provided managers with two transition options, which removed the disincentives of loss recognition by temporarily allowing banks to record additional impairments directly in retained earnings, bypassing income, and filtering out the corresponding impact from regulatory capital. Using data from European banks, we find that banks used these transition options to write-down their NPLs and subsequently increase NPL sales, thereby reducing their NPL ratios. Our results suggest that the transition to IFRS 9 contributed to banks cleaning up their balance sheets from legacy NPLs, helping to alleviate the protracted European NPL problem. Additionally, though the results we show have a positive connotation, we caution against considering the incentive problem related to banks' NPL strategy solved. The IFRS 9 transition options only temporarily changed the incentives around entering the NPL market. Though IFRS 9 uses a new model designed to avoid the problems associated with the IAS 39 incurred loss model, the increased discretion of IFRS 9 does not eliminate the possibility of management accumulating unrecognized loss overhangs due to loss avoidance behavior and amassing NPLs on their balance sheets in the future.

13 1 Jonida Carungu, Matteo Molinari & Roberto Di Pietra

Reporting on Sustainable Development Goals and the Adaptation of Corporate Accounting Systems: A Case Study

This research intends to explore how accountants use SDGs reporting tools, techniques and practices to shape organizational change towards sustainability. This study draws upon the institutional framework of roles elaborated from Scott (2008). From an institutional perspective, roles are normative phenomena, which evolve through the process of a wider institutional context. This paper adopts a qualitative research method. The case-study selected is ITA-Alfa, which is one of the leading Italian multi-utility companies. A triangulation approach is adopted in data collection, taking into account multiple sources, such as in-depth semi-structured interviews with key sustainability managers, management accountants and controllers, and extensive documentary evidence. An interpretative qualitative approach is adopted to yield a rich comprehension of the key issues. The findings of this research identify a reinvigorated role of corporate accounting systems for SDGs, adding immediate practical value, contributing to promote and develop the science of accountancy.

Additionally, the study provide greater insights into the ways corporate and management accounting and control systems are adopted, to align the activity of the organizations with the expectations of the stakeholders. This research adds value to the accounting literature that examine accountants' efforts to govern the non-financial reporting process, by filling the gap between corporate sustainability talk and practice, and considering both short-term and long-term implications on the evolution of their role within organizations.

13 2 Michela Magliacani, Stefano Santucci & Valentina Toscano

Sustainability Reporting on Waste Management: The Case of ASM Pavia

The literature calls to investigate ideological interests, which address to grounding the sustainability reporting standards under a multi-stakeholder accountability perspective stimulates this research, which aims at understanding the contribution of the company in creating a common language to inform about the use of common resource as environment. The debate on this matter among accountants, sustainability standard setters, companies, academics, and policy makers requires more evidences about the contributions of the stakeholders in the sustainability accountability and reporting standards process. This paper attempts to contribute to provide insights from the accountants and company viewpoints within the waste management. To achieve the research aim, the ASM SpA case study has been carried out. It is a publicly controlled hybrid company operated, as multi-utility, since over 115 years on the province of Pavia (Lombardy, Italy). The content analysis carried out on its digital documents combined with the critical social analysis of the primary sources achieved by interviews to CEO and the President allows understanding the perceptions of the convergence process of accounting standards with the sustainability metrics. From the critical interpretation of these data based on the intrinsic multi-stakeholders approach, the discourse analysis and the rhetoric of accounting language, a conceptual model arises. It demonstrates the alignment of sustainability reporting standards setting, multi-stakeholders accountability and the multidimensional nature of accounting in the context of waste management. The model shows how the sustainability reporting standards can achieve the unity-in-diversity by a multi-stakeholder accountability approach according to the corporate governance views of sustainability in its triple bottom line dimensions.

13 3 Anna Bartoszewicz, Patrice De Micco, & Maria Pia Maraghini

You Never Stop Learning: Challenges and Potential Benefits from External Assurance of Mandatory Non-Financial Reporting. Evidence from Poland

This research analyses, from the company's point of view, the challenges and potential benefits stemming from the relationship between the auditing firm and the companies engaged in mandatory Sustainability Reporting and to understand the processes and mechanisms that could allow these potential benefits to materialize and persist over time. This study is based on evidence obtained from conducting semi-structured interviews with a sample of Polish companies today engaged in mandatory non-financial disclosure, as the way in which the EU Directive has been transposed in Poland allows for an interesting analysis of the auditing firm's role. This paper aims at contributing to the scientific debate by providing empirical evidence on the impact of the relationship between companies and auditors on the overall non-financial reporting process, focusing on the learning process that can be enacted within the firm and on the conditions that enable the potential benefits of this relation to occur, a relation that can be one of the essential drivers to boost sustainability culture within companies. The evidence collected through the interviews suggests that cooperation with an auditing company that goes beyond the minimum normative requirements brings benefits to the reporting company and results in improving the non-financial reporting process and the company's awareness. This is particularly true for companies that have started their non-financial reporting experience when it was not mandatory, as they were able to set up and benefit from a gradual process.

14 1 Giulio Greco & Alessandro Paolo Rigamonti

Pain at the Pump: Excise Tax-induced Earnings Management in the US Oil Industry

This study investigates earnings management induced by excise taxes in excise tax collector firms. Using economic theory on tax pass through rates and demand elasticity, we predict that firms use earnings management to mitigate the threat of increases in the excise tax. The research uses a quasi-experimental multiple periods difference-in-differences research design, exploiting the exogenous shock provided by the insolvency of the U.S. Highway Trust Fund in 2005 and analyzes US oil firms' quarterly data from 1993 to 2019. The findings provide evidence that the threat in the fuel excise tax increase triggers real activities management, as oil firms engage in sales discounts, channel stuffing, and boost production to support fuel consumption increase the excise tax collected. The findings show that adjustments to sales and production operations are permanent after the 2005 and aimed at avoiding possible increases in the excise tax. We also find evidence of increased accruals earnings management after the 2005. The findings are corroborated by placebo tests. This paper contributes to prior literature on tax-induced earnings management and to the literature on real effects of corporate taxation and of earnings management. The paper has relevant policy implications.

14 2 Christopher Bleibtreu, Akram Khalilov & Roland Königsgruber

Accounting Institutions and the Value of Corporate Political Activity

Political connections affect firms' relations with capital markets and their financial reporting. Empirical studies often assume that connected firms benefit from more lenient enforcement and hence are more inclined to manage earnings than unconnected firms. Recent theoretical analyses suggest however that political connections are in fact more valuable when enforcement isstricter. The underlying reason is that enforcement makes financial reports more credible what in turn can lead to stronger policy revisions in case political favors are requested. We use the introduction of the Sarbanes-Oxley Act(SOX) as a setting to test this theoretical prediction. In line with this theory-driven reasoning, we find that connected firms increase their lobbying expenditures and Political Action Committee contributions in the wake of SOX. We further test whether political connectedness affects the way how accruals earnings management is substituted by real earnings management. Previous literature suggests that SOX led to such a substitution. We find that connected firms reduced their accruals earnings management less than unconnected firms. At the same time, connected firms increased real earnings management more. We employ placebo tests, different matching techniques, and control for selection bias to ensure that the results we identify are credibly linked to stricter enforcement.

14 3 Florian Dreyer

Financial Reporting Enforcement and the Cost of Public Debt

This paper analyzes how the country-level financial reporting enforcement is associated with the cost of public debt. It further addresses the mediating role of earnings quality. More severe financial reporting enforcement is expected to support the reliability of public financial information by incentivizing firms to deliver high-quality reports. Theory and previous empirical studies suggest that higher financial reporting quality reduces the information risk and facilitates debt contracting, eventually leading to lower cost of debt. In this paper, the enforcement is measured by the average standardized yearly expenses of the responsible authorities. Using a sample of up to 5,224 bond issues from 22 countries from 2010 to 2020, I find that financial reporting enforcement is negatively associated with the cost of bonds both directly and indirectly: The results indicate that stronger enforcement is associated with a lower extent of discretionary accruals. This in turn leads to lower bond yield spreads. Moreover, when controlling for the earnings quality, stricter financial reporting enforcement is still negatively associated with the cost of debt. The results are supported by bootstrapping analyses. Overall, the study adds to understanding how enforcement affects capital market outcomes. This is the first paper showing that financial reporting enforcement matters for the firm's cost of public debt.

15 1 Jannis Bischof, Holger Daske & Clemens Lauer

Fair Value Accounting for Equity Securities: Does Gain Realization Matter for Investment Decisions?

This study examines whether financial institutions change their investments in equity securities when they can no longer recognize the gains and losses in net income. We explore the portfolio adjustments around IFRS 9 adoption. The standard eliminated the reclassification of gains and losses recognized in other comprehensive income to net income upon their realization, which led to a controversial debate in standard setting. On the one hand, the lack of income recognition can distort the performance measurement and make long-term investments with the purpose of accumulating value gains less attractive. On the other hand, eliminating recycling removes the opportunity for earnings management and users can adjust performance measures for the OCI effect, rendering its impact on investment decisions ambiguous. We document that banks reduce their equity holdings upon IFRS 9 adoption. The decline is most pronounced if banks rely on performance measures for management compensation. Security-level data of banks' equity holdings shows that the sales involve a significant share of long-term investments, investments with a high ESG score, and instruments with a low dividend yield as dividends continue to be recognized in net income. An increasing fraction of private equity and asset management firms is among the acquirers of these securities. Collectively, the evidence suggests that the incentives set by the new requirements to account for equity investments are not neutral with respect to investment decisions.

15 2 Ferdinand Elfers, Igor Goncharov & Zoltán Novotny-Farkas

TruPS, I Did It Again: The Impact of Fair Value Circuit Breakers on Banks' Impairment and Trading Decisions

During the Global Financial Crisis of 2007/2008, critics argued that fair value accounting exacerbated the crisis by forcing excessive write-downs, which, arguably, depleted banks' regulatory capital and led to fire sales of assets contributing to contagion and procyclicality. However, empirical evidence on these alleged detrimental effects of fair value accounting is scarce. One reason for the lack of evidence is that, in practice, US GAAP contain certain accounting provisions that safeguard net income and regulatory capital from fair value changes. We refer to such provisions as fair value circuit breakers. Fair value circuit breakers are designed to suspend the application of fair value accounting during adverse market conditions. While they can prevent fair value accounting causing downward spirals and contagion, they can also be used opportunistically to avoid loss recognition via impairments or by delaying sales of distressed assets. In this paper, we investigate this potential dark side of fair value circuit breakers, i.e., whether they distort banks' impairment and trading decisions related to distressed assets. We use collateralized debt obligations backed by financial institutions' trust preferred securities (TruPS CDOs) as our laboratory to explore our research question. TruPS CDOs had been an attractive long-term investment of banks in the period leading up to Global Financial Crisis, but during the crisis

quickly became distressed and illiquid, resulting in a sharp and prolonged drop in their market values. We observe that following the Global Financial Crisis, fair value circuit breakers allowed banks to avoid impairments and incentivized them to delay disposals of these distressed assets. However, we show that almost all unrealized fair value losses reported during the crisis were realized through impairments and sales in the subsequent years. This evidence contrasts with claims that fair values during the crisis were distorted and not reflecting the fundamental value of the underlying assets. We also exploit an unexpected amendment to the Volcker Rule that, in expectation, required write-downs to fair values and find that it triggered immediate divestments of TruPS CDOs, consistent with the fire sale predictions of theory papers. However, the propensity to divest was significantly lower in banks that had delayed impairments prior to the Volcker Rule announcement, suggesting that these banks were gambling for the revocation of this specific rule. Overall, our results suggest that a suspension of fair value accounting can delay corrective action and protract the effects of financial crises by creating distorted incentives to hold on to distressed assets.

15 3 Steven Lilien, Bharat Sarath & Yan Yan

FDIC Strategies, Accounting Representations and Investor Reactions during the Financial Crisis 2008-2009

The recent acquisition of Silicon Valley Bank by First Citizens Bank organized by the FDIC led to both a reported gain on acquisition and increased First Citizens stock price by 55%. This transaction mirrored FDIC actions during the 2008-2009 crisis when the FDIC offered considerable asset discounts, upfront cash payments and indemnification contracts against acquired loan defaults to incentivize acquirers. We compare (a) the use of fair value estimates which determined whether the merger led to an accounting gain; (b) investor reactions to mergers measured through short and long-term stock returns; and (c) the difference in these associations between accounting valuations and stock market returns based on whether the transaction was mediated by the FDIC. Our findings show that FDIC intervention was efficient in shoring up the banking industry both in terms of future accounting performance and stock market returns for the acquirer.

16 1 Raul Laureano & Daniela Monteiro

Does the Current EU Audit Committee Legal Framework Impact Positively on Audit Quality?

Considering the latest European Union audit legal framework related to Public Audit Entities (PIE), we explore the impact of audit committee characteristics and their role in audit quality. Our sample is composed of the first 15 Member States (MS) PIE's and the measure of audit quality was based on quality of financial information through earnings management. The intra-European discrepancies in the audit committees' legal framework provides an excellent opportunity to better understand potential drivers of audit quality, so we studied the period before the audit reform (2009-2015) when this context was less harmonized. We found evidence of a negative impact in case of total independent audit committees. However, the requirement of a majority of independent members seems to be associated to a high audit quality. The assignment of the functions related to the appointment of external auditors and the assessment of their independence shows a significant and positive association with audit quality. Similarly there is also a positive impact in audit quality of the exigence of technical expertise in accounting and auditing matters of audit committee members, particularly when that members were designated by general meeting. These conclusions might have important implications for regulators and corporate nominating bodies concerning the promotion of audit committee effectiveness.

16 2 Sebastiano Cupertino, Patrice De Micco, Angelo Riccaboni & Gianluca Vitale

Mandatory Non-Financial Disclosure and Firms' Financial Performance: A Multidimensional Short-Term Analysis of Global Listed Manufacturing and Non-Manufacturing Corporations

The paper investigates the direct effect of worldwide mandatory non-financial disclosure on several financial dimensions, focusing on environmental aspects. We also tested the moderating effects of non-financial disclosure regulation on the relationship between environmental sustainability and financial performance. We performed fixed-effect regressions on a sample of 1,873 globally listed non-financial corporations, considering a period of 11 years (i.e., 2010-11, 2020-2021). Our analysis showed evidence of a negative correlation between sustainability and financial performance and a general negative direct impact of mandatory non-financial disclosure on corporate profitability ratios, such as ROA and ROE. This suggests that corporate sustainability produces its operating effects on the firm's value creation side in the mid-long term, since it entails organizational changes and learning processes that require time to be fully implemented. As for moderating effects, our regressions pointed out a negative moderating effect of non-financial reporting regulation on the relationship between non-financial and profitability ratios (i.e., ROA and ROE). Therefore, the paper offers useful insights both to companies, which have to incur costs to implement the reporting process and must be aware that it is difficult to recover them in the short term, and to policy-makers who should consider this detrimental short-run effect when implementing new regulations.

16 3 Stefano Coda

Investor Style and Domicile and Financial Reporting Comparability

We examine how institutional holdings by foreign vs. domestic investors affect cross-border and intra-industry financial reporting comparability among investee firms from countries reporting under the same standards. Using a global sample, we document that levels of and changes in foreign institutional ownership significantly associate with higher levels of and increases in cross-country comparability among same industry firms reporting under the same accounting rules, while this effect is not significant for domestic institutions. We further examine how investor style (active vs. passive) associates with comparability and observe that comparability improvements are mainly driven by active, rather than passive, institutions. Importantly, we find that the combined effect of foreign and active institutional ownership positively associates with levels of and improvements in accounting comparability significantly more than any other investor style characteristics. Our results are unaffected by differences in reporting incentives, earnings management, or information acquisition costs among sample firms. We provide evidence that foreign institutional investors increase the cross-country comparability of accounting information post-investment, and this improvement is stronger when institutions are active. Our study contributes to the literature on the economic importance of geography by showing that more effective monitoring by foreign institutional investors increases accounting comparability and thus contributes to improvement in firms' informational environments.

17 1 Francesco De Luca, Giorgio Gotti, Ho-Tan-Phat & Phan Xue Yang

A Comparison of Comparability Characteristic between US GAAP and IFRS: An Empirical Analysis of Cross-Border Listed Firms

This study aims at assessing the financial statement comparability characteristic of IFRS and U.S. GAAP. Regulators and standard setters pay much attention to comparability of accounting information as it is a relevant qualitative characteristic that affect the efficient functioning of capital markets. We measure comparability on a sample of foreign companies listed in the U.S., that provide U.S. GAAP or IFRS filings, by an output-based method and examine which accounting standards set provides higher comparability. We contribute to the literature by comparing foreign companies listed in the U.S. to exhibit the same accounting properties as they are all ADRs firms, instead of comparing U.S firms and non-U.S. firms. Moreover, we use the matched sample of ADRs firms, instead of using pre and post study of similar firms. Supported by our robustness test, we find that U.S. GAAP filings have higher comparability than IFRS filings. Our findings provide insights into the comparability of IFRS and U.S. GAAP and could suggest potential regulatory changes. Moreover, this study broadens our understanding of the benefits and costs of using IFRS and U.S. GAAP in the financial statement users' perspective.

17 2 Sidney Gray, Kyoko Nagata, Miho Nakamura & Chikako Ozu

What Factors Affect Preparers' Attitude towards IFRS? Another View from Listed Firms' Decision in Japan

The development and diffusion of International Financial Reporting Standards (IFRS) are innovative in providing a common business language worldwide. Previous research suggests that firms with a larger proportion of sales and activities overseas, more foreign shareholders, and/or larger firms are willing to adopt IFRS. Focusing on listed firms' attitude towards IFRS in Japan, where IFRS, US-GAAP or JMIS is permitted other than local GAAP for consolidated financial statements and the number of IFRS adopter is increasing, the findings do not always appear in line with prior literature's conclusion, which is suggesting that some other factors affect preparers' attitude towards IFRS. Whether and how do preparers' perceived costs and/or benefits of implementing IFRS affect preparers' decisions to adopt IFRS? This research question is addressed in a voluntary setting by matching the Japanese firms' choice to (not) adopt IFRS as of October 2021 with our survey data on Japanese managers' perceived costs and benefits of implementing IFRS in the pre-decision-making period. Furthermore, we investigate the open-ended responses to our survey of Japanese listed firms. We find that although adopters perceived significant costs as much as non-adopters, the high perceived costs are not major obstacles to adopt IFRS. Additionally, principles-based accounting leads preparers to view the adoption of IFRS as an opportunity to restructure the business operating system, which affects preparers' attitude more strongly than the commonly assumed benefits of adopting IFRS. Although previous studies conclude that the benefits involved with IFRS adoption are very small for most firms, our findings suggest that the benefits of IFRS adoption for preparers have the possibility to be underestimated.

17 3 Elina Haapamäki

An Examination of the Proposed Regulations for Review Assurance in Finland Through Public Interest and Innovation Theory Lenses

The purpose of this paper is to understand the innovation adoption and public interest dimensions related to a proposed regulation change in Finland. This is accomplished by utilizing the comment letters submitted in response to a proposal by the Finnish Ministry of Economic Affairs and Employment that small companies could undergo a review instead of a statutory audit. In the EU, the trend has been to relax the regulatory burden on small companies, and the statutory requirement for auditing in small firms has been increasingly identified as an administrative burden. Drawing upon the diffusion of innovations and public interest theories, the aim is to examine the argumentation related to the suggested regulatory change. Hence, this study investigates the interest groups' incentives to lobby as well as public interest discourse in the comment letters. Furthermore, the characteristics of the new assurance product are examined and evaluated. This investigation

contributes to the debate by providing insights into how a particular EU country dealt with the pressures to both reduce the statutory burdens on small and micro companies and maintain the quality of small firms' financial information. Reducing the administrative burden is necessary because of the general political agreement that EU law should be simplified and better enforced to reduce the administrative and financial burdens on small companies. During the past decade, reducing the administrative burden of audits has been a key issue in the political discussions concerning small companies in Finland.

18 1 Francesco Capalbo, Luca Galati, Claudio Lupi & Margherita Smarra

Proportional Appropriation Systems and Financial Statement Quality in Municipally Owned Entities

This paper examines how proportional appropriation systems affect the quality of financial reporting in entities controlled by local governments. We examine this issue using a natural experiment in Italian municipally owned entities provided by the implementation of a new accounting rule that limits the spending power of the participating municipality when the owned entity reports losses. By applying Benford's law on net income figures, we find widespread data anomalies following the introduction of the new regulation. Our results suggest that the extent of data manipulation increases with the municipality's ownership stake, consistent with the hypothesis that a decrease in spending power through financial resource appropriation affects earnings management practices in municipally controlled entities. This implies that well-intentioned government policies can backfire by incentivising politicians and executives to manipulate accounting data in order to avoid financial penalties.

18 2 Masaki Kusano, Yoshihiro Sakuma & Noriyuki Tsunogaya

The Effect of the Group Composition in an Audit Engagement Team on Modified Audit Opinions: Evidence from Japan

We extend the results of previous literature by empirically examining the relationship between lead-signing (engagement) partners' gender and audit quality. The results show that female lead-signing partners are more likely to issue modified audit opinions than their male counterparts. The results further indicate that when the audit engagement team is small and the female signing partners outnumber the male signing partners can the former issue modified audit opinions. These results suggest that we cannot ignore the role of female lead-signing partners as a significant predictor of high independence, and that we should consider the size and composition of an audit engagement team to enhance the independence of lead-signing partners.

18 3 Tjibbe Bosman

Skin in the Game: The Consequences of Audit Partner Clawback Provisions

I study the consequences of the staggered introduction of audit partner clawback provisions in the Netherlands. Audit partnerships have substantial agency costs as partner effort, and the residual risk from an audit are mostly unobservable, potentially inviting shirking and free riding. Audit partner clawbacks are a unique and novel audit market intervention intended for these issues. The partner clawback scheme was introduced under high political pressure following several financial scandals and critical reports by the Dutch audit oversight body. Under the clawback scheme, partners must repay up to a full year of compensation to the audit firm if societal damage is done due to the partner's negligent behavior six years after the compensation was awarded. Confronted with more skin in the game (clawbacks), partners primarily respond by accepting fewer and less risky audit clients (derisking). These effects increase if more of the partners' money is at risk. Where clients switch to less competent auditors after the clawback introduction. While audit partners perform fewer and less risky audits, partner income and audit fees increase to compensate for the clawback risk. In addition, partners audit longer and issue more modified audit opinions (qualified, disclaimer, or adverse) following clawback adoption. Nevertheless, partners do not experience fewer restatements, are not more accurate or strict in going concern reporting, and do not reduce earnings management following the clawback introduction.

18 4 Viktoria Kern & Benedikt Sieghartsleitner

Do Expanded Audit Reports Impact Financial Reporting Quality and Audit Fees?

In this paper we study the consequences of expanded audit reports on financial reporting quality and audit fees. We exploit the introduction of expanded audit reports and in particular the mandatory disclosure of key audit matters (KAM) in the European Union by using a difference-in-differences approach. For our analysis, we use data from 2,913 listed companies in 27 European countries from 2010 to 2021. Our results show no significant change in financial reporting quality, suggesting that expanded audit reports do not provide additional valuable information. However, we find a significant increase in audit fees. These results may be due to additional accountability or time spent on discussing KAMs with the audit committee. Our results contribute to the understanding of mandatory KAM disclosure and provide guidance to governments and standard setters.

19 1 Alberto Quagli, Paola Ramassa & Marco Venuti

How Do Global Crises Impact Accounting Regulation? The 2008 Financial Crisis and COVID-19 in the European IFRS Regulatory Space

This study investigates the outcomes of two recent global crises (i.e., the 2008 financial crisis and the COVID-19 crisis) in the European IFRS regulatory arena. Using the theoretical lens of the regulatory space, it analyzes the regulatory debate and responses of IFRS bodies, technical, supervisory and political actors at the European and international levels. Our analysis indicates that the regulatory responses and inter-organizational linkages established during previous crises generate an experience effect, potentially enhancing stability and influencing future crisis responses. This emphasizes the importance of a comprehensive analysis of the diverse outcomes of crises, considering their nature and temporal dimension. Additionally, our study reveals an evolutionary trajectory in the regulatory outcomes of the two crises, wherein the focus of space participants shift towards distinct technical issues, leading to the progressive development and refinement of accounting standards.

19 2 Alessandra Allini, Marco Maffei, Rosalinda Santonastaso & Flavio Spagnuolo

Hedge Accounting Usage under Different IASB Regulations: The Effect on Capital Investment across European Listed Firms

This study aims to investigate the consequence of hedge accounting usage on firms' level of capital investment. We address our aim analyzing a set of 286 public companies in European Union during the period 2016-2019. Firstly, our findings provide evidence that firms which practice hedge accounting increase their level of capital investment more than firms that do not exploit hedge accounting rules. Our results also suggest that this link is mediated by earnings volatility mitigation. Furthermore, we find that such relationship is exacerbated in the IFRS 9 post-implementation period, consistently with the view that newest rules provided by IASB on hedge accounting are recognized to be less complex and more easily implementable by firms relative to the previous IAS 39 discipline. We contribute with the first empirical study that investigate the role of hedge accounting on investment behavior, under different IASB regulations. Moreover, this research is valuable for standards setters and regulators to understand how they are moving toward their objectives in favor of firms compliant with IFRSs. Lastly, by a managerial point of view, our study offers practical implications about the role of accounting choices in real investments' decision-making.

19 3 Anna Białek-Jaworska & Paulina Szymanek

Investors' Reaction to Banning IFRS Use by Domestic Firms in Alternative Market

This paper analyses the regulatory context, i.e., how IFRS users investing in Poland react to banning IFRS use by domestic firms in the alternative trading market (NewConnect) after six years of regulatory arbitrage. In other words, it studies their portfolio investment and FDI outward sensitivity to the end of regulatory arbitrage opportunity given by the alternative market's regulation in the country where accounting law limits IFRS use to regulated markets and business groups where the parent company uses IFRS. It builds on the natural experiment of prohibition of domestic IFRS users issuing shares on the alternative (not-regulated and cheaper) trading market after 2012. Thus, it checks if investing decisions consider opportunities to gain funds or attract other investors and build trust through IPOs on the unregulated market dedicated to start-ups and engaged in R&D activity. We use difference-indifferences, GMM dynamic panel-data analysis with Arellano-Bond and Arellano-Bover/Blundel-Bond estimators for the Knowledge-Capital model on portfolio investment, outward FDI overall, and three FDI components based on debt, equity, and earning reinvestment in 2003-2019. As a result, we observed a 69% growth rate of IFRS users investing in Polish firms in 2012 (317% growth of Swedish investors and 219% of Portuguese), dropping to 8% in 2013 and 3% in 2018. Banning IFRS use by domestic firms in the alternative market discourages leading foreign investors – thus, portfolio investments, total FDI, debt-based FDI flows, and earnings reinvestment decreased. Also, portfolio investments, total, equity-based and debt-based FDI from countries having more IFRS users have been reduced since 2013 due to the IFRS ban for domestic firms.

19 4 Phu Dao-Le Flécher, Sondes Mbarek & Nirjhar Nigam

Accounting for Crypto-Assets: A Comparative Analysis and Overview of Accounting Rules and Practices

Given the ongoing evolution, growth potential and diversity of crypto-assets as so as their unique and risky nature, there are intensive debates on the accounting treatment by holders and issuers of crypto-assets at the international level. The purpose of this research is to deepen and broaden knowledge about how crypto-assets are classified, measured, recognized and disclosed in Europe, US and Asia. The first stage of the study is exploratory in nature. In the first step, we make a literature review of current regulatory frameworks of cryptocurrency as a blockchain technology application as well as of existing accounting rules and practices. In the second stage, we collect the data from the annual reports of 100 publicly listed companies for the 2021 and 2022 periods. These companies come from following countries: US, France, Canada, UK, Germany and some Asian countries. We manually extract the information related to classification, recognition, measurement and disclosure of cryptocurrencies. Our objective is to identify the best practices, but also gaps that exist and to come up with a list of recommendations that can be useful to policy makers, accounting standard setters and other market participants.

20 1 Qiaoling Fang, Li He, Zhi Jin & Bharat Sarath

Geographical Location and Regulatory Oversight: Evidence from China

This study investigates the effect of geographical distance on regulator's review process over financial reporting. Using hand-collected comment letter (CL) data from the Shanghai Stock Exchange, we find that firms located farther away from the regulator are more likely to receive CLs and the review outcomes are more substantive. Additional analyses using the propensity-score matched sample, first-tier city sample and misreported sample are consistent with our main findings. Moreover, our empirical results show that the effect of geographical proximity on review process is more pronounced for firm with worse information environment. We also find that the regulator is more likely to use CL to point out firm's accounting compliance or disclosure issues before the news media when firms are located farther away from the regulator. In contrast to the findings of prior literature, our results suggest that the regulator uses the review process as a complementary approach to mitigate the information asymmetry induced by geographical distance.

20 2 Marina Carabelli, Carlotta D'Este & Ilaria Galavotti

Accounting for Goodwill and Managerial Discretion in Mergers and Acquisitions: A Focus on Italian Listed Acquirers

Goodwill has been acknowledged as a critical issue in accounting, in terms of both purchase price allocation in corporate acquisitions and the subsequent write-downs. Despite the release of the FASB and IASB new accounting standards, providing a reference point for goodwill recognition, the complexity of fair value adjustments and the extensive subjectivity being involved in the assessment of goodwill still make goodwill allocation and impairment-only approach limitedly transparent. This study therefore explores the impact exerted by IFRS 3 on management discretion on goodwill reporting in a low investor protection context. From a methodological standpoint, the hypotheses are tested on a sample of 68 acquisitions executed by Italian listed acquirers in the period 2012-2020. Our results confirm the potential for managerial opportunistic behavior in light of the signaling role of goodwill for investors.

20 3 Massimo Costa & Giuseppe Valenza

Capital vs. Income Approach, Capital Maintenance Conceptions, and Bases of Measurement. A Paradigm for a Possible 'Fusion of Horizons'

The paper investigates, under an explicit normative point of view, three basic alternatives in accounting relations: namely, Capital vs. Income approach, Financial vs. Physical Maintenance of Capital, and Current vs. Historical basis of measurement. These are conceived as meta-principles inspiring the CFs, and, indirectly, the accounting regulation. They are presented as general 'views of the world,' or, better, scientific paradigms, formalized schematically, with their main general characters. Exploring their nature logically, they are finally gathered into three basic 'accounting views:' I, 'Market View,' with capital approach, financial maintenance, and fair value measurement; II, 'Entrepreneurial View,' with capital approach, physical maintenance, and current cost measurement; III, 'Institutional View,' with income approach, physical maintenance, and historical cost measurement. Finally, an attempt is tried to overcome the sterile contest with each other, in order to sketch the main variables to keep into consideration for deciding, from time to time, which of the three 'views' has to prevail, according to the different nature of the entity, to the different kind of stakeholders, and to the business model by which the business manages the single items.

21 1 Willem Buijink

An Appraisal of Public Oversight Body (POB) Inspections of Statutory Audits in the EU

This paper finds that the quality of statutory audits inspections by audit sector Public Oversight Bodies (POBs) in the EU is problematic. For evidence the paper focuses on The Netherlands, an EU member state, with a distinctly critical POB. The Dutch POB's findings and criticism since 2010 have led to a still continuing discussion about reforms for the Dutch audit sector. The empirical part of this paper is a case-study. Case-study evidence is used to critique the Dutch POB's oversight approach. That approach is not 'sound theory and evidence' based. Since all EU POBs use a version of the same approach, the critique extends to those POBs as well. In fact, worldwide, audit sector POBs are members of IFIAR (International Forum of Independent Audit Regulators). IFIAR advocates approaches to audit files inspections such as that used by the Dutch POB. Recommendations for a rational POBs statutory audits inspection approach are sketched. The paper also attempts to answer the question why the Dutch POB, and the other other POBs, are not operating in a manner that is supported by 'sound theory and evidence'.

21 2 Hiroshi Shuto

Audit Quality and its Relevance to Gender Diversity and Purpose Management: Implications for Future Research

Audit quality is affected by ambiguous internal factors, such as the firm's management strategy and the attributes of the certified public accountants engaged in auditing, also greatly impact audit quality. This includes diversity management and purpose management (purpose generally refers to the raison d'etre of the organization). However, research between audit quality and gender diversity in the context of Japan is scarce. Moreover, the relationship between purpose management and audit quality is unexplored internationally. Through a detailed review of the literature, this study focuses on diversity and purpose management of audit firms and aims to obtain implications regarding the relationship between the two and audit quality. Results

show that audit quality has been progressively diversifying amidst the continuous changes in the regulatory environment surrounding accounting and auditing practices. Furthermore, audit firms can further improve the work environment to contribute to audit quality and to continuously secure personnel by organically functioning both diversity and purpose. This study presents a research agenda on the relationship between audit quality, gender diversity, and purpose management, which could be useful in the future for the stability of the regulatory environment surrounding accounting and auditing.

21 3 Alessandra Allini, Riccardo Macchioni, Martina Prisco & David A. Ziebart

Higher Auditor Fees and Financial Reporting Quality. Evidence from the US Banking Context

In this study, we examine the impact of higher auditor fees on financial reporting quality in the banking context. Using a sample of 2,200 U.S. bank-year observations over the 2010-2020 period, results show that financial reporting quality is negatively associated with higher auditor fees. Empirical evidence is then consistent with the economic bond view suggesting that above-normal fees impair auditor's independence. We further show that this relation is negatively moderated by auditor tenure and auditor industry specialization. This study provides insightful practical implications. Despite banking context is a well-regulated setting where multiple agencies monitor reporting entities, auditing is pivotal for financial reporting quality. From a regulators' point of view, on one hand, findings highlight that auditor tenure and auditor industry specialization play a valuable role for financial reporting quality in the banking industry. On the other one, they address the need for a better monitoring of auditor renumeration to improve banking informative. Results also suggest to policymakers the risk of lower quality of financial reporting during first-year audits when audit firm rotation is mandatory. Finally, findings may be also of interest for investors highlighting a better caution in interpreting bank numbers when auditor fees are particularly high. This study contributes to the literature on auditing and financial reporting quality in the banking context.

22 1 Luca Menicacci

Investment Decisions of Private Firms under a Bonus Depreciation Provision

This empirical study investigates the effect of a bonus depreciation scheme on managerial investment decisions considering accounting consequences and firms' ownership structures. An undoubtedly significant opportunity to test the effectiveness and the magnitude of the relationship between tax allowances, investment spending and accounting is the so-called Industry 4.0 plan, implemented by the Italian government in recent years. Among other tax allowances, the plan provided businesses with a bonus depreciation provision named "Hyper-Depreciation" ("Iper-ammortamento") which allowed additional depreciation deductions for eligible hi-tech machinery and equipment. The analysis of a sample of Italian companies operating in the automotive and automation industries reveals that the bonus depreciation provision is associated with a higher level of investment in both tangible and intangible assets, thus suggesting that it produces a drag-along effect of tangible investments over intangible ones. Such an analysis is conducted under a difference-in-difference design using a matched sample of Austrian firms operating in the same industries. Results show that bonus depreciation provisions positively affect labour productivity without undermining employment levels. Finally, a significant reduction in the tax burden during the bonus era created an opportunity for companies less (more) subject to stakeholder pressure to engage in more downward (upward) earnings management. This different behaviour of closely versus openly held companies is related to the different incentives for tax planning under a strong book-tax conformity system (Klassen, 1997). In other words, the varying level of separation between ownership and control (Fama and Jensen, 1983) influences private firms' behaviour regarding reporting accounting numbers under a bonus depreciation scheme like Hyper-Depreciation. Firms wherein management is in the hand of the beneficial owner (closely held firms), exploit financial reporting outcomes by doing more tax-induced downward earnings management to maximise tax savings afforded by the bonus depreciation provision. Firms with greater separation of ownership and control (not closely held firms) exploit the opportunity of a reduced tax burden to increase their reported profits. For the former firms, results show that when there is the opportunity to save on taxes, conforming tax planning considerations prevail over financial reporting incentives. For the latter firms, results show that earnings management is more likely when tax costs are lower (Badertscher et al., 2019; Ronen and Yaari, 2015). By documenting this relationship between bonus depreciation provision and managerial investment decisions, the contribution of this study to the literature is threefold. Firstly, to the best of my knowledge, this is the first study to analyse the impact of a bonus depreciation provision on the mix of capital expenditures intended as the combination of tangible and intangible investments. Secondly, the study sheds light on other consequences of tax depreciation provisions which remained under-investigated, such as the impact on the overall level of employment (Jacob, 2022). Thirdly, most previous studies focus on the relationship between the enactment of the allowances and their impact on investment spending, often overlooking the importance of financial reporting and governance factors. Thus, the evaluation of earnings management practices following the enactment of the bonus depreciation provision, conditional on ownership structure, brings new evidence to the extant accounting literature.

22 2 Francesca Cappellieri, Michele Pizzo, Antonio Ricciardi & Rosa Vinciguerra

Independent Minority Directors against Self-serving and Manipulative Practices in Non-Financial Reporting

The disclosure of non-financial information helping investors and other stakeholders to evaluate the sustainability performance of companies is considered vital for managing change toward a sustainable global economy by combining long-term profitability with social justice and environmental protection (EU, 2021). The new rules and the development of sustainability reporting standards by EFRAG aim to ensure that investors and other stakeholders have access to the information they need to assess investment risks arising from climate change and other sustainability issues. They will also create a culture of transparency about the impact of companies on people and the environment. Despite the European Political actions aimed to support the transition towards a sustainable economic system, currently, investors are unable to take sufficient account of sustainability-related risks and opportunities in their investment decisions. Under these conditions, they are not able to channel financial resources to undertakings and economic activities that address and do not exacerbate social and environmental problems, which undermines the objectives of the Green Deal, the Action Plan on Financing Sustainable Growth, and the Paris Agreement (CSRD, 2022). In the last years, the European Commission concluded a public consultation which had the "Sustainable corporate governance" initiative as its object of discussion aims to improve the legislative framework, EU directives 2017/1132 and 2007/36, to encourage company boards to adequately integrate the interests of stakeholders, the risks and the opportunities deriving from sustainability, in its decision-making process and to manage sustainability issues in their business better, among which we can mention social and human rights and climate change. The minority director, a classification hitherto encapsulated in very few jurisdictions, would better preserve the credibility of the market through more incisive protection of the investors and should be promoted in a broader legal framework, like the European Union one (De Poli & De Gioia Carabellese, 2017). The appointment of independent directors by minority shareholders could allow investors to make conscious decisions to underpin the greater sustainable and long-term focused business. This paper aims to investigate the impact of minority directors on impression management of non-financial reporting and the volume of CSR-related information by performing a computer-assisted lexicon-based content analysis. Our research enriches the existing literature investigating whether minority shareholders' representation, enforcing the solidity of corporate governance, could improve corporate sustainability reporting quality and transparency. In particular, we infer whether the appointment of minority directors could improve the ability of sustainability reporting to convey valuable information to all stakeholders, limiting self-serving managerial disclosure. The results show that independent directors appointed by minority shareholders represent an effective corporate governance mechanism to compress self-serving and manipulative disclosure practices in non-financial reporting, reducing obfuscation of negative events (increasing the Pessimistic Tone), growing the volume of CSR-related information and the length of entire non-financial reports.

22 3 Luigi Lepore, Raffaela Nastari, Sabrina Pisano & Matteo Pozzoli

Board Gender Diversity, ESG Controversies and Circular Economy Disclosure

The circular economy is considered a useful system for achieving sustainable development. At the same time, circular economy disclosure is becoming an important issue regarding regulation and technical standards. In the last decade, in fact, the European Commission issued various directives aiming at requiring companies to release circular economy disclosure according to specific sustainability standards (see, for example, Directive 2022/2464/EU), and various standard setters issued guidelines containing suggestions on such disclosures. However, little research has been conducted on the circular economy information disclosed by companies and its determinants. This research aims to explore how board gender diversity affects circular economy disclosure by a sample of European listed companies. In addition, the paper investigates the moderating role of environmental, social and governance controversies in the previous relationship. The study conducted a regression analysis on a sample of 454 companies and 2303 observations of European companies operating in 14 countries between 2004 and 2021. The results reveal that the presence of female directors on the board favors the release of higher levels of circular economy disclosures, suggesting that regulators, and policy-makers as well, should further orient their acts toward mandatory diversity in the composition of the boards. However, female directors operating in companies characterized by higher levels of environmental, social and governance controversies tend to release lower circular economy disclosures, suggesting that regulators should devote more attentions to companies presenting higher levels of environmental, social and governance disputes. This study contributes to the literature by investigating circular economy disclosure using data collected from the Refinitiv database, rather than developing a self-constructed disclosure index, and by analyzing the determinants of circular economy disclosures.