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*Promoting Excellence in Accounting Research and Education in Canada  
Promouvoir l'excellence dans la recherche et la formation en comptabilité au Canada*

## *Diversity of Accounting Research*

2015

# ANNUAL CONFERENCE

Hilton Toronto Hotel

Toronto, Ontario

May 28–May 31



## Partner

The Canadian Academic Accounting Association gratefully acknowledges its partner for helping to make this conference possible and for supporting its many initiatives. Our organization benefits most from the support of our national accounting body that provides both financial and volunteer help to our endeavours all year.

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**CPA**

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PROFESSIONAL  
ACCOUNTANTS  
CANADA

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## Diversity of Accounting Research

# 2015 ANNUAL CONFERENCE

Hilton Toronto Hotel  
Toronto, Ontario  
May 28–May 31

### Conference Chair

Ron Baker, University of Guelph

### Education Committee Chair

Penny L. Parker, Fanshawe College

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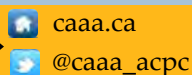
EXHIBITORS'  
REFRESHMENT  
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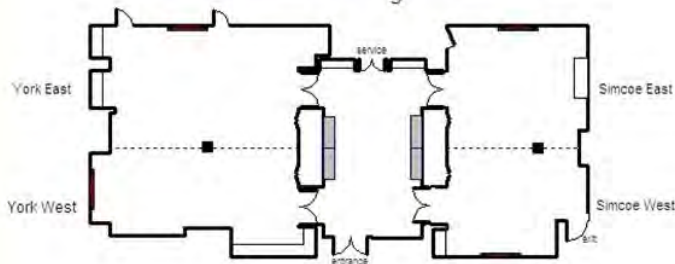


## IMPORTANT NOTES

- Your name badge is required for admission to all events, including Saturday night's social event.
- Registration is available:
  - Thursday from 7:00 a.m.–6:30 p.m. in the York & Simcoe lobby,
  - Friday from 7:00 a.m.–5:00 p.m. on the Convention Level, and
  - Saturday from 7:00 a.m.–12:00 p.m. on the Convention Level.
- Please visit our exhibitors' booths on the conference floor. See the full listing on the next page.
- Breakfast for the 19<sup>th</sup> Annual Ethics Workshop attendees is on Sunday from 8:00 a.m.–8:45 a.m.

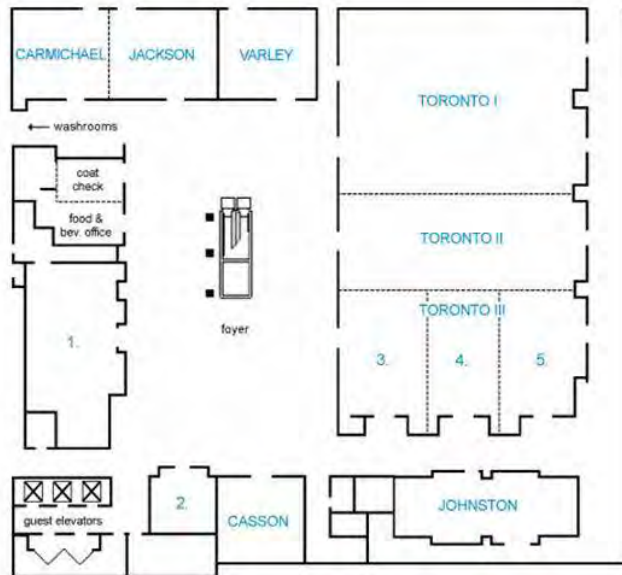
# HOTEL FLOOR PLANS & EXHIBITION BOOTHS

## HILTON TORONTO - LOBBY LEVEL



BOOTH	EXHIBITOR
1, 2	CPA Canada
3	McGraw-Hill Ryerson
4	AME Learning
5	S&P Capital IQ
6	DCS Inc.
7	Nelson Education
8	Wolters Kluwer
9	Audit Analytics
10	Pearson Canada
11, 12	Wiley
13	Netsuite

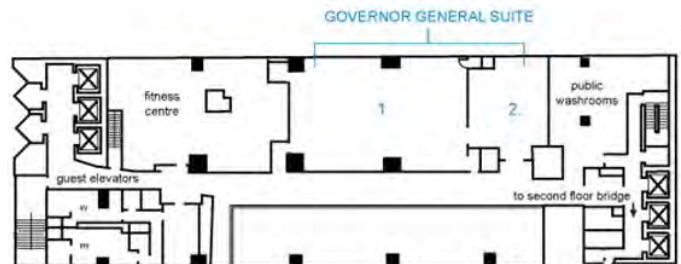
## HILTON TORONTO - CONVENTION LEVEL



1. TOM THOMSON  
2. FITZGERALD

3. TORONTO: HARRIS  
4. TORONTO: MACDONALD  
5. TORONTO: LISMER

## HILTON TORONTO - SECOND FLOOR



1. GOVERNOR GENERAL MAIN  
2. GOVERNOR GENERAL PARLOR

## HILTON TORONTO - THIRD FLOOR



1. ADELAIDE  
2. University

# SPONSORS

The Canadian Academic Accounting Association thanks its generous supporters for helping make our conference possible and for supporting its many initiatives.

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ONTARIO



Faculty of Business

## *Platinum*



College of  
**Business +  
Economics**

# WILEY

## *Gold*



COMPTABLES  
PROFESSIONNELS  
AGRÉÉS  
QUÉBEC



LAWRENCE KINLIN  
SCHOOL OF BUSINESS

## *Silver*



ACCOUNTING, OPERATIONS  
AND INFORMATION SYSTEMS



SCHOOL OF BUSINESS

## *Bronze*



**WATERLOO**  
ACCOUNTING AND  
FINANCE

CENTRE FOR  
ACCOUNTING ETHICS



**Wolters Kluwer**  
When you have to be right

## President's Message



**Alan J.  
Richardson**

“The CAAA Annual General Meeting is also held on Friday during the conference. The AGM is your opportunity as a member to elect the Board of Directors and to receive reports from our committee chairs on the past year's activities. If you are interested in becoming more involved with the CAAA, this would be a good place to start!”

Welcome to Toronto and to the 2015 Annual Conference of the Canadian Academic Accounting Association! This conference is the original and key event organized by the CAAA on behalf of its members. Each year it provides an opportunity for our members to present their research, update their knowledge, and to network with colleagues from across the country and from far beyond Canada's borders. The Conference is also an opportunity for the CAAA to recognize the contributions of its members to accounting education, research and service to the association through our Rosen, Falk, and Baxter Awards respectively. We are delighted to welcome you to Toronto to share in this rich program of events.

The conference program this year has been assembled by Ron Baker (University of Guelph) and his committee while the facilities and hospitality events have been coordinated by the CAAA staff: Mary Henricksen (Executive Director), Louise Laroche, and Mary Lui. The education events at the conference and the two full-day Professional Development Workshops have been organized by the Education Committee chaired by Penny Parker (Fanshawe College). We are grateful for their work and I am sure you will appreciate the fruits of that effort.

As in previous years, the annual conference will include “The Craft of Accounting Research Workshop” (for Ph.D. students and junior researchers) and two full-day Professional Development Workshops prior to the main conference. On Sunday, May 31, following the CAAA conference, the Centre for Accounting Ethics at the University of Waterloo will once again hold its annual half-day Ethics Workshop.

The CAAA Annual General Meeting is also held on Friday during the conference. The AGM is your opportunity as a member to elect the Board of Directors and to receive reports from our committee chairs on the past year's activities. If you are interested in becoming more involved with the CAAA, this would be a good place to start! Please join us to learn more about how the CAAA operates and our plans for the future of your association.

The CAAA is honoured to have the continuing support of numerous sponsors who allow us to offer a high level of hospitality to attendees. In particular this year I would like to recognize the participation of the Chartered Professional Accountants of Canada, Chartered Professional Accountants of Ontario, Brock University, University of Guelph, Wiley, Comptables professionnels agréés du Québec, Fanshawe College, University of Alberta, MacEwan University, Canadian Public Accountability Board, the University of Waterloo, and Wolters Kluwer. While the CAAA recognizes and officially thanks our sponsors, please feel free to express your appreciation should you encounter their representatives at our sessions or hospitality events and be sure to stop by to speak to the exhibitors to show your support.

I am confident that you will have a rewarding experience at the 2015 CAAA Annual Conference and I look forward to seeing you there.

## Conference Chair's Message



“We’ve selected 128 of the most timely and interesting papers for presentation at this year’s CAAA. These papers represent the diversity in accounting research through the variety of topics examined, methodologies employed and the international scope and interests of the researchers.”

Welcome to the 2015 Canadian Academic Accounting Association Annual Conference and our exploration of Diversity of Accounting Research.

We’ve selected 128 of the most timely and interesting papers for presentation at this year’s CAAA. These papers represent the diversity in accounting research through the variety of topics examined, methodologies employed and the international scope and interests of the researchers. I invite you to explore this variety and contribute to the discussions that arise out of the presentations.

Try to take some time to connect with the accounting education sessions this year, and do take a moment to drop by and visit this year’s exhibitors.

An important part of any academic conference is the opportunity to spend time with other researchers and educators. I hope you will seek out these opportunities during your stay in Toronto. The Saturday evening social event will be held at St. Andrew’s Club & Conference Centre, just a few minutes’ walk from the conference hotel. Please join us for dinner and the presentation of awards. Meet up with old friends and make some new ones while taking in breathtaking views of this beautiful city and listening to the cool jazz of the John Roby Trio.

I would like to thank our generous sponsors of this year’s conference. A big thank you goes to the reviewers who did such a marvellous job reviewing this year’s submissions. I am also very grateful for the kind and tireless support from our new Executive Director, Mary Henriksen, CAAA staff members, Louise Laroche and Mary Lui, Addie Jackson at SSRN, and especially the Education Chair, Penny Parker.

Thank you for joining us in Toronto. I hope you have a wonderful and productive time at this year’s conference. We’re glad you’re here.



## Education Chair's Message



**Penny L.  
Parker**

“This year’s conference also includes two full-day professional development workshops from the Education Committee prior to the conference s, ... a plenary session, ... and a record number of education sessions (24) during the regular conference.”

On behalf of the many dedicated volunteers on the Education Committee, I’d like to thank you for being a part of the 2015 CAAA Annual Conference!

We’ve spent most of the past year planning the 2015 CAAA Annual Conference in Toronto, which has resulted in providing a record number of new and innovative sessions for this year’s conference that focuses on teaching and learning, as well as on connecting academics with industry, public accounting firms, and the professional bodies.

This year’s conference also includes two, full-day professional development, workshops from the Education Committee prior to the conference: “Teaching Online Accounting” and “Developing The Ability to Make Good Judgments,” a plenary session, which provides insight into the new “IFRS Conceptual Framework Project,” and a record number of education sessions (24) during the regular conference. We also organized the Howard Teall Innovation Award. The winners are on page 41.

The committee is always looking for new members’ so if you’d like to be a part of the planning for next year’s conference please contact me for further information.

We hope you enjoy the conference!

## Executive Director's Message



**Mary  
Henricksen**

“... let me know how the CAAA can get better for you: my job is to bring more value to CAAA members through the creation and development of programs and services that best meet member's needs.”

Welcome to Toronto and to the 2015 CAAA Annual Conference.

Our President, Alan Richardson, our Conference Chair, Ron Baker, and our Education Chair, Penny Parker, have given you a rundown of the sessions, the scope of the research and education sessions to be presented and the social opportunities available to you this week. I hope you will be able to take advantage of as many of these events as possible, and get to interact with colleagues from across Canada and around the world.

This is my first CAAA Conference, and I am looking forward to meeting many of the delegates and to discovering the scope of work being done by academic accountants. My team—Louise Laroche, Mary Lui, and Vittoria Fortunato—and I will be here, every day, all day, helping to make this an outstanding conference experience for you. As well, let me know how the CAAA can get better for you: my job is to bring more value to CAAA members through the creation and development of programs and services that best meet member's needs.

A big thank you to all of our sponsors—including our Titanium Sponsors CPA Canada, CPA Ontario, and Brock University. Without their support, this showcase of accounting education and research simply wouldn't happen. We are grateful for their ongoing contribution to what we do.

Please make time in your schedule for some very important member business and join us for our Annual General Meeting (AGM) on Friday, May 29, 2015 at 5:15 p.m. in the Tom Thomson room at the Hilton Toronto Hotel. Your participation is vital to the growth and development of the CAAA. The AGM notice, agenda, and documentation are available at our members' section of the website: [caaa.ca](http://caaa.ca).

Enjoy your week, see you at the AGM!



# CPA Canada: Your One-Stop-Shop for Active Teaching and Supplementary Materials

By Alex Fisher, CPA, CA

How do you stay up-to-date with the latest standards and best practices in Canada's fast evolving accounting profession? It's a question that becomes even more critical when you are charged with instructing and preparing the next generation of Chartered Professional Accountants (CPAs).

A Canadian instructor teaching financial accounting or audit and assurance, for example, has to be current with International Financial Reporting Standards (IFRSs) and Accounting Standards for Private Enterprises (ASPE), and with integrating both the technical competencies and enabling competencies of the Chartered Professional Accountants of Canada (CPA Canada) Competency Map.

Textbooks and course kits can quickly become out of date, leaving instructors to wade through volumes of information to find relevant articles, examples, summaries and overviews to supplement and enhance their teaching.

Enter CPA Canada, the organization that represents the Canadian accounting profession, both nationally and internationally. CPA Canada uses its deep network of experts in areas such as accounting, audit and assurance, management accounting, governance and more to produce timely, relevant and credible resources that can be leveraged to great advantage by the academic community.

## How CPA Canada resource materials can help elevate the PROfessional in you.

### ***Instruction on technical and enabling competencies***

CPA Canada's resources deliver information covering a range of technical and enabling competencies, and feature practical application examples, insights, illustrations and diagrams. These resources can be used as standalone or in combination with your teaching materials to help reduce your class preparation time and enhance your students' learning experience.

### ***Materials on a wide variety of topics***

#### ***(including strategy, standards and performance management)***

You will find a wide range of resources across diverse topics to suit your needs from strategy and performance management to standards. For example, if you're looking for information on recent changes to standards, you can take a look at the alert, *IFRS 15 Revenue from Contracts with Customers*. Or if you simply want to know more on ethics and judgment related to educating professionals, you might even find a collection of papers from a symposium that provides expert perspectives on that topic.

### ***Materials to complement your level of instruction***

The level of materials are identified as either alerts, which are awareness-driven resources, briefings, which provide more in-depth instruction or guides, which offer comprehensive information. This makes it easier for you to choose the material to suit your level of instruction.

Regardless of your teaching focus, CPA Canada has you covered!

Alex Fisher, CPA, CA is an instructor at the Schulich School of Business, York University and a Principal at CPA Canada.

The views expressed in this article are those of the author and do not necessarily reflect those of the organizations he represents.

Visit [cpacanada.ca/applyingthestandards](https://cpacanada.ca/applyingthestandards) to see what materials are available to you or drop by CPA Canada's booths #1 & 2 during the conference to speak to a representative.

## Professional Development Day

### Teaching Accounting Online



**Phylise Banner** is the Director of Online Teaching and Learning at Union Graduate College, where she is working to expand online offerings through a mindful institution-wide approach to program, course, and faculty development in alignment with teaching and learning effective practices and the Community of Inquiry framework. She has been working in the field of online teaching and learning since 1997, planning, designing, developing, and delivering online courses, programs, and faculty development initiatives.

As an online learning evangelist, she actively seeks out opportunities to experiment with emerging technologies in order to best serve faculty and students, and to create communities of lifelong learners. She is featured regularly at regional, national and international conferences, speaking on the topics of online teaching and learning, faculty development, instructional strategy, experience design, social media, information visualization and GIS technologies. She also teaches Digital Storytelling online for SUNY Institute of Technology, and in person for the Academy for Lifelong Learning at Empire State College.



**John S. DeJoy, Ph.D., CPA** is an Associate Professor of Accounting with Union Graduate College in Schenectady, New York. John created his first online accounting course in 1994. In his two decades of online teaching and curriculum development experience, John has led the creation of full master's degrees, bachelor's degree completion programs, as well as numerous graduate and undergraduate courses for classroom, hybrid, and online delivery. John currently teaches four graduate accounting courses fully online, including MBA 613: Advanced Auditing and Research, and MBA 610 Fraud and Forensic Accounting.

John has been asked to provide training to accounting professors and Ph.D. students in the U.S. with the goal of improving their teaching skills. Before joining Union Graduate College, DeJoy served as an accounting professor with Siena College, and as a dean and professor with Marist College where he also chaired the graduate council. He has worked as a senior auditor/CPA with Big Four auditing and accounting firms. John has served on the audit committee of the board of directors for the Anderson Center for Autism. John's Ph.D. is in adult education from the University of Idaho and he completed a post-doctorate in accounting and finance from the University of Florida. John holds state licensure as a CPA in two U.S. states: New York (active), and Idaho (inactive). He holds the MBA from Marist College and the BBA in accounting from Pace University. John is also an instructor in the Becker CPA Exam Review program.

### Developing the Ability to Make Good Judgments



**Catherine Banks** is the Director of Operations and the Academic Resource Center (EYARC) for the Ernst & Young Foundation. Prior to this role, she served as the Campus Recruiting Leader for the Pacific Northwest Area. Before heading up recruiting efforts in the PNW, Catherine was a Senior Manager in the Assurance practice, beginning her career in Chicago and then later transferring to Seattle where she currently resides. Beyond her role with the firm, Catherine serves as the Chairman of the Accounting Advisory Board for Seattle University and Vice Chairman of the Board for the Accounting Careers Awareness Program in Seattle. She is a CPA and a member of the Washington Society of CPAs as well as the American Accounting Association.

Catherine is a Girl Scout troop leader for over 20 girls that include her daughters, Halle (14) and Hanna (11). She is married to Ken who is a retired USAF Lt. Col. and who currently flies the friendly skies with United. Catherine enjoys any DIY project. Catherine graduated with a Bachelors of Accounting from the University of Illinois.



**Greg Burton, Ph.D., CPA, CGMA**, is the Ford Motor Company International Professor at Brigham Young University. He received a B.A. and MAcc in accounting from Utah State University and his Ph.D. from the University of South Carolina. He was on the accounting faculty at the University of Nebraska-Lincoln prior to joining the accounting faculty at Brigham Young University. While he was a student at Utah State University, he served as reporting secretary and then president of the Delta Omega chapter of Beta Alpha Psi.

Greg teaches auditing, financial accounting, international accounting, and international business at both the undergraduate and graduate levels. He has been honored with several teaching awards. His research spans fraud, ethics, market behavior, and international accounting and has been published in journals such as *Contemporary Accounting Research*, *Accounting Organizations and Society*, *Review of Accounting Studies*, *Auditing: A Journal of Practice and Theory*, *Accounting Horizons* and the *Journal of Information Systems*. He is the author of textbook on International Financial Reporting Standards. Greg has consulted with businesses and given presentations in more than 40 countries throughout the world. He is currently the president of the International Accounting Section of the American Accounting Association. He was appointed the 2008–2009 Academic Fellow in the Division of Corporation Finance at the Securities and Exchange Commission. Prior to receiving his Ph.D., he was a senior manager with KPMG and spent two years on an international rotation living and working in Southeast Asia.



## Professional Development Day

### The Craft of Accounting Research Workshop



**Khim Kelly** is an Associate Professor at the School of Accounting and Finance, University of Waterloo. Her research interests centre around the design of performance measurement, evaluation, and compensation practices in organizations and their effects on the judgment and decision-making, behavior, and performance of organizational stakeholders. In recent years, she has also examined how corporate governance mechanisms (e.g., regulatory requirements, audit procedures, internal controls, decision-making structures in organizations, and organization culture) affect the judgment and decision-making and behaviours of organizational stakeholders (e.g., managers, auditors, and investors). Dr. Kelly uses experimental and behavioural methodologies in her research. Her work is published in *Accounting, Organizations, and Society*, *Behavioral Research in Accounting*, *Contemporary Accounting Research*, *Journal of Educational Administration*, and *Journal of Management Accounting Research*. At the University of Waterloo, Dr. Kelly teaches financial and managerial accounting.



**Partha Mohanram** is the CGA Ontario Professor of Financial Accounting at the Rotman School of Management, University of Toronto. He has published extensively in the area of valuation with an emphasis on financial statement analysis, valuation of growth firms, and implied cost of capital. He has also published research on earnings management especially in the context of compensation and disclosure regulation. He serves as an Editor of *Contemporary Accounting Research* and on the Editorial Board of *The Accounting Review* and *Review of Accounting Studies*. He teaches advanced electives on business analysis and valuation at the MBA and undergraduate level, and a Ph.D. seminar on valuation. Professor Mohanram joined the Rotman School of Management after serving on the faculties of Columbia University and New York University. He obtained his Ph.D. from Harvard University; MBA from Indian Institute of Management, Ahmedabad; and B.Tech from Indian Institute of Technology Madras. He is a CPA-CGA, and a certified board director (ICD.D).



**Patricia C. O'Brien** is the Ernst & Young Professor at the School of Accounting and Finance, University of Waterloo, and the current Editor-in-Chief of *Contemporary Accounting Research*. Professor O'Brien was the 2009 recipient of the Canadian Academic Accounting Association's Haim Falk Award for Distinguished Contribution to Accounting Thought, for her research on financial analysts. She has served on the editorial boards of the *Journal of Accounting Research*, *The Accounting Review*, and the *Journal of Accounting and Public Policy*, and currently serves on the Academic Advisory Committee of the Canadian Accounting Standards Board. Professor O'Brien has held full-time faculty appointments at the University of Rochester, Massachusetts Institute of Technology, the University of Michigan, London Business School, York University, and the University of Waterloo, and visiting appointments at the Helsinki School of Economics, the University of Chicago, Stanford University, and the University of Amsterdam. She holds an A.B. degree, *cum laude* in mathematics, from Cornell University, and earned her M.B.A. and Ph.D. degrees at the University of Chicago.



**Dan Simunic** is the Certified General Accountants' Professor, at the Sauder School of Business, the University of British Columbia, Canada. He has also served as a Visiting Professor at various universities around the world. Dan's research interests are in the economics of auditing and in international auditing. He has published research papers in numerous scholarly journals, including the *Journal of Accounting Research*, *Journal of Accounting & Economics*, *The Accounting Review*, *Contemporary Accounting Research*, and *Auditing: A Journal of Practice & Theory*.

Dan obtained a Ph.D. in accounting and economics from the Graduate School of Business, University of Chicago. He worked in the Chicago office of Ernst & Ernst (now Ernst & Young) and served for 10 years as a technical advisor from Canada to the International Auditing Practices Committee (now the International Auditing & Assurance Standards Board) of the International Federation of Accountants. He is a U.S. CPA (State of Illinois) and an FCGA (British Columbia). Dan served as Co-Editor of *Contemporary Accounting Research* from 1997 to 2000, and as the Editor of *Auditing: A Journal of Practice and Theory* from 2005-2008 and is currently a Co-Editor of the *Journal of Contemporary Accounting & Economics*.

# Professional Development Day

7:30 a.m.–8:30 a.m.	PD DAY REGISTRANTS' BREAKFAST	Governor General (Level 2)
8:30 a.m.–10:15 a.m. 10:45 a.m.–12:45 p.m. 1:45 p.m.–3:45 p.m. 4:00 p.m.–5:30 p.m.	WORKSHOP A1	York East & West (Main Level)
SPONSOR 	<b>Developing Short Accounting Cases</b> (Full-Day Workshop) <i>Chair:</i> Penny Parker, Fanshawe College <i>Workshop Leaders:</i> Phylise Banner and John S. DeJoy, Union Graduate College <p>This interactive workshop focuses on how to teach accounting online, emphasizing applied effective practices in adult education and online teaching and learning. Upon completion of this workshop, participants will be able to: 1) develop strategies for translating teaching content into the online learning environment; 2) explore multiple approaches to online student interaction with accounting content, other students, and the instructor; 3) establish methods for assessment of student progress and success in the online environment; and 4) recognize the elements of an online accounting course workload management strategy.</p>	
8:30 a.m.–10:15 a.m. 10:45 a.m.–12:45 p.m. 1:45 p.m.–3:45 p.m. 4:00 p.m.–5:30 p.m.	WORKSHOP A2	Osgoode East & West (Level 3)
SPONSOR 	<b>Developing the Ability to Make Good Judgments</b> (Full-Day Workshop) <i>Chair:</i> Penny Parker, Fanshawe College <i>Workshop Leaders:</i> Catherine Banks, Ernst & Young Foundation and Greg Burton, Bringham Young University <p>The ability to make sound accounting judgments in a profession filled with uncertainty and estimates is a highly valued skill. However, having sound professional judgment skills is not second nature. Acquiring this skill requires practice and experience. When making decisions, it is easy to focus on information that can be easily recalled and related to a particular issue, or allow others' views to influence how an issue is addressed. These "biases" can hinder a decision-maker from considering other alternatives that may confirm or disconfirm a particular position. This workshop will demonstrate how to overcome biases and introduce a framework for helping accountants develop good decision-making skills. The workshop uses a hands-on approach to give participants experience working through uncertainty and estimates in arriving at well-thought-out and documented decisions.</p>	
8:30 a.m.–10:15 a.m. 10:45 a.m.–12:45 p.m. 1:45 p.m.–3:45 p.m. 4:00 p.m.–5:30 p.m.	WORKSHOP A3	Simcoe East & West (Main Level)
SPONSOR 	<b>The Craft of Accounting Research: Planning, Performing, and Publishing Research in Accounting</b> (Full-Day Workshop) <i>Chair:</i> Patricia C. O'Brien, University of Waterloo <i>Workshop Leaders:</i> Dan Simunic, University of British Columbia, Khim Kelly, University of Waterloo, and Partha Mohanram, University of Toronto <p>This workshop is intended for doctoral students and junior faculty members interested in performing research and writing research-based articles for scholarly journals in accounting. It will concentrate on examining issues and problems involved in planning and performing research, as well as writing up and publishing results. The workshop will be of most use to those Ph.D. students who are at a relatively advanced stage of their program such that crafting a research paper to submit for publication is something they will be doing in the near term.</p>	
10:15 a.m.–10:45 a.m.	BREAK	Governor General (Level 2)
12:45 p.m.–1:45 p.m.	PD DAY REGISTRANTS' LUNCH	Governor General (Level 2)
3:45 p.m.–4:00 p.m.	BREAK	Governor General (Level 2)
5:30 p.m.	WORKSHOPS ENDS	

6:00 p.m.–

8:30 p.m.

SPONSOR



## CAAA WELCOME RECEPTION

Tom Thomson (Conference Level)

*Chair :* **Alan J. Richardson**, CAAA President, University of Windsor

*The CAAA welcomes all conference delegates to this reception.*

## FEDERATION OF BUSINESS SCHOOL DEANS PANEL

**Day :** Friday, May 29

**Room :** Toronto I & II

**Hour :** 3:45 p.m.–5 p.m.

**Speakers :** Tashia Batstone, CPA Canada, Timothy Daus, Canadian Federation of Business School Deans, Thomas W. Scott, University of Waterloo, and Alan J. Richardson, University of Windsor



# PROS USE EVERY TOOL AT THEIR DISPOSAL

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- Audit and assurance
- CPA Canada Handbook: Standards and guidance collection
- Finance
- Financial and non-financial reporting
- Forensic and investigative accounting
- Information management and technology
- Management accounting
- Strategy, risk and governance
- Sustainability
- Taxation

## **Here's your chance:**

Drop by CPA Canada's booths # 1 & 2 during the conference to speak to a representative or visit [cpacanada.ca/applyingthestandards](http://cpacanada.ca/applyingthestandards) to see what materials are available to you.



## Friday Keynote Speakers

### Plenary Session I at 8:10 a.m.



**Jeremy Justin** is the Senior Director at the Canadian Public Accountability Board and is responsible for the Standards and Thought Leadership and leads audit inspections of CPAB registered firms. Jeremy's responsibilities in standards include consultation with inspection teams on audit and accounting issues and discussing current issues with standard setters in Canada and internationally. Mr. Justin is also a member of IFIAR's Standards Coordination Working Group which is a forum for IFIAR Members to share views and concerns about pronouncements from the International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants. In thought leadership, Jeremy's responsibilities include engaging in issues related to audit quality including researching and publishing discussion papers on audit quality. Prior to joining CPAB, Jeremy practised at Deloitte where he provided advice on accounting, assurance and financial reporting matters and led the audits of large public companies. Jeremy earned a BA and MAcc at the University of Waterloo.

### President's Luncheon at 12:30 p.m.



**Dean Neu** is a professor of accounting in the Schulich School of Business at York University, Toronto, Canada. His research focuses on the public policy and public interest aspects of accounting practice. In this work, the disguise of accounting as a boring benign appendage to business and government is stripped away to reveal how accounting plays a crucial role in constructing and enacting public policy.

## 2015 L.S. Rosen Award Recipient



**Sandy  
Hilton**

The L.S. Rosen Outstanding Educator Award Committee is delighted to announce that the 2015 award recipient is **Sandy Hilton** of CPA Canada.

Sandy's contribution to accounting education in Canada is deep, broad, and ongoing. As an accounting faculty member at the University of Alberta and the University of British Columbia – Okanagan, Sandy's passion for education was recognized through awards for both teaching and student case competition advising. More recently, in his role as Director of Professional Education Programs for CPA Canada, Sandy has been instrumental in crafting the new professional accounting education program for aspiring CPA's. Remarking on his leadership in this new program, one of his colleagues described Sandy as an "inveterate innovator" who has made advances that have enabled CPA PEP to "skip a generation".

Sandy also contributed significantly to accounting education in Canada through his role from 2007 to 2011 as Chair of the Education Committee of the Canadian Academic Accounting Association. During his time as Chair, Sandy was instrumental in making accounting education a highly visible and extremely attractive part of the CAAA's annual conference; this feature of the conference is an important legacy that continues today. Sandy has also made important contributions to accounting education by both publishing in, and serving as associate editor of, a leading accounting education journal. In his role as associate editor, Sandy was a particular champion of junior authors. In the words of the journal editor, "writing reviews that transformed manuscripts from good ideas to publishable manuscripts". Sandy has also contributed to accounting education through serving on such CICA task forces as examining the competency map, or how to make accounting academe a more attractive career choice.

In sum, as was evident in the numerous testimonials from former students and professional colleagues, as well as to anyone who has the good fortune to witness first hand Sandy's passion for accounting education, Sandy's contribution to Canadian accounting education—in its many forms—has been significant. Sandy is an extremely worthy recipient of the L.S. Rosen Outstanding Educator Award.

On behalf of the Canadian Academic Accounting Association we congratulate Sandy on receiving this award.

*2014–2015 L.S. Rosen Award Committee:*

Gary Entwistle, Chair, University of Saskatchewan

Theresa Libby, University of Waterloo

Michel Magnan, Concordia University

“In sum, as was evident in the numerous testimonials from former students and professional colleagues, as well as to anyone who has the good fortune to witness first hand Sandy's passion for accounting education, Sandy's contribution to Canadian accounting education—in its many forms—has been significant.”

## 2015 Haim Falk Award Recipient



Dean  
Neu

“Reinforcing this point, a support letter indicates, “His work is highly-innovative. He is not only a leader in bringing new ideas from the social sciences into accounting thought, he further applies these ideas in contexts in which accounting plays a significant role and in which it has major implications. He is a ground-breaker, regularly investigating areas wherein accounting research has never been conducted...””

The CAAA and the Haim Falk Award Committee, consisting of Jean Bédard (Chair), David Cooper and Michael Welker, are pleased to name Professor **Dean E. Neu**, York University, as the 2015 recipient of the Haim Falk Award for Distinguished Contribution to Accounting Thought.

Professor Neu has been a consistent contributor to the accounting literature, with close to 70 articles in refereed accounting journals, including 20 in journals appearing on the influential *Financial Times* list of leading management journals. Moreover, his work is internationally-recognized and highly original in examining the role played by accounting in shaping public policy and the perception the public has of those policies. Reinforcing this point, a support letter indicates, “His work is highly-innovative. He is not only a leader in bringing new ideas from the social sciences into accounting thought, he further applies these ideas in contexts in which accounting plays a significant role and in which it has major implications. He is a ground-breaker, regularly investigating areas wherein accounting research has never been conducted. Dr. Neu’s ability to unveil the presence of accounting in activities that most people would not expect to find it is testament to his imaginative mind and makes his research so original and innovative.” Another person supporting his nomination points out that a number of his publications “are already accounting classics and others are well on the way to becoming so. Of particular note are “The birth of a nation: Accounting and Canada’s First nations 1860-1900” (published in 2006), “Informing Technologies and the World Bank” (published in 2006) and “Accounting for Public Space” (published in 2006). These were pioneering works which carved out new research areas and are amongst the most highly cited articles in the research field.”

The committee was also mindful of many of his other important and path breaking publications, including social analyses of positive theories, financial analysis of educational practices and accounting policy making and the profession. The committee believes his behavior exemplifies many of the qualities of a engaged, public intellectual in that he has an outstanding track record of converting serious academic research into popular writings. The committee was also very impressed with his contributions to the training of doctoral students and with his major involvement in editorial activities.



For all of these reasons, the Haim Falk Award Committee determined that body of work easily exceeds the criteria for the award; Dr. Neu’s namely original and innovative content, relevance to theory and practice, impact of the work, and consistency of contribution over time. On behalf of the Board of the CAAA, the Committee is pleased to recognize Professor Neu with the 2015 Haim Falk Award.

*2014–2015 Haim Falk Award Committee:*








Jean Bédard, Chair, Université Laval  
David Cooper, University of Alberta  
Michael Welker, Queen’s University

# Conference

FRIDAY

7:00 a.m.–6:30 p.m.	EXHIBITORS	Convention Level
7:00 a.m.–8:00 a.m.	THE CAAA MEMBERSHIP COMMITTEE & LIAISONS' BREAKFAST	Carmichael
7:00 a.m.–8:00 a.m.	GENERAL CONFERENCE ATTENDEES' BREAKFAST	Convention Level
8:00 a.m.–8:10 a.m.	OPENING REMARKS <i>Chair: Alan J. Richardson, 2014–2015 CAAA President, University of Windsor</i>	Toronto I & II
8:10 a.m.–9:15 a.m.	PLENARY SESSION I <b>Trends in CPAB's Inspections of the Audits of Public Companies in Canada</b> <i>Moderator: Ron Baker, 2015 CAAA Annual Conference Chair, University of Guelph</i> <i>Speaker: Jeremy Justin, Senior Director, Canadian Public Accountability Board</i> Reflecting on the current and emerging issues in auditing for the academic community to consider, this presentation will focus on the trends in CPAB's inspections of the audits of public companies in Canada.	Empire & Royal (Level 1)
9:15 a.m.–10:45 a.m.	CONCURRENT SESSIONS I EDUCATION SESSIONS:  College of Business + Economics	Convention Level
10:45 a.m.–11:00 a.m.	BREAK	Convention Level
11:00 a.m.–12:30 p.m.	CONCURRENT SESSIONS II EDUCATION SESSIONS:  College of Business + Economics	Convention Level
12:30 p.m.–2:15 p.m.	THE CAAA PRESIDENT'S LUNCHEON <i>Chair: Alan J. Richardson, 2014–2015 CAAA President, University of Windsor</i> <b>Awards Presentations</b> <b>L.S. Rosen Outstanding Educator Award</b> <i>Presenter: Theresa Libby, University of Waterloo</i> <b>Haim Falk Award for Distinguished Contribution to Accounting Thought</b> <i>Presenter: Name, Institution</i> <b>Accounting and Public Policy Research</b> <i>Moderator: Ron Baker, 2015 CAAA Annual Conference Chair, University of Guelph</i> <i>Speaker: Dean Neu, York University</i> This presentation reflects on how the increasing (and changing) emphasis on "research impact" by governments and other funding agencies creates a space for new forms of policy-oriented accounting research.	Toronto I & II



2:15 p.m.–3:45 p.m. SPONSORS RESEARCH SESSIONS: 	CONCURRENT SESSIONS III EDUCATION SESSIONS:  	Convention Level
3:45 p.m.–4:00 p.m. SPONSOR 	BREAK	Convention Level
3:45 p.m.–5:00 p.m.	FEDERATION OF BUSINESS SCHOOL DEANS PANEL <ul style="list-style-type: none"> <li>• Tashia Batstone, CPA Canada,</li> <li>• Timothy Daus, Canadian Federation of Business School Deans,</li> <li>• Thomas W. Scott, University of Waterloo, and</li> <li>• Alan J. Richardson, University of Windsor</li> </ul>	Toronto I & II
4:00 p.m.–5:00 p.m. SPONSORS RESEARCH SESSIONS: 	CONCURRENT SESSIONS IV EDUCATION SESSIONS:  	Convention Level
5:15 p.m.–6:30 p.m.	ANNUAL GENERAL MEETING <i>Chair: Alan J. Richardson, 2014–2015 CAAA President, University of Windsor</i> <div>We encourage all CAAA members in good standing to attend the AGM. The notice, agenda, and documentation are available at our members' section of the website: <a href="https://www.caaa.ca">https://www.caaa.ca</a>.</div>	Tom Thomson

FRIDAY

7:30 p.m.– 8:30 p.m. SPONSOR 	CAAA MEMBERS' & EXHIBITORS' RECEPTION Governor General (Level 2) <i>Chair: Merridee Bujaki, 2015–2016 CAAA President, Carleton University</i> <div>We welcome all the registrants to the Friday evening CAAA Members' &amp; Exhibitors' Reception.</div>
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# Concurrent Sessions I

## 9:15 a.m.–10:45 a.m.

### Sponsors

### Research Sessions:



ACCOUNTING, OPERATIONS  
AND INFORMATION SYSTEMS

### Education Sessions:



College of  
**Business +**  
Economics

All sessions are on the Convention Level.

## 1A - Internal Control

Room: Carmichael

Session Chair: **Stephania Mason**, DePaul University

### Internal Control and Operational Efficiency

**Qiang Cheng**, Singapore Management University

**Beng Wee Goh**, Singapore Management University

\***Jae B. Kim**, Singapore Management University

In this study, we examine whether and how internal control over financial reporting affects firm operational efficiency. We find that operational efficiency, derived from the frontier analysis, is significantly lower among firms with material weaknesses in internal control relative to firms without such weaknesses. We document some evidence suggesting that effective internal control leads to greater operational efficiency through reducing the likelihood of misappropriation of corporate resources and through enhancing the quality of internal reports for decision making. We also document that smaller firms benefit more from having effective internal control in terms of operational efficiency. In addition, we find that the market appears to understand the effect of ineffective internal control on operational efficiency: within firms with internal control material weakness, those with more negative market reaction experience a larger deterioration in operational efficiency. Lastly, we find that the firms that remediate their material weaknesses subsequently experience an improvement in operating performance and stock returns, and this effect is mainly driven by the improvement in operational efficiency. Overall, our study extends the literature by presenting systematic evidence on the effects of effective internal control on operational efficiency and firm performance.

### The Effect of Internal Control Weakness on Firm Valuation: Evidence from SOX Section 404 Disclosures

**Yingqi Li**, Shanghai Lixin University of Commerce

\***Ruiqing Shao**, Shanghai Lixin University of Commerce

**Jerry Junli Yu**, Nanjing University

**Zhou Zhang**, University of Regina

**Steven X. Zheng**, University of Manitoba

We find that firms reporting internal control material weakness (ICW) under Section 404 of Sarbanes-Oxley Act have 13% lower valuation than non-ICW firms based on Tobin's q. This valuation difference is mainly driven by stock underperformance of more than 13% during the year before ICW disclosure. Those ICW firms that remedy the internal control weakness in the year after disclosure have much better stock performance compared to those ICW firms who fail to remedy ICW during the same period. We further show a better stock performance in the year before disclosure if a SOX 404 ICW firm has prior SOX 302 ICW disclosure more than one year earlier. All these results are consistent with the hypothesis that the equity market has reflected the negative information associated with SOX 404 ICW reports before the actual disclosures are made. Additional analysis suggests that the market cannot independently reflect the ICW information. More likely, the activities related to the preparation of ICW disclosure generate new information that is reflected in the stock prices.

### The Impact of the Sarbanes-Oxley Section 404(B) Exemption on Earnings Informativeness

**Larry Davis**, St. Thomas University

\***Alex Lyubimov**, Concordia University

**Greg Trompeter**, University of Central Florida

The Dodd-Frank Act of 2010 eliminated, for smaller publicly traded companies, the requirement to comply with Sarbanes-Oxley Section 404(b). We investigate how this exemption affected earnings informativeness of companies that had initially engaged their auditors to provide 404(b) opinions and then ceased to do so. Smaller publicly traded companies are almost four times as likely to have ineffective controls as their larger counterparts, and smaller companies are the ones which are now exempt from having a requirement to involve an independent expert to assess their internal controls. Using an association study approach, we show that stopping compliance with Section 404(b) led to a drop in market's perception of earnings informativeness of almost 24%, which is significant both statistically and economically. This provides evidence the Section 404(b) exemption is not consistent with one the main goals of the Dodd-Frank Act, which was to increase regulatory oversight to protect market participants. by this major change in financial reporting standards.

## 1B - Disclosure

Room: Jackson

Session Chair: **Vasiliki Athanasakou**, London School of Economics and Politics

### Information Processing Biases in Impairment Decisions: The Effect of Reversibility and Disclosure

\***Hwee Cheng Tan**, University of New South Wales

**Ken Trotman**, University of New South Wales

We conduct an experiment to investigate how regulatory requirements in the accounting for impairment, namely, reversibility of impairment losses and disclosure of impairment assumptions, influence managers' biases in the processing of impairment information. Our results show that regulatory requirements influence managerial bias in information evaluation, but not their bias in the search process. We find that managerial bias in the evaluation of impairment information is not significantly different between the two disclosure conditions when impairment losses can be reversed. When impairment losses cannot be reversed, the direction of bias depends on whether managers are required to make a full or partial disclosure of the impairment assumptions. Managers who are required to disclose all assumptions regardless of their impairment decisions have favourable evaluations of positive information about the asset. However, when managers are required to disclose assumptions only when impairment losses are recognized, managers' evaluations of the impairment information are similar to that of the control group.

Our moderated mediation analysis reveals that reversibility of impairment losses affects impairment decisions through information evaluation bias only when partial disclosure of impairment assumptions is required. The main contributor of the bias comes from managerial evaluations of the reliability of the impairment information. Information evaluation bias does not act as a mediator when managers have to fully disclose their impairment assumptions. Instead, the reversibility of the impairment losses exerts a direct effect on their impairment decisions.

### Disclosure Comprehensiveness and Market Efficiency: Evidence from the Toronto Stock Exchange

**Karel Hrazdil**, Simon Fraser University

**Dennis Y. Chung**, Simon Fraser University

\***Nattavut Suwanyanguan**, Simon Fraser University

This paper investigates the effect of the disclosure comprehensiveness of annual reports on the information efficiency of stock prices. Using a sample of large and actively traded Canadian companies listed on the Toronto Stock Exchange, we analyze annual reports filed on SEDAR between 2003 and 2013 and find that the comprehensiveness of annual reports is an important determinant of short-horizon return predictability from historical order flows, which is an inverse indicator of market efficiency. Our results show that longer and larger annual reports are associated with reduced information asymmetry, lower cost of immediacy, higher trading activity, and an overall improvement in the efficiency of price discovery. The results are robust to the inclusion of controls for various determinants of short-horizon return predictability, such as trading costs, volatility, informational effects, and other firm-specific characteristics. Collectively, our findings provide empirical support for the benefits of enhanced corporate disclosure in Canada.

### Do Managers Use Voluntary Disclosure to Explain Accounting Conservatism? The Role of Bundled Forecasts

\***Carlo D'Augusta**, Georgia State University

**Giulia Redigolo**, University of Padua

Under conditional conservatism, the recognition of hard to verify gains is delayed until they meet higher verification standards. Such a lack of timeliness may cause investors to be inadequately informed about positive outcomes; however, recent findings show that conservatism is actually associated with improvements in the information environment. To explain this association, we hypothesize that managers combine the mandatory announcement of current earnings with the voluntary revelation of expected future profits, whose recognition has been postponed, so as to inform investors of conservatism's effect on the earnings time series.

Consistently, we find that conservatism significantly increases the probability that a manager chooses to bundle a good news forecast with the earnings announcement rather than remain silent. We also find that bundled forecast news is more positive when conservatism is higher, and such effect is stronger if current earnings news is negative. Additional analyses reveal that bundled forecasts issued by conservative firms are not less reliable, but rather more accurate and less optimistically biased. Finally, conservative firms enjoy higher stock returns in the announcement days if they bundle a good news forecast than if they remain silent. This paper contributes to our understanding of the determinants and characteristics of bundled forecasts, as well as the consequences of conservative reporting.

## 1C - Compensation

Room: Varley

Session Chair: **Jing Lu**, Nipissing University

### Product Market Competition and Performance Sensitivity of Executive Compensation: Evidence from the Emerging Markets

**Hanwen Chen**, Xiamen University

**Liquan Xing**, Shanghai Stock Exchange

\***Haiyan Zhou**, University of Texas-Pan American

Based on the relative compensation theory (e.g., Holmstrom 1982; Banker and Datar 1989), we explore the relationship between product market competition and the performance sensitivity of executive compensation. We use emerging markets as a unique setting to investigate the link between product market competition and pay-performance sensitivity of executive compensation since market competition mechanism can be better used to reduce agency cost due to the relatively weaker corporate governance characteristics in such markets compared with developed economies. Using a sample of 7,558 firm-year observations from the Chinese stock markets for the period of 2007–2012, we find that product market competition has a significant impact on performance sensitivity of executive compensation. In particular, when listed companies are in an industry of lower concentration (i.e., there is a more intense product market competition), the performance sensitivity of executive compensation will be higher. When a firm is ranked at a higher competitive position in the industry and stronger pricing power market share, the performance sensitivity of executive compensation will also be higher. Our findings indicate significant impacts of market competition on executive remuneration.

### Through the Grapevine: Network Effects on the Design of Executive Compensation Contracts

\***Susanna Gallani**, Michigan State University

Effective design of executive compensation contracts involves the choice and weighting of performance measures, as well as the mix between fixed and incentive-based pay components, with a view to fostering talent retention and goal congruence. Despite large variability in firms' characteristics and goals, compensation design is subject to isomorphic pressures, which cannot be completely explained by industry affiliation or peer group membership. This study explores the drivers of isomorphism in the design of executive compensation contracts as a function of inter-firm professional networks, including board interlocks and compensation consultants. Using information disclosed in proxy statements of publicly traded companies, I predict and find that firms connected through board interlocks or common compensation consultants display a higher degree of isomorphism in the design of executive compensation contracts. However, consultants with larger customer base and greater expertise mitigate these isomorphic tendencies. Additionally, the effects of the two networks are additive and independent.

### Financial Market Developments and Management Compensation

**Daniel A. Bens**, INSEAD

**Scott Liao**, University of Toronto

\***Barbara Su**, University of Toronto

We examine whether the branching provisions in the Interstate Banking and Branching Efficiency Act (IBBEA) affect firms' pay-risk sensitivities in executive compensation. We find that the decrease in the relation between interest rates on bank loans and pay-risk sensitivities after IBBEA is more pronounced for borrowing firms located in states with lower regulatory branch entry barriers. As a result, firms in these states are more likely to increase their pay-risk sensitivities in compensation. We further find that the increase in pay-risk sensitivities is more pronounced in states where the diversification benefits to the banks are the greatest. These findings together suggest that directors take into account agency conflicts between debtholders and shareholders when compensating management and that macro financial market developments affect firm corporate governance—in this case, compensation structures.

## 1D - Developing Online Courses (SUMMARY OF THURSDAY'S PD DAY WORKSHOP)

Room: Toronto Harris

\***Phylise Banner**, Union Graduate College

\***John S. DeJoy**, Union Graduate College

This session will include a summary of the full-day workshop presented the previous day. Using examples from an actual online accounting course, the session will focus on course design and delivery with emphasis on the following topic areas: Content; Interaction; Assessment; Management; Technology.



## 1E - Professional Judgment (SUMMARY OF THURSDAY'S PD WORKSHOP)

Room: Toronto MacDonald

\*Greg Burton, Brigham Young University

This session will provide a summary of Thursday's workshop with a focus on using a framework approach to developing good judgment making skills and demonstrate classroom materials developed to teach judgment. The session will appeal to those who were unable to attend the workshop but are in need of some direction/resources for teaching professional judgment.

## 1F - Using Financial Accounting Cases to Demonstrate the Framework Approach

Room: Toronto Lismer

\*Alan Jagolinzer, International Accounting Standards Board and the University of Colorado

The session includes a workshop designed to support the implementation of Conceptual Framework-based teaching (FBT) across a range of financial reporting or MBA classes. To achieve this objective, a leading IFRS teacher will demonstrate Framework-based teaching that can reach a range of audiences. The session is also designed to illustrate how Framework-based teaching enhances the ability of students to exercise the judgements that are necessary to apply IFRS and better prepares them to continuously update their IFRS knowledge and competencies in the context of lifelong learning.

## 1G - Audit

Room: Johnston

Session Chair: Fred Pries, University of Guelph

### Determinants of Undetected Unintentional Errors in Audited Financial Statements

\*Louise Hayes, University of Guelph

This study investigates the associations between financial restatements and characteristics of the parties responsible for preventing and detecting unintentional errors (i.e., boards (through their audit committees), management (through chief financial officers (CFOs), and auditors). To conduct this investigation, I developed a theoretical model of restatement determinants that is more complete than models used in previous archival research as it includes characteristics of all three parties and the moderating effects of chief financial officers' financial expertise and influence on the disruptive effects of organizational change. I use a proxy for restatements that identifies restatements that correct unintentional error based on the language in restatement disclosures. Results show that, of the three parties responsible for financial reporting quality, the CFO plays the major role with respect to unintentional error. The likelihood of restatement to correct unintentional error is decreasing in CFO financial expertise, but only when companies are undergoing organizational change. Results also show that CFOs' (audit committees') financial expertise is more strongly associated with restatements that correct unintentional error (intentional misstatement) than intentional misstatement (unintentional error). However, I find no evidence of significant associations between auditor quality and either restatements that correct unintentional error or intentional misstatement.

### Changes in Auditing Standards: Update and Opportunities for Audit Research

#### ONE HOUR PANEL DISCUSSION FROM 9:15 A.M. TO 10:15 A.M.

Darrell Jensen, Ernst & Young LLP

\*Fred Pries, University of Guelph

Eric Turner, CPA Canada

The most significant changes to auditor's reporting responsibilities in decades are occurring. Reporting key audit matters under new International Auditing Standards will add much greater transparency to the audit process. Changes to auditor's reports may also affect auditor's responsibilities related to going concern and the content of annual reports. These and other developments in the assurance world are raising fundamental questions about the auditor's role, what information auditors can and should provide assurance on, and what levels of assurance readers take from reports by assurance practitioners.

This session will include an update on the changes that are occurring, identification of some of the key issues that have arisen in the development of these new standards and a discussion of research opportunities and needs that arise from the changes.

## 1H - Sexism, Religion, and Audit

Room: Casson

Session Chair: **Christine Wiedman**, University of Waterloo

### Sexism, Statements, and Audits

**Eric Schniter**, Chapman University

\***Timothy W. Shields**, Chapman University

Gender stereotypes and gender-discriminant behaviors have been shown to have strong and undesirable organizational, managerial, and economic effects. We examine the relationship between sexism and accounting practices, and the effect of contextual feedback using laboratory experiments. Sexist stereotypes and contextual feedback may affect the likelihood of financial misstatements and audits when auditors and issuers are of known gender. To investigate these aspects of sexism at zero acquaintance and after contextual feedback, we presented males and females with incentivized belief elicitation tasks about anticipated interaction behaviors and then a series of strategic-communication game decisions in same, other, and unknown gender interactions. Feedback about belief accuracy, actual behaviors, and earnings was only given after completing a full set of belief elicitations and interactions. At zero acquaintance, both genders stereotyped the other gender's behavior propensities as relatively different than their own gender's. Both genders' stereotyped male and female targets similarly, and while both genders discriminated based on target gender, males' and females' behavior was similar. Consistent with a statistical discrimination account of sexism, stereotypes and game behaviors were adjusted after contextual feedback to more accurately reflect and predict others' behaviors. While biosocial and evolutionary perspectives may help explain why undesirable sexism is prevalent, our results suggest that by providing contextual information and incentives in reporting and auditing settings, we can motivate sexists to moderate their stereotypes and linked behaviors.

### Religion and Audit Quality: Evidence from China

**Xingqiang Du**, Xiamen University

**Shaojuan Lai**, Xiamen University

**Gerald J. Lobo**, University of Houston

\***Mary L. Ma**, York University

Due to the antitheism doctrine held by the Chinese Communist Party, it is widely-held that religions do not play a role in China. This study examines whether and how religion in China (Buddhism and Taoism as a whole) affects audit quality. We find that auditors in areas with intense religiosity generally present higher audit quality measured by misstatement and abnormal accruals, with the effect more pronounced for non-BIG4 auditors, more competitive audit markets, audit firms with limited liabilities, and industries with higher litigation risk. The evidence is consistent with the notion that religion in China could still constrain auditors' unethical desires and alleviates their economic bonding concerns. Further analyses show that the effect of religion substitutes weak monitoring mechanisms such as lower board independence, fewer analyst-followings and institutional investors, and weak debt holders' monitoring.

### Religiosity and Audit Fees

**Bikki Jaggi**, Rutgers, The State University of New Jersey

**Hua Xin**, Rutgers, The State University of New Jersey

We document in this study that high religious environment in which auditors operate have a significant impact on their behavior, resulting in lower audit risk and lower audit effort, and hence lower audit fees. Our findings show that there is a significantly negative association between audit fees and religiosity values of counties in which auditors' offices are located. Additionally, the results show that only the religiosity values based on Protestants' religious beliefs are negatively associated with audit fees, but not the religiosity values based on Catholics religious beliefs. Moreover, we find that the negative association between religiosity values and audit fees is stronger when auditors' offices are located in rural areas compared to urban areas. We use the religiosity values based both on the American Religion Data Archive (ARDA) and Gallup data base to enhance the reliability of our results, and we find that the results based on both data bases are similar.

## 1I - Earnings Management

Room: Tom Thomson

Session Chair: **Robert G. Biscontri**, University of Manitoba

### Health-Insurer Bargaining Power and Firms' Incentives to Manage Earnings

**Francesco Bova**, University of Toronto

**Yiwei Dou**, New York University

\***Ole-Kristian Hope**, University of Toronto

Health-insurance premiums account for a significant portion of the cost base of U.S. corporations. A recent study finds that health-insurance premiums increase for firms that experience positive profit shocks (Dafny 2010), suggesting that the U.S. health-insurance market is not perfectly competitive. Motivated by this finding and the economic importance of health-insurance premiums, this is the first study to examine firms' earnings-management incentives in the face of insurance carriers with strong bargaining power. Using an innovative dataset for a large sample of U.S. firms with detailed information on insurance premiums and insurance-plan characteristics, we find that firms manage their reported earnings downward when insurance providers have strong bargaining power. This finding holds using both a natural experiment and association tests. We further show that this effect is more pronounced in settings in which there are ex-ante reasons to expect stronger incentives to manage earnings downward. We also provide preliminary evidence suggesting that downward earnings management has the intended effect of reducing future health-insurance premiums. Our analyses highlight an inefficient health-insurance market as an important determinant of firms' financial reporting choices.

### Accounting Discretion, Budgetary Process and Asymmetric Ratchet Effect

**Hsin-Yu Chen**, National Taiwan University

\***Sai-Chung Ngan**, Fanshawe College

We use an empirical framework to analyze whether managers would use accruals to adjust (upwards or downwards) the earnings levels when they fail to meet the budgeted earnings. Our study further examines whether managers' intention on using accruals adjustment in income-decreasing is due to an asymmetric budget ratcheting effect.

We define "as if earnings" as the earnings prior to the accrual adjustment made by the managers. Our study finds that the greater the discrepancy between as if earnings and budgeted earnings, the greater is the intention of the managers to use accruals to adjust (upwards or downwards) the earnings levels. We conduct supplementary analysis to examine the extent to which managers selected attainable goals and the impact this had on performance. We find that budget ratcheting effect has an asymmetric nature and a higher degree of significance when as if earnings is greater than budgeted earnings. These results highlight the importance of the relationships among accounting discretion, budgetary process and asymmetric ratchet effect.

### Target Ownership Plan and Earnings Management

**Kareen Brown**, Brock University

**Changling Chen**, University of Waterloo

\***Duane B. Kennedy**, University of Waterloo

We examine the determinants of target ownership plans and their association with earnings management. We find that firms adopt target ownership plans not only in response to poor performance as documented by prior research, but also as a means to mitigate moral hazard concerns and in response to peer pressure. Our analyses show that firms engage in less accruals and real earnings management for up to two years following plan adoption. Additionally, we find that the reduction in accruals management is concentrated in adoption firms that have met the target ownership requirements, and in high probability adoption firms whose adoption decisions are driven by performance, moral hazard, governance, capital market, and peer-firm concerns. Our findings support the argument that target ownership plans align CEOs' incentives with shareholders' in that these plans result in reduced management short-termism as evidenced by more truthful earnings reporting and less real earnings management through production cost manipulation and discretionary expenditures.

# Concurrent Sessions II

11:00 a.m.–12:30 p.m.

## Sponsors

### Research Sessions:

### Education Sessions:



ACCOUNTING, OPERATIONS  
AND INFORMATION SYSTEMS



College of  
**Business +  
Economics**

All sessions are on the Convention Level.

## 2A - Tax and Financial Reporting

Room: Carmichael

Session Chair: **Na Li**, Singapore Management University

### Monitoring Roles of External Auditors and Tax Authorities in Tax-Induced Downward Earnings Management

**Yongbo Li**, Hong Kong University of Science & Technology

\***Kenny Lin**, Lingnan University

**Fang Zhang**, Hong Kong Baptist University

In this study we examine how external auditors and tax authorities separately and jointly constrain corporate tax incentives to manage earnings downward through discretionary accruals. We find that stricter tax authority scrutiny limits these accruals to a greater extent. We also find that although the monitoring effect of auditors is in general insensitive to income-decreasing accruals, higher-quality auditors are more effective than their lower-quality counterparts in constraining such accruals when tax enforcement is stricter. We interpret the results as being consistent with the different monitoring foci of auditors and tax authorities, and with the penalty risk argument that auditors will behave more conservatively so as to avoid regulatory costs arising from the failure to detect managerial misconduct that is discovered *ex-post* by the tax authority.

### Measuring Tax Fairness: A Scale Development Study

**Jonathan Farrar**, Ryerson University

\***Linda Thorne**, York University

Tax fairness is a prominent concept in the tax ethics literature, and is important because perceptions of fairness can lead to greater cooperation and compliance with tax authorities. Tax fairness research has investigated four different factors of fairness, as identified by Colquitt (2001). However, despite the growing body of tax fairness research, some of this research fails to recognize the particular type of fairness being investigated, which, in part, may account for inconsistent findings in the tax fairness literature, and a lack of understanding of the association between each type of tax fairness and compliance. To understand this association, we conduct a survey on 299 Canadian taxpayers using a conglomeration of the existing items used to measure these four factors of tax fairness. We find four similar factors, and a hierarchical relationship among the factors. One of the factors is a primary factor ('fairness of tax burden allocation'), whereas the other three factors ('even-handedness of administrative procedures', 'respectful treatment', and 'adequacy of explanations') underlie a second primary factor ('fairness of the tax assessment process'). To facilitate future tax research, we present reliable and valid measures of these four factors.

### Cross-Jurisdictional Enforcement Difficulty and Financial Reporting Quality

**Andrei Filip**, ESSEC Business School

\***Zhongwei Huang**, ESSEC Business School

**Daphne Lui**, ESSEC Business School

This paper examines whether managers perceive a lower *ex-ante* cost of opportunistic financial reporting when regulators face difficulties in cross-jurisdictional investigation and legal enforcement against them. We find that firms that present cross-border enforcement challenges to securities regulators in a strong enforcement regime engage in more earnings management than both domestic firms in their listing jurisdiction and domestic firms in their business jurisdiction. We also find that investors substantially discount these companies' earnings in short windows around earnings announcement. Our setting rules out that the results are driven by other determinants of financial reporting quality such as legal regime, enforcement regime, accounting standards, ownership type, and culture.

FRIDAY



## 2B - Disclosure

Room: Jackson

Session Chair: **Leila Peyravan**, University of Toronto

### Active CDS Trading and Managers' Voluntary Disclosure

\***Jae B. Kim**, Singapore Management University

**Pervin K. Shroff**, University of Minnesota

**Dushyantkumar Vyas**, University of Toronto at Mississauga

**Regina Wittenberg Moerman**, University of Chicago

We investigate how the development of the credit default swap (CDS) market affects firms' voluntary disclosure choices. The CDS market has been criticized for its vulnerability to insider trading by informed lenders who trade on borrowers' private information. We predict that the threat of private information revelation in the spreads of actively traded CDSs will pressure managers into enhancing their voluntary disclosures to mitigate the risks associated with non-disclosure. Consistent with our prediction, we find that managers are more likely to issue earnings forecasts when their firms have actively traded CDSs. Our results also suggest that liquid CDSs discipline managers to disclose bad news earnings forecasts, despite their career- and wealth-related incentives to withhold adverse information. In addition to disclosures via management forecasts, we document that liquid CDSs also enhance disclosure via firm-initiated press releases. Our findings suggest that informed trading by lenders in the CDS market results in a positive externality for capital markets by eliciting enhanced voluntary disclosures, thus contributing to a richer information environment.

### Disclosure and Funding of Non-Profit Organizations

\***Linda Whittaker**, University of Waterloo

**Mindy Wolfe**, University of Waterloo

This paper examines the level of disclosure in the annual reports of non-profit organizations (NPOs). We develop a Disclosure Index for NPO annual reports to determine the relative adoption of recommendations from government and industry leaders for greater disclosure. The Index uses attributes that prior studies find are associated with voluntary disclosure in for-profit and non-profit organizations. We then examine whether specific firm attributes are associated with higher levels of disclosure and whether disclosure is associated with higher levels of types of funding. We find that NPOs with audited financial statements, larger NPOs, and NPOs with higher administrative and fundraising expenses have higher levels of disclosure. However, both medical and religious type charities have lower disclosure levels relative to community charities. While we don't find that the level of disclosure is associated with the amount of donations, we do find that disclosure is associated with deferred revenue—a proxy for program specific donations.

### Discretionary Risk Disclosures: Empirical Evidence

**Tzu-Ting Chiu**, Norwegian School of Economics

\***Danqi Hu**, University of Toronto

Jorgensen and Kirschenheiter (2003) theoretically model firms' discretionary risk disclosure behaviors. They derive a partial disclosure equilibrium, in which firms voluntarily disclose their risks only when their cash flow variance is below a certain threshold. To date, however, there is no direct empirical test of the predictions from the theory. Motivated by the observation that some firms voluntarily provided risk-factor disclosures before the SEC mandated them in 2005, this paper shows that firms with higher R&D intensity and higher return volatility are more likely to voluntarily disclose risk information as suggested by the theory. In addition, for voluntary filers we find that imposing mandatory risk disclosure requirement lowers their betas indicating that mandatory regime increases managers' commitment for transparency. Compared with voluntary filers, however, we find increases of beta for non-voluntary filers because more risk-related information is disclosed. Finally, our cross-sectional analyses show that with the increasing importance of risk disclosures (i.e., firms face more intense industry competition or greater financial constraints), both the regime effect of lowering voluntary filers' betas and the information effect of increasing non-voluntary filers' betas are strengthened.

## 2C - Banking

Room: Varley

Session Chair: **Andrea Bafundi**, IE Business School

### Do Restatement Borrowing Firms Benefit from Board Tie with Lending Banks

\***Zhichen Wang**, City University of Hong Kong

Accounting restatements cast doubt on information credibility. Therefore, bank loan lenders have to devote more effort to information collection and monitoring. In this context, board ties with lending banks, where respective directors of borrowers and lenders attended college or previously worked together, can potentially benefit restatement borrowers by facilitating information flow or effective monitoring. Using matched sample difference-in-difference (DID) approach, my sample includes bank loans borrowed by restatement firms and non-restatement matching firms, in the pre- and post- restatement periods. Evidence shows that the existence of having board tie with lending banks helps to mitigate the higher bank loan cost suffered by restatement borrowers after restatement. Such result is mainly driven by more severe irregularity-related restatement and board tie with lead arranger in syndicate. However, the loan cost benefits come with additional costs. Lending banks, when connected by board tie with restatement borrower, tend to impose even more covenants than other lenders, suggesting they substitute interest rate concessions for more covenant restrictions to exercise *ex-post* control.

\* **Presenter**

## Dirty Surplus Accounting and Dividend Payout in the Banking Industry

Michele Fabrizi, University of Padua

\*Elisabetta Ipino, Concordia University

Michel Magnan, Concordia University

Antonio Parbonetti, University of Padua

This paper investigates whether the fair value accounting for available-for-sale (AFS) securities and the capital regulation permit to shift the risk from shareholders to creditors. Using a sample of 5,510 firm-year observations generated from 754 unique U.S. banks from 1998 to 2013, we find that banks realize gains on available-for-sale securities to distribute resources to shareholders in the form of dividends, while keeping loss-making assets in the balance sheet. Banks experiencing a decline in earnings or regulatory capital appear to rely on realized gains to pay dividends to a larger extent than banks that do not show a decline in earnings or regulatory capital. Our findings indicate that to counterbalance the increased risk banks change their lending behavior.

## Client Importance, Audit Quality Contagion, and Bank Risk Profile

Li Li, University of International Business and Economics

Xuejiao Jojo Liu, University of Hong Kong

\*Mary L. Ma, York University

This study investigates the effects of client importance on bank risk profile using a sample of U.S. listed commercial banks from 2000 to 2009, with the following main findings. First, client importance is generally associated with higher audit quality. Second, client importance decreases bank-specific crash risk and distress risk as well as sector-wide systemic crash risk and systemic distress risk, with such effects being more pronounced in the crisis period. Third, the effects of client importance on bank systemic risk strengthen (weaken) in banks audited by Big-N (Non-Big-N) audit firms, by audit firms without (with) earnings-restated client(s), and by auditors with more (less) industry expertise. Overall, these findings advance our understanding of the role auditors played in the most recent financial crisis and have policy implications for banking and auditing regulators.

## 2D - Tips for Developing an Online Financial Accounting Course

Room: Toronto Harris

\*Phylise Banner, Union Graduate College

\*John S. DeJoy, Union Graduate College

Using an actual Introduction to Financial Accounting online course, the presenters will discuss the thinking that went into this course, including approaches to interaction and communication, effective practice guidelines for building student engagement as well as how to identify, evaluate, and integrate technology resources into online teaching and learning environments. Examples of how students interact in an actual online financial accounting course will also be demonstrated.

## 2E - Integration of Financial Accounting, Tax and Auditing Resource Materials into the Classroom

Room: Toronto MacDonald

\*Michelle Malin, MacEwan University

\*Stephanie Ibach, MacEwan University

As faculty in the fields of financial accounting, tax and auditing, we need to facilitate for our students opportunities to gain a more thorough understanding of the content and language of the reference materials they will use as professionals. Due to the complex language utilized in the resource materials, and the in-class time constraints for applying the reference materials, it can be challenging to develop the ease-of-use skill set we want our students to have when they leave undergraduate education. Thus, we are facilitating a collaborative session centered on the development of ideas for use of the CPA Canada Standards and Guidance Collection (CPACHB) for financial accounting and auditing standards, and the Federal Income Tax Act (FITA) in the classroom. Come and join your financial accounting, audit, and tax colleagues to explore and share ideas to enhance the integration of resource materials into the classroom.

## 2F - The Flipped Classroom (Intro. Accounting): The Good, the Bad, the Ugly

Room: Toronto Lismer

\*Else Grech, Ryerson University

This presentation will summarize the results of the use of the flipped classroom model in the delivery of undergraduate introductory financial accounting courses. More importantly, the presentation will address the challenges faced when implementing an innovation in the current environment of high student enrolment, large class sizes, and multiple instructors. The purpose of this presentation is to stimulate discussion about the drawbacks of implementing the flipped classroom model as well as obtain feedback on attendees own experience and possible solutions. This critical examination of implementing a flipped classroom would benefit both instructors and administrators who are considering the use of the flipped classroom in both accounting and other disciplines.

Room: Johnston

Session Chair: **Name, Institution**

## Corporate Governance and Stock Prices of Japanese Firms Adopting International Financial Reporting Standards: Early Evidence

\*Fumiko Takeda, University of Tokyo

Takeshi Watanabe, University of Tokyo

Two issues are investigated herein, using Japanese data: (1) the relationship between corporate governance and voluntary adoption of International Financial Reporting Standards (IFRS), and (2) market reactions to announcements of such an adoption of IFRS. Prior studies suggest that the economic benefits of IFRS adoption are limited to countries with strong enforcement of laws and regulations, generating concerns as to whether IFRS adoption would bring the intended benefits in Japan. Based on a probit model, we find that the probability of voluntary IFRS adoption is higher for the firms that are younger, larger, less leveraged, audited by a Big 4 audit firm, and have a higher foreign shareholders ratio. This result is consistent with the notion that firms that have greater incentives to provide more information tend to choose voluntary adoption of IFRS. In addition, an event study shows that stock prices of the firms that announce their adoption of IFRS tend to increase compared to other firms that have a similar probability of IFRS adoption, except for the firms forced to switch from the U.S. GAAP to IFRS. Our results show that voluntary IFRS adoption is positively evaluated in Japan in that the country has transformed its economic and business environment over the past few decades.

## Real and Reporting Effects of IFRS-Induced Accounting Changes for Convertible Debt

\*Adam M. Esplin, University of Alberta

Mark R. Huson, University of Alberta

Christina A. Mashruwala, University of Alberta

Heather A. Wier, University of Alberta

We examine whether the adoption of IFRS in Canada affected the way in which firms structured their convertible debt agreements. The shift from Canadian GAAP to IFRS in 2011 resulted in several significant changes in the accounting for convertible debt agreements, including the requirement to classify the holder's conversion option as a derivative liability (rather than as equity, as was the case under Canadian GAAP) under certain prescribed circumstances. We find that post-IFRS, firms are less likely to include provisions in their convertible debt agreements (particularly the cash conversion option) that would necessitate classification of the conversion option as a derivative liability. The effect is particularly evident for highly levered firms and for firms with large convertible debt issues. We also find that firms in extractive industries and firms with private debt agreements use terms that necessitate derivative liability treatment post-IFRS. Additionally, we find that the implementation of IFRS is less likely to decrease use of these terms for firms in extractive industries. We find no evidence that management manipulates reporting of the derivative liability. In fact, after controlling for option pricing fundamentals, the portion of the proceeds assigned to the derivative liability conversion option is higher post-IFRS than is the portion of the proceeds assigned to the conversion option for comparable pre-IFRS issues. Moreover, the relation between the volatility of the firm's stock and the reported conversion option strengthens after IFRS. Overall, we find that some Canadian firms changed the way they structured their convertible debt agreements after the adoption of IFRS, but did not use the flexibility inherent in IFRS to engage in opportunistic reporting.

## Financial Accounting Information and Product Market Competition

Jimmy F. Downes, University of Nebraska-Lincoln

Vanessa Flagmeier, University of Paderborn

\*David Godsell, Queen's University

This paper examines the impact of financial accounting information on product market competition. The endogenous relation between financial accounting information and competition is circumvented by exploiting an exogenous change in EU accounting regimes in 2005. We argue the effect of earnings opacity upon competition is driven through three channels recognized by Bushman and Smith (2001). We find that the IFRS-induced earnings opacity is negatively associated with industry-level competition. The results also suggest that the link between our measure of IFRS adoption and competition varies predictably with i) investor reliance on accounting information and ii) managers' incentives to compete and innovate. Finally, we capitalize on a distinguishing characteristic of IFRS adopters vis-à-vis non-adopters to advance a firm-level hypothesis consistent with our industry-level tests. Results from this test not only support our industry-level analyses, but also provide evidence suggesting adopters benefit from IFRS through increased market share.

## 2H - History, Labour, and Information

Room: Casson

Session Chair: **Christie Hayne**, Queen's University

### Accounts from the Backwoods: Implications for Alternative Service Delivery

\***Ron Baker**, University of Guelph

The establishment of Guelph, Ontario was uncommon in that the town was established prior to the development of surrounding agricultural lands. This was done through an alternative service delivery arrangement between the British Government and a private, for-profit company. During its second year, the settlement experienced a disastrous near-collapse of its local economy resulting in extreme hardship for many of its citizens. Using governmentality as a theoretical framework, this study examines the establishment of the town and the role of accounting in its early development. The study is motivated by the research question: how did the technology of accounting influence the early history of the settlement of Guelph? Archival data was gathered at Ontario Archives, Library and Archives Canada, and the University of Guelph. The importance of accounting as a technology of governance is highlighted and discussed. Three failings associated with the arrangement used to sell and settle the land in this area of Ontario are identified and implications for current non-governmental delivery of government programs and services are presented.

### Fostering and Forcing Uses of Accounting: Labour-Management Negotiations in the Automotive Crisis in Canada 2008–2009

**Clinton Free**, University of New South Wales

\***Staci Kenno**, Brock University

This article investigates uses of accounting in labour-management negotiations during the automotive industry restructuring of 2008 and 2009 in Canada. Following a series of negotiations that occurred between a large North American automobile manufacturer, a major Canadian automotive union and the Canadian government, we document how different stakeholder groups framed the emerging crisis and drew upon accounting in order to further their interests. Drawing on research in industrial relations, we outline two key modes of accounting in labour-management negotiations: (1) fostering, where accounting is used in an integrative manner to secure mutual gains; and (2) forcing, where accounting is used primarily to secure concessions from third parties. The case study highlights the way that forcing modes of accounting displaced more fostering modes as the crisis intensified, ultimately resulting in worker acceptance of pay restraint, more flexible work practices and division into a core and peripheral labour force. The paper contributes to understanding the role of accounting in labour-management negotiations and how this role can be implicated in shaping the construction and contestation of organizational crises.

### Does Information Traffic Matter to Accounting Information Usefulness? Evidence from Internet Search Data

**Zhulin Huang**, Wilfrid Laurier University

\***Bixia Xu**, Wilfrid Laurier University

Accounting information can generate economic and social welfare effects through its various impacts on the investor community and the function of the capital market. How to improve the usefulness of the information has long been one of the major concerns of accounting policy makers. This study initiates the concept of information traffic to capture investors' online keyword information search frequency and explore whether such search frequency contains any ability to predict the usefulness of accounting information. The investigation of information traffic on 59 accounting and accounting-derived information items reveals that information items with more traffic (i.e., higher online users' search frequency) are associated with higher observed usefulness. Further analysis yields results that indicate varying traffic associated with different information categories, which provides explanations for the cross-category variation in observed usefulness. The proposed integrated measure of information traffic and usefulness suggests an order in importance of the 10 information categories we investigate from standard setting's point of view. Dynamics analysis of information traffic sheds light on the understanding of changes in investor information interest and need. This study suggests a new angle for accounting policy makers and researchers to understand and further improve the usefulness of accounting information.

## 2I - Earnings Management

Room: Tom Thomson

Session Chair: **Mostaq Hussain**, University of New Brunswick, Saint John

### Stock Underpricing and Earnings Management: Evidence from Mutual Fund Fire Sales

\***Yun Ke**, Brock University

This paper documents a causal effect of stock underpricing on firms' financial reporting quality. I use mutual fund fire sales to identify exogenously underpriced stocks, and use performance-matched discretionary accruals to proxy for earnings management. Using difference-in-differences tests, I find that firms subject to mutual fund fire sales increase their level of earnings management relative to unaffected firms. I also test factors which can delay the correction of mispricing, and find that the effect is greater for firms with low liquidity and high information asymmetry. In addition, earnings management is more pronounced in financially constrained firms.



## Earnings Smoothing and Stock Price Crash Risk

\*Li Yao, Concordia University

Changling Chen, University of Waterloo

Accounting standards have some built-in flexibility that allows managers to reveal their private information on business operations and innovations. However, managers may abuse this flexibility in order to report smooth earnings to hide bad news and to obscure actual financial volatility. The extant literature has mixed evidence on the beneficial and detrimental roles of earnings smoothing. In this paper, we examine the relation between earnings smoothing and stock price crash risk to assess the consequences of earnings smoothing on the downside risk of shareholders' wealth. We find that a higher degree of earnings smoothing is associated with greater stock price crash risk; however, this relation is mitigated by the level of analyst following and institutional holdings. We also find that when earnings smoothing is accompanied by cumulative positive discretionary accruals, firms' stock price crash risk increases. Based on our findings, we caution investors about the downside investment risk of firms reporting smooth earnings, in contrast to the anecdotal belief that these firms are low in equity risk.

## Earnings Management of Chinese Central State-Owned Enterprises: The Alignment Effects and State-Level Incentives

Xiaofei Song, Saint Mary's University

\*Hong Fan, Saint Mary's University

This study empirically investigates the earnings management of Chinese central state-owned enterprises (SOEs). The Chinese central SOEs are closely and controlled by the central government, well-funded, super-sized national champion conglomerates that monopolize the key strategic industries domestically and compete aggressively overseas. Consistent with the predictions of the Alignment Effects that high-level state ownership reduces SOEs' firm level incentives for earnings management we find that the central SOEs involve in less earnings management than non-SOEs in general. However, we argue and find evidence that high-level alignment of the interests of the controlling state owner and creates new state-level earnings management incentives for the Chinese central SOEs. Specifically, we find that central SOEs engage in more earnings increasing (decreasing) management during extreme low (high) GDP growth years. Such earnings management activities help to lessen the appearance of economic volatility which is unconducive to state political and social stability. This study contributes to the SOE earnings management literature by exploring the state-level earnings management incentives induced by the alignment effects, as well as the traditional firm-level incentives suppressed by the alignment effects. To our knowledge the state-level earnings management incentives has never been examined in the SOE earnings management literature. This study provides a new perspective for future studies on SOEs financing reporting behaviour.

## Concurrent Sessions III

2:15 p.m.–3:45 p.m.

### Sponsors

#### Research Sessions:



#### Education Sessions:



All sessions are on the Convention Level.

### 3A - Corporate Social Responsibility

Room: Carmichael

Session Chair: Samir Trabelsi, Brock University

#### Corporate Social Responsibility and Tax Reporting Aggressiveness in a Transition Economy

\*Suwina Cheng, Lingnan University

Kenny Z. Lin, Lingnan University

This paper examines the relationship between corporate social responsibility (CSR) and corporate tax in an environment where we expect this relation to be affected by the degree of market and institutional developments. Taking advantage of substantial cross regional variations in institutions in China, we find that in regions with a lower level of institutional development, firms claiming to act socially responsible engage more in aggressive tax reporting, consistent with the stockholder view of corporate social responsibility (CSR). In contrast, we find that in institutionally stronger regions, corporate social responsibility is more aligned with the social responsibility aspect of tax compliance, which supports the stakeholder view of CSR. Our results suggest that absent institutional infrastructures, CSR as corporate practice risks to become seen as nothing more than window-dressing.

#### Does Voluntary CSR Reporting Affect the Informativeness of Mandatory Financial Disclosures?

\*Stephanie Fang Cheng, University of Toronto

This study examines whether voluntary CSR reporting affects the informativeness of information contained in mandatory financial disclosures. In particular, I study the impact of CSR reporting on investors' response to realized earnings released in earnings announcements. I find that voluntary adoption of CSR reporting is associated with higher subsequent earnings response coefficients (ERCs), suggesting that the disclosure of CSR reporting improves the informativeness of earnings announcements. The finding is also consistent with a complementary relation between mandatory and voluntary disclosures,

which indicates that mandatory disclosure confirms the credibility of voluntary disclosure. If a similar type of complementary relation between mandatory and voluntary disclosures works in the opposite direction as well (i.e., voluntary disclosure enhances credibility of mandatory disclosure), then higher ERCs could also be observed. Because voluntary CSR reports could complement mandatory quarterly earnings announcements through two non-mutually exclusive channels—improvement in informativeness or credibility, I provide some additional evidence, which suggest that it is the increase in informativeness that leads to the higher response coefficient to quarterly earnings announcements.

## Corporate Social Responsibility and Market-Based Consequences of Adverse Corporate Events: Evidence from Restatement Announcements

\*Nader Wans, Memorial University of Newfoundland

In this study, I examine the link between corporate social responsibility (CSR) and stock price and litigation consequences of restatement announcements. Using a sample of restating firms from 2002 to 2011, I find strong evidence that investors respond less (more) negatively to restatements by firms that have shown to exhibit strong (weak) CSR performance compared to those that have not. This is consistent with the notion that investors perceive positive CSR performance to be in line with managers' incentives to commit to promoting corporate ethical values than with their incentives to cover up corporate misconduct. Additionally, I find that restating firms that are less CSR conscious are more likely to be named as defendants in class actions following restatements. In additional analyses, I also find that among the cases initiated against restating firms, the amount of settlements is significantly negatively associated with better CSR performance. Collectively, the evidence suggests that firms can effectively use CSR as a shield to hedge against potential risk stemming from adverse corporate events.

### 3B - Health Care

Room: Jackson

Session Chair: Irene M. Gordon, Simon Fraser University

## Decision Logics by Nurse Leaders: A Case Study of the Use of Accounting Information in a British Columbia Health Authority

\*Christian H. Duff, Royal Roads University

Kenneth Edgar D'Silva, London South Bank University

The role of surgical nurse leaders within the health system of British Columbia is relatively unique. For, in addition to important medical issues, they are also largely responsible for financial budgets, output targets and key performance indicators. The research determines insights as to how management accounting and related information systems influence surgical nurse leaders' decision logics and their interactions with surgeons and other surgical professionals.

The research employs a case-study using primarily semi-structured interviews and documentation review. Two theoretical frames are deployed for the research. The first is Institutional Theory as a possible trans-disciplinary explanation that challenges rational decision making. The second is Actor-Network Theory with the possibility that "networks" may supplement, sustain or collapse institutional forms. Key findings point to the limited accountability of surgeons and the importance of a selective range of surgical output incentives including a "fee for service" regimen of remuneration. Where common interests are established, persuasive power, judiciously applied by nurse leaders was found to significantly influence the medical practices of surgeons. The scope of the research was tempered by the relatively modest inputs from surgeons and surgical leaders. A more comprehensive study with greater input from surgeons would likely be more revealing and informative. Resource pressures on B.C. Health Authorities are intense and increasing. The research informs policy makers responsible for the design of cost controls, output incentives and key performance Indicators.

## Lean Health Care and Ontario Case Costing: An Examination of Strategic Change and Management Control Systems

Jan Alpenberg, Linnaeus University

\*D. Paul Scarbrough, Brock University

In this paper we examine how two different strategic changes influence the Management Control Systems in six Ontario based hospitals. These changes are: 1. new funding regimes based on Ontario Case Costing and, 2. Lean Healthcare initiatives in Ontario Hospitals. The Ontario Case Costing (OCC) approach is based on the traditional MAS assumption that more accurate costs will lead to lower costs through better management decisions of some sort. In contrast, Lean Healthcare is premised on the assumption that the primary path to better performance is realized by individual employees, who serve as the leading actors in a daily process of waste removal and efficiency improvement.

Based on the MA literature and on information about both the OCC and Lean Healthcare initiatives, we expect there to be significant frictions inside the financial management staff as well as between the Lean initiative and the financial management staff related to the OCC mandate. This study examines this set of interactions to learn how these issues impact the employees involved. In particular, the Ontario context allows us to examine the variety of responses to the interaction of Lean healthcare strategy and a traditional MAS such as OCC. We find that the MASs of hospitals in our sample are too loosely coupled to develop the frictions indicated by traditional MAS theory and propose modifications in application of the theory to accommodate this observation.

## The Use of Management Accounting During the Decline and Turnaround of a Healthcare Institution

\*Christie Hayne, Queen's University

I investigate how management accounting facilitates the management of organizational decline and performance turnaround in a healthcare setting. Prevalent organizational decline and turnaround management activity have been brought to the fore as researchers and practitioners attempt to prevent, detect, manage, or respond to decline. I employed field study methods in a healthcare organization that recently experienced decline and which managed to implement a successful turnaround in performance. I conducted 16 semi-structured interviews with key executives and accountants. I further accessed an extensive collection of secondary materials to inform my analysis. My findings show that management accounting is a critical resource for this organization as its leaders and staff maneuver decline and pursue a turnaround. I highlight specific uses of management accounting that were important to managing decline and pursuing a performance turnaround. Specifically, accounting practices and tools (e.g., year-over-year comparatives, variance analysis, benchmarking) were used to construct an understanding of the past through sensemaking, and then to communicate this understanding and persuade organizational members to participate in a turnaround plan. I also demonstrate the use of accountability, enacted through various relationships and mechanisms, and its importance in supporting an organization's pursuit of a performance turnaround. From my analysis, I highlight a previously undemonstrated but important link between the theoretical perspectives of sensemaking/sensegiving and accountability. Accountability disciplines the meanings that are constructed in sensemaking and communicated through sensegiving, and ensures that organizations incorporate these meanings into decision making and action.

### 3C - Audit

Room: Varley

Session Chair: **Byron Y. Song**, Hong Kong Baptist University

#### Timing of Auditor Switches

**Hui Lam Choy**, Drexel University

\***Yaou Zhou**, Drexel University

This paper examines the determinants and information content of the timing of auditor switches using a two-stage model. Specifically, we explore the type of companies and the context of switch that trigger a company to switch during the first three quarters of the fiscal year (denoted as an early switch). Then we investigate whether there is differential market reaction to an early versus a late switch in the second stage. We observe that large companies and companies reporting internal control issues in their 8-Ks are more likely to be early switchers. Companies that report management non-reliance concerns, disagreement with their auditors, and those involved in a restatement tend to switch their auditors in the fourth quarter. The residual of this first-stage analysis captures the "unexpected" portion of the timing of auditor switch. We include this "unexpected" timing component in our second-stage analysis. It has a positive correlation with the stock returns. This suggests that the timing of auditor switch itself is informative and the market prefers an early switch. Furthermore, we observe a decline in this positive association in the post-SOX era.

#### One Team or Two Teams? Exploring the Existence of a Collective Audit Team Identity between Auditors and IT Specialists and Its Implications on Audit Process and Outcomes

\***Tim Bauer**, University of Illinois at Urbana-Champaign

**Cassandra Estep**, University of Illinois at Urbana-Champaign

As companies increase reliance on information technology (IT) in business and financial statement processes, the use of IT specialists has become increasingly important. Currently, little is known about how auditors and IT specialists' team together and the impact of those interactions on audit outcomes despite evidence of, and regulator concerns about, auditor shortcomings in specialist and IT audit areas. Drawing on Social Identity Theory and research on status and team diversity, we conduct interviews with audit and IT practitioners to describe factors that influence the relationship between auditors and IT specialists, specifically a collective audit team identity, and how this identity strength impacts the financial statement audit process and outcomes. The results of our interviews provide evidence of a collective audit team identity between auditors and IT specialists. However, its strength varies from audit to audit and opinions on this collective, one-team concept differ between auditors and IT specialists; while auditor views are more positive, IT specialists feel they are not always treated as equals or seen as a "necessary evil". Moreover, the audit process is vastly different for weaker versus stronger collective audit team identities; the former is associated with less widespread IT specialist involvement and less collaboration when modifying audit procedures in light of critical IT issues, which may diminish the quality of risk assessments and the sufficiency of audit testing. Our findings are of interest to regulators, practicing auditors, and academics and motivate future empirical work.

#### Short Interest and Audit Effort: A Cross-Sectional Investigation

**Rafael Rogo**, University of British Columbia

**Dan A. Simunic**, University of British Columbia

**Hwee Cheng Tan**, University of New South Wales

\***Ray Zhang**, University of British Columbia

Previous studies find evidence that trading behavior of short sellers is significantly associated with audit pricing decisions. An important, but neglected question is whether short interest has a uniform impact across firms on auditors' risk perception. In this paper, we explore the firm-level heterogeneity in the short interest, recognizing short interest has different

impacts on different firms and thus auditors interpret it differently. We find that short interest is positively related to audit fees for smaller firms and negatively related for bigger firms. Audit fees are approximately 13.4% to 36.5% higher for firms in the highest decile of the short interest ratio relative to firms in the lowest decile for the smaller firms and are approximately 12.7% to 14.4% lower for firms in the highest decile of the short interest ratio relative to firms in the lowest decile for bigger firms. The results suggest that short seller activities discipline auditors of smaller firms but substitute for audit effort for bigger firms.

### 3D - Professional Judgment: Application of Teacher Resources

**Room: Toronto Harris**

**\*Greg Burton**, Brigham Young University

An in-depth look at resources available for teaching professional judgment. This session will demonstrate some of the resources developed for teaching professional judgment and show how they can be easily integrated into existing courses.

### 3E - Teaching with Technology: Student Uses of Online Resources

**Room: Toronto MacDonald**

**\*Camillo Lento**, Lakehead University

This session will present the results of a study into how students use online learning resources; specifically, insight into student behaviours related to resources posted on learning management (LMS) and online homework manager systems (OLM). The association between different behaviours and student performance are also explored. Participants will then be asked to share their experiences in this area in a round table discussion format.

### 3F - Using Financial Accounting Cases to Demonstrate the Framework Approach

**Room: Toronto Lismer**

**\*Alan Jagolinzer**, International Accounting Standards Board and the University of Colorado

The session includes a workshop designed to support the implementation of Conceptual Framework-based teaching (FBT) across a range of financial reporting or MBA classes. To achieve this objective, a leading IFRS teacher will demonstrate Framework-based teaching that can reach a range of audiences. The session is also designed to illustrate how Framework-based teaching enhances the ability of students to exercise the judgements that are necessary to apply IFRS and better prepares them to continuously update their IFRS knowledge and competencies in the context of life long learning.

### 3G - Diversity

**Room: Johnston**

**Session Chair: Timothy W. Shields**, Chapman University

#### Can Shareholder Activism Improve Gender Diversity on Corporate Boards?

**Carol A. Marquardt**, City University of New York

**\*Christine I. Wiedman**, University of Waterloo

We empirically examine the antecedents of shareholder activism related to increasing the gender diversity of corporate boards of directors (BOD) and whether such activism is an effective mechanism for achieving this goal. Because both ethical and economic considerations may drive campaigns for increased gender diversity, we condition our analysis on activists' motivations for achieving their objectives. Based on a sample of S&P 1500 firms over 1997-2011, we find that female board representation and board independence are negatively associated with the likelihood of being targeted by a shareholder proposal related to gender diversity while firm size and profitability are positively associated. We further document that financially-motivated activists are more likely to target firms with extremely low female board representation than are socially-motivated activists. Targeted firms significantly increase their female board representation in the two-year period following proposal initiation, relative to that of a matched sample of non-targeted firms, with no differences observed across activist motivations. We conclude that shareholder proposals are an effective means of improving the gender diversity of corporate BODs in U.S. firms.

#### The Diversity of 'Diversity' in Canadian Accounting Firm Recruitment Websites

**\*Merridee L. Bujaki**, Carleton University

**Francois Brouard**, Carleton University

**Sylvain Durocher**, University of Ottawa

**Leighann Neilson**, Carleton University

**Rhonda Pyper**, Saint Mary's University

We examine use of the term 'diversity' in the recruitment websites of Canada's eight largest public accounting firms. We find a range of distinct uses of the term. We note differences in the use of 'diversity' between Big Four accounting firms and the next four largest firms. The Big Four vary in their approaches to diversity, with Deloitte's and KPMG's websites



addressing the most dimensions of diversity and the highest number of references to diversity. Diversity in the discourse of diversity arguably stems from variance in the institutional logics held by accounting firms. Our analysis reveals the business case logic and commercial logic are the most prevalent institutional logics in use. Some Big Four firms also adopt an inclusiveness logic.

## Factors Associated with the Success (or Lack Thereof) of Immigrant Indian Chartered Accountants in Canada

Marcia A. Annisette, York University

\*Viswanath Trivedi, York University

We use survey responses by 134 Indian Chartered Accountants who immigrated to Canada to examine the factors associated with their job market experience upon immigration. Prior research on professional immigrants such as doctors, engineers, nurses, and teachers have mainly focussed on the issue of 'deskilling,' whether and to what extent such professionals' designations were discounted in the job market in the country of adoption. Hence, little research exists that systematically identifies the individual level factors associated with immigrant professionals' success in the countries to which they immigrate. Our research focuses on whether and how different variables relating to the human, social, and cultural capital brought into Canada and acquired in Canada by immigrant Indian Chartered Accountants influence their job market experience in that country. We present results from six models that focus on both objective measures of success such as salary at three points in time (salary prior to immigration to Canada, first annual salary in Canada, and most recent salary), change in salary after immigration to Canada, and time taken to obtain their first job; as well as the subjective measure of success, happiness with their career progress in Canada. The results from our models help identify the specific human, social, and cultural capital variables that are significant at different points in the careers of the immigrant Indian Chartered Accountants, and the relative influence of such variables.

### 3H - Information

Room: Casson

Session Chair: Carolyn MacTavish, Wilfrid Laurier University

## Financial Reporting Changes and Internal Information Environment: Evidence from SFAS 142

Qiang Cheng, Singapore Management University

Young Jun Cho, Singapore Management University

\*Holly Yang, Singapore Management University

Using the adoption of SFAS 142 as an exogenous shock to the external reporting system, we examine the effect of a change in financial reporting on a firm's internal information environment. SFAS 142 removed goodwill amortization and required firms to perform a two-step impairment test, which includes calculating the fair value of the reporting units at least annually. We argue that complying with SFAS 142 induces managers to acquire new information and, therefore, improves managers' information sets and the internal information environment. Using managers' earnings forecast accuracy as a proxy for the quality of the internal information environment and a difference-in-differences design, we find that firms affected by SFAS 142 (i.e., treatment firms) experience an improvement in the accuracy of earnings forecasts in the post-SFAS 142 period compared to those not affected (i.e., control firms). The increase in forecast accuracy is greater for treatment firms with weaker monitoring mechanisms, more goodwill, and a higher likelihood of goodwill impairment. Lastly, we find that treatment firms with improvements in forecast accuracy have higher internal capital market efficiency, higher M&A announcement returns, ROA, and Tobin's q. Overall, our findings illuminate one of the mechanisms through which external financial reporting can enhance the internal information environment and improve operating efficiency.

## The Effect of Information Load on Escalation of Commitment

\*Daniel Fischer, University of Stuttgart

Burkhard Pedell, University of Stuttgart

Peter Gordon Roetzel, University of Stuttgart

This experimental study analyzes how a key factor, information load, influences decision making in escalation situations in which decision makers reinvest further resources in a losing course of action even when accounting information indicates that the project is performing poorly and should be discontinued. Whereas previous studies focus on the complexity of information, this study investigates how different quantities of information influence escalation of commitment and how information load interacts with a decision maker's interpretation of negative feedback regarding earlier decisions. In situations in which escalation of commitment can occur, information load is relevant for decision making for two reasons. First, in escalation situations in which decision makers face negative feedback and high levels of self-justification, information load exacerbates the tendency to escalate commitment. Second, information load can lead to a decision to continue a losing course of action, which can be mistaken for escalation of commitment. The increasing tendency of the decision maker to continue a losing course of action may actually be the result of information load rather than the result of a self-justification tendency. Our findings indicate that studies examining escalation of commitment with a higher level of information provided may be viewed in a different light. Furthermore, our study reveals that self-justification tendency is key when determining whether too high levels of information load might exacerbate escalation of commitment when the decision maker's self-justification is high, or too high levels of information load might lead to an information processing error when decision maker's self-justification is low. This is of particular relevance when evaluating countermeasures against escalation of commitment.

## Can Investors Benefit from the Wisdom of Crowds? Evidence from Wikipedia and Insider Trading

\*Alfred Zhu Liu, State University of New York at Albany

Sean Xin Xu, Tsinghua University

Xiaoquan (Michael) Zhang, Hong Kong University of Science and Technology

Yin Zhitao, Georgia State University

We investigate whether and how Wikipedia, the most popular of Internet-based platforms enabling the public to aggregate information from various sources, affects the information environment for corporate outsiders. We find that collaborative information aggregation on Wikipedia is negatively associated with the profitability of insider trades after controlling for alternative information sources and that the association is stronger for firms owned to a greater extent by retail investors, who are at a greater information disadvantage, and for firms that have larger foreign operations. We also find that collaborative information aggregation on Wikipedia is negatively associated with the number of insider trades based on private information about future earnings. Overall, our results suggest that Internet-enabled collaborative information aggregation reduces information asymmetry between insiders and outsiders and among outsiders.

### 3I - Disclosure

Room: Tom Thomson

Session Chair: **Name**, Institution

## Foreign Institutional Investors and Voluntary Disclosure around the World

\*Albert Tsang, Chinese University of Hong Kong

Fei Xie, Clemson University

Xiangang Xin, City University of Hong Kong

We examine the impact of foreign institutional investors on firms' voluntary disclosure practices in the form of management forecasts. In a large sample of firm-year observations from 32 non-U.S. countries, we find that foreign institutional investors significantly increase the likelihood, frequency, and informativeness of firms' management forecasts and their effects are more important than those of domestic institutional investors. These findings are largely driven by foreign institutional investors originated from countries with stronger corporate governance than the firm's home country. In addition, we find that foreign institutional ownership is associated with management forecasts that are more specific and more disaggregated. Overall, our results suggest that cross-border institutional investments serve as an important channel in fostering better corporate disclosures practices and improving the information environment of firms around the world.

## CEO Characteristics, Disclosure Quality, and Innovation

\*Hila Fogel-Yaari, University of Toronto

Innovation is an important driver of economic growth. In this paper, I bring together two main streams of literature on the firm-level determinants of innovation: CEO characteristics and information asymmetry between CEOs and investors. I show that (1) a reduction of information asymmetry through higher disclosure quality (the principal component of earnings quality, management forecast frequency, and 10-K readability) is associated with more innovation (as proxied by patent application counts and citations); and (2) disclosure quality serves as an indirect channel through which CEOs characteristics (functional background and tendency for innovation) affect innovation. Based on a path analysis, the indirect effect is shown to be statistically and economically significant, and accounts for as much as 26% of a CEO's total effect on innovation. This implies that CEOs affect corporate performance not only through shaping internal processes, but also by using disclosure quality to raise the required financial capital.

## The Debt Market Relevance of Disclosure Tone: Evidence from the Pricing of Credit Default Swaps

\*Ke Wang, City University of Hong Kong

This paper examines whether corporate disclosure tone conveys credit risk-relevant information to the debt market. Using a large sample of the SEC 10-K and 10-Q filings, I find that the change in credit default swap (CDS) spreads over the three-day window surrounding the SEC filing date is positively associated with the pessimism of the language used in the 10-K or 10-Q filing. Consistent with nonlinear payoff functions for creditors, this association is more pronounced for reference entities with speculative credit ratings. These findings indicate that the tone of periodic SEC filings is useful for CDS investors to evaluate the reference entity's credit risk. I also provide evidence that the tone of 10-K and 10-Q reports has predictive power for both actual default events and accounting-based default risk in the subsequent four quarters. Overall, these results support the view that disclosure tone has information content for debt market investors.

# Concurrent Sessions IV

4:00 p.m.–5:00 p.m.

## Sponsors

### Research Sessions:



### Education Sessions:



All sessions are on the Convention Level.

## 4A - Conservatism

Room: Carmichael

Session Chair: **David C. Godsell**, Queen's University

### Conservative Reporting and Securities Class Action Lawsuits

**Michael Ettredge**, University of Kansas

\***Ying (Julie) Huang**, University of Louisville

**Weining Zhang**, Cheung Kong Graduate School of Business

Positive accounting theory predicts that conservative financial reporting averts GAAP-based litigation. However, very little empirical evidence addresses whether and how accounting conservatism provides these benefits. Using a sample of lawsuits against public companies for alleged violations of US GAAP, we examine the association of accounting conservatism with subsequent initiation of lawsuits and with four litigation outcomes: market reactions to lawsuits, duration of lawsuits, dismissals of lawsuits, and penalties approved by courts. We find that firms with greater degrees of conditional conservatism experience more favourable consequences on all five dimensions of litigation occurrence and outcomes. Two measures of unconditional conservatism are not associated with the litigation variables. Our study provides new empirical evidence supporting Watts' (2003a) litigation explanation for accounting conservatism.

### Accounting Conservatism, the Credibility of Earnings Guidance and Investor Uncertainty: An Empirical Investigation

\***Carlo D'Augusta**, Georgia State University

Recent literature theorizes that conservatism in financial statements increases the credibility of alternative sources of information, such as management forecasts. However, there is little empirical support for this claim; in fact, recent evidence suggests that conservatism is negatively associated with some aspects of management forecasts' quality. This paper addresses this issue by analyzing the market reaction to earnings guidance. Consistently with the credibility hypothesis, I find that conservatism increases the market response coefficient to good news forecasts. I also find that investors' under-reaction to less credible good news is followed by a positive post-announcement drift, which tends to disappear as conservatism increases. Additionally, I hypothesize that conservatism, reducing investor uncertainty about the implications of unexpected losses, is associated with a less negative stock price response to bad news forecasts. Supporting this hypothesis, results suggest that: i) investors overreact to bad news forecasts issued by less conservative firms; ii) such overreaction partially reverts in the long term, as uncertainty is eventually resolved; iii) both the overreaction and the subsequent reversion are significantly reduced by conservatism. Consistently, I find that conservatism is negatively associated with investor uncertainty proxies following bad news forecasts.

## 4B - Performance Pay

Room: Jackson

Session Chair: **Sung S. Kwon**, York University

### I Know Something You Don't Know: How Relative Performance and Pay for Performance Affect Employee Decisions to Share Information with Other Employees

**Leslie Berger**, Wilfrid Laurier University

\***Krista J. Fiolleau**, University of Waterloo

**Carolyn MacTavish**, Wilfrid Laurier University

Despite the importance of knowledge and knowledge sharing within organizations, research suggests that employees are often unwilling or unable to share their specific knowledge with fellow employees. This study considers how two features of the control environment, relative performance information and incentive compensation, affect employees' willingness to share knowledge with fellow employees. Relative performance information has been found to increase employees' performance by enhancing their tendency to compare themselves to their peers and increase their desire to compete with their peers, but this competition may also reduce knowledge sharing and diminish peer performance. Incentive compensation motivates employees to increase their performance, but may increase their competitive focus especially when they are provided with information on which to evaluate their performance against their peers. Using a between subject experiment, we find that participants share less knowledge when they receive relative performance information and share the least amount of knowledge when they receive relative performance and incentive compensation. In addition, we find that participants have a higher likelihood of providing incorrect information to peers when they receive relative performance information than

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when they do not receive relative performance information. Due to the importance of knowledge sharing for many organizations, it is essential to assess whether the potential increase in performance provided by these control features is sufficient to compensate for the loss of knowledge sharing.

## Effects of Performance-Based Pay, Social Recognition, and Training on Performance in Creative Problem Solving: An Experimental Investigation

\***Kun Huo**, University of Waterloo

I investigate the effect of different incentive schemes on employees' effort and performance in a creative problem-solving task because current literature is divided on the effect of performance-based incentives on creative performance. I conduct an experimental study comparing two types of performance-based incentives (piece-rate pay and fixed pay plus social recognition) with fixed pay alone and examine whether the use of creativity training can moderate the relationship between incentives and creative performance. By integrating theoretical predictions from both Bonner and Sprinkle's (2002) incentive-effort-performance model and Amabile's (1996) componential model of creative problem solving, I predict that the effect of performance-based incentives on creative performance will be more positive in the presence of creativity training than in its absence. In the experiment, 120 participants attempted to solve 6 problems requiring creative insight under time constraints. Creative performance is measured as the number of insight problems solved. Significant interactions with training are found for both piece-rate pay and social recognition. I find that, without training, piece-rate pay produces lower creative performance than fixed pay. With training, however, performance is higher under piece-rate pay than under fixed pay. Relative to fixed pay alone, fixed pay plus social recognition has no effect on creative performance without training, but it motivates higher creative performance with training. Findings from this study have implications for organizations that need creative output from their employees and are looking to use incentives, either monetary or non-monetary, to motivate superior performance.

### 4C - Costs

Room: Varley

Session Chair: **Hao-Chang Sung**, Jiangxi Normal University

## Competition and SG&A Spending

\***Rengong Zhang**, University of Alberta

The existing literature debates whether selling, general and administrative (SG&A) spending is on average beneficial to shareholders as an asset-like investment or detrimental to shareholders as the result of empire building. I address this debate by examining the behavior and consequence of SG&A spending in the context of product market competition. Using two natural experiment settings of industry deregulation and trade cost changes, I find that competition makes firms more committed to SG&A spending, as reflected in its degree of stickiness when sales decline. Subsample tests confirm the rationale that firms commit to intangible slack resources to avoid underinvestment and predation by competitors, and such slack resources have higher option value in more uncertain competitive environment. I also find that firms with high abnormal SG&A spending capture market share at the expense of their rivals, and such effect increases with competition. Overall, SG&A is on average an asset-like investment, and it plays a strategic role unexplored in the prior literature.

## Financing Cost Stickiness

\***Mark C. Anderson**, University of Calgary

**Chelsea Rae Austin**, University of South Carolina

**Will Ciconte**, University of Florida

Prior literature theorizes that there is asymmetry in firms' decisions to scale up rather than scale down operations and empirical evidence supports a pattern of "cost stickiness" in sales-down periods relative to sales-up periods. However, retaining resources when experiencing a decrease in sales is not costless and firms are not equally likely to exhibit cost stickiness. This study investigates whether costs are stickier when companies have more financial slack.

### 4D - Report on Student Success and Course Management Systems

Room: Toronto MacDonald

\***Zoe Craig**, Wiley

\***Anita Osborne**, Wiley

Not every student is the same. We will share some of Wiley's latest research into student learning and how it is impacting the way authors and editors are creating learning materials.

### 4E - How to Write a Case

Room: Toronto Lismer

\***Sylvie Deslauriers**, Université du Québec à Trois-Rivières

Thinking about entering the CAAA case competition next year but not sure if what you have in mind will qualify or make for a good case? This session will provide some basic tips on case writing that will help you formalize your ideas into a great case!

## 4F - Internal Audit

Room: Johnston

Session Chair: **Name**, Institution

### An Understanding of the Differences between Internal and External Auditors in Obtaining Information about Internal Control Weaknesses

Ian Burt, Niagara University

External auditors have expressed concern that an internal auditor's strong identity with their employing organization may bias any internal control assessments they make of that organization (Schneider 1984). The Institute of Internal Auditors argues that this strong "employee" identity is a benefit by providing internal auditors an advantage over external auditors in gaining information from employees. Through an experiment, relying on the social identity and silence literatures, I predict that the internal auditor's "employee" identity will encourage other employees to share more information about internal control weaknesses with the internal auditor than with the external auditor. Results support this prediction and indicate the effect is stronger as the severity of the internal control weakness increases. Overall, this research informs external auditors, managers and regulators about conditions under which the internal auditor has an advantage over external auditor in obtaining information which could help improve audit quality and potentially lower audit fees.

## 4G - Credit Default Swap Markets

Room: Casson

Session Chair: **Name**, Institution

### Textual Analysis and Sentiment in the CDS Market

\*Andrea Bafundi, IE Business School

Ronny Hofmann, IE Business School

In this study, we investigate the value relevance of unstructured textual information embedded in 10-K filings for the credit default swap (CDS) market, and how quickly qualitative information is impounded into CDS spreads. More specifically, we test whether credit default protection buyers and sellers are sensitive to non-quantitative information embedded in companies' mandatory Item 1a - "Risk Factors" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of the 10-K report filed with the Securities and Exchange Commission (SEC). We find that information related to optimism/pessimism embedded in the reports as captured by the Loughran and McDonald vocabulary is inversely and significantly related to short window abnormal spreads and hence, value relevant for CDS traders. Using a more general vocabulary, Diction 5.0, only quantitative information is able to explain the variation in spreads. In addition, we show that information on the readability of the 10-K report sections is not immediately impounded into CDS spreads, but is eventually captured if the spread windows are increased (5-day and 7-day window). Overall, we provide evidence that suggests that players in the CDS market analyze textual features of financial text as this provides them with additional useful and value relevant information about a firm's (default) risk position.

### Fraud Discovery in the Credit Default Swaps Market

Yanmin Gao, City University of Hong Kong

\*Jeong-Bon Kim, City University of Hong Kong

Desmond Tsang, McGill University

Haibin Wu, City University of Hong Kong

In this study, we investigate the behaviour of investors in the credit default swaps (CDS) market in the event that financial reporting frauds are discovered. Our findings indicate that CDS credit spreads increase significantly in the months before the public discovery of frauds, and then spike upon the discovery date. We also show that CDS credit spreads increase more significantly before the public discovery for fraud firms that exhibit a higher likelihood of experiencing a credit event, with less effective governance and monitoring, and greater information asymmetry between firms and investors. Overall, our results suggest that some credit investors may have superior information about suspected fraudulent activities prior to the public disclosure of frauds and the responses of these investors are reflected in the CDS pricing. Other credit investors who do not possess private information about frauds in advance of the discovery would react concurrently with the rest of the capital market at the time of public discovery. Moreover, the reactions in the CDS market are attenuated in such fraud-committing firms that pose greater credit concerns to investors.



Room: Tom Thomson

Session Chair: **Ja Ryong Kim**, University of Nottingham

### Stock Price Associations with Expected and Unexpected Earnings

**Adrian Kubata**, University of Muenster

\***Terry J. Shevlin**, University of California-Irvine

**Christoph Watrin**, University of Muenster

Prior research fails to explain why theoretically predicted magnitudes of earnings response coefficients (ERCs) and price-to-earnings ratios (P/E ratios) differ from their empirical counterparts. Therefore, we (re)investigate the associations between earnings innovations, persistence of expected earnings, investors' expectation revisions, and the magnitudes of P/E ratios and ERCs, respectively. In doing so, we compare the traditional price model with our extended price model, which is based on a new model of investors' expectation formation, simultaneously incorporating the following assumptions: (i) expected earnings are less than purely persistent; (ii) only the value-relevant fraction of an earnings innovation triggers future expectation revisions; (iii) expected earnings' time series is nonstationary but integrated of order 1; and (iv) the persistence of expected earnings is negatively correlated with the value-relevant magnitude of earnings innovations, i.e. high persistence in expected earnings requires a low level of expectation revisions. We first show on a theoretical level that under these assumptions: (a) P/E ratios and ERCs differ in their magnitudes and it thus becomes necessary to distinguish between these two constructs in modelling price-earnings relations; (b) ERC magnitudes are negatively associated with the persistence of expected earnings, contradicting both theoretical implications of the traditional price model which predicts a positive association as well as empirical evidence; (c) expected magnitudes of P/E ratios (ERCs) range between 10-60 (0-7). We second test our model empirically. The empirical results are consistent with our predictions, closing the gap between theoretically predicted and empirically estimated P/E ratio and ERC magnitudes, respectively.

### Modeling Event Studies: The Case of Accounting Literature

\***Kim Trottier**, Simon Fraser University

Event studies allow us to investigate whether share prices react when information is released to the public. They are prolific in the literature, representing up to 30% of publications in top accounting journals. The model predominantly used in event studies is known to suffer from Type I error; that is of concluding there was a share price effect when there was none. This study contrasts the use of this model with one that is simpler, more objective, and econometrically superior. To gain an empirical context to model-use issues, the event studies in publications from 13 high-level accounting journals are examined. These 13 journals published a total of 169 event studies in 2013, comprised of 1,926 estimated models. The majority (95%) applied the model that has a higher risk of Type I error, and the variability in modeling is disconcerting: one would be hard pressed to find two papers with identical techniques for estimating the share price effect. In conclusion, researchers are encouraged to adopt the econometrically superior model, and apply it with objectivity and consistency, in order to improve the rigor and credibility of our literature.

## Saturday Keynote Speakers

### Plenary Session II at 8:10 a.m.

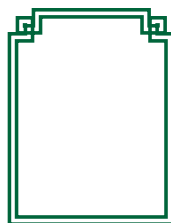


**Alan Jagolinzer** is an Academic Fellow for the Education Initiative at the International Accounting Standards Board in London and is also an Associate Professor of Accounting at the Leeds School of Business at the University of Colorado. Alan has taught advanced topics in international accounting to students for over ten years, including six years teaching MBA students at the Stanford University Graduate School of Business. He is the 2010 recipient of the Stanford MBA Distinguished Teaching Award and the 2009 recipient of the Stanford Sloan Masters Program Teaching Excellence Award. He has published research regarding the economic effects of IFRS transition in top academic journals including *The Accounting Review* and *Contemporary Accounting Research* and he currently serves on the editorial board of the *Journal of International Accounting Research*.

### CAAA Members' Luncheon at 12:30 p.m.

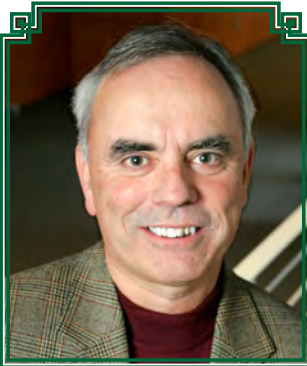


**Ole-Kristian Hope** is the Deloitte Professor, Professor of Accounting, and the Ph.D. Coordinator in Accounting at the Rotman School of Business, University of Toronto. He teaches MBA (RSM 2203) and Ph.D. courses in financial accounting. He has broad research interests in financial disclosure, financial reporting quality, corporate governance, analysts, valuation, auditing, private firms, corporate finance, and international business issues. He has published extensively in *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting and Economics*, *Accounting, Organizations, and Society*, *Contemporary Accounting Research*, *Review of Accounting Studies*, and several other journals. He has been awarded the Haim Falk Award for Distinguished Contribution to Accounting Thought, the American Accounting Association Outstanding International Educator Award, the American Accounting Association Best Paper Award, and the American Accounting Association Outstanding International Dissertation Award, as well as several other awards. Ole-Kristian's research findings are regularly cited by leading media outlets (e.g., *The Economist*, *Financial Times*, and *Wall Street Journal*) and he regularly presents his research at workshops, conferences, and consortia around the world.



**Jesse Brown** is

## 2015 George Baxter Award Recipient



**Réal  
Labelle**

“The fifteen letters supporting Réal’s nomination (five of them from international scholars) praise his many accomplishments on behalf of the Canadian academic accounting community and for getting others involved in the CAAA... Réal has been an ardent promoter of the CAAA among doctoral students and new scholars, in Québec and elsewhere in the francophone accounting community.”

The CAAA is pleased to announce that the recipient of the 2015 George Baxter Award for Outstanding Contributions to the CAAA is **Réal Labelle**, Honorary Professor at HEC Montréal. The George Baxter Award is intended to recognize exemplary contributions to the Canadian Academic Accounting Association and Real’s extended and continuous support of the CAAA is clearly exceptional.

The fifteen letters supporting Réal’s nomination (five of them from international scholars) praise his many accomplishments on behalf of the Canadian academic accounting community and for getting others involved in the CAAA. Réal’s association with the CAAA began in the 1990s; he went up the presidential ladder and had a very productive presidential term in 1996-1997. He has organized CAAA conferences in Quebec several times including service as co-chair for two conferences in a row. Over the past twenty-five years, Réal has served on many committees: *inter alia* he served as member of the Research Committee (2014–2015, 1993–1995); member of the Nominating Committee (2011, 2006–2007, 1997–1998); Co-Chair of the 2009 Annual Conference; board member (2008–2009); Co-Organizer of the Annual Conference in Montréal for a second year in a row to have it coincide with the ASAC Conference (1996); Vice-President (1995); member of the Education Committee (1990–1992); Editorial Board of *Contemporary Accounting Research* (1991–2007, 2009–present); and member of the Scientific Committee of the CAAA Annual Conference (2006, 2007, 2008, 2011, 2013).

Réal has been an ardent promoter of the CAAA among doctoral students and new scholars, in Québec and elsewhere in the francophone accounting community. He has helped ensure that the visibility and reputation of the association, CAR and CAAA’s conferences are extremely high throughout the French speaking world. Such bridges between the CAAA and the scholarly accounting community in countries such as France, Belgium, Lebanon, Switzerland, and Tunisia laid the foundation for the joint 2013 Annual Conference with the Association Francophone de Comptabilité.

As the recipient of the George Baxter Award, Réal Labelle is being honored for his many important contributions, his outstanding record of service and his dedication to the CAAA. We thank him and look forward to his continued involvement with the organization.



*Congratulations to Réal Labelle!*

*2014–2015 George Baxter Award Committee:*  
Vaughan Radcliffe, Chair, Western University  
Irene Gordon, Simon Fraser University  
Samir Trabelsi, Brock University

# Conference

7:00 a.m.–3:30 p.m.	<b>EXHIBITORS</b>	Convention Level
7:00 a.m.–8:00 a.m.	<b>THE CAAA EDUCATION COMMITTEE'S BREAKFAST</b>	Carmichael
7:00 a.m.–8:00 a.m.	<b>THE GENERAL CONFERENCE ATTENDEES' BREAKFAST</b>	Convention Level
8:00 a.m.–8:10 a.m.	<b>OPENING REMARKS</b>	Toronto I & II
	<i>Chair: Merridee Bujaki, 2015–2016 CAAA President, Carleton University</i>	
8:10 a.m.–9:15 a.m.	<b>PLENARY SESSION II</b>	Toronto I & II
	<b>IFRS Conceptual Framework Project and Framework-Based Teaching</b> <i>Moderator: Name, University</i> <i>Speaker: Alan Jagolinzer, International Accounting Standards Board and the University of Colorado</i> <p>The International Accounting Standards Board is undergoing a review of its Conceptual Framework, which sets out the concepts that underlie the preparation and presentation of financial statements for external users and also provides assistance to the Board for its development and review of IFRSs. This session will provide some insight into the current status of the review of the Conceptual Framework, including current discussion points at the Board. This session will also offer some insight into how to effectively and enthusiastically incorporate the Conceptual Framework, real-world scenarios, and ambiguous judgments and estimates into the classroom and why doing so can increase accounting and MBA student interest and comprehension.</p>	
9:15 a.m.–10:45 a.m.		
SPONSOR EDUCATION SESSIONS:	<b>CONCURRENT SESSIONS V</b>	Convention Level
		
10:45 a.m.–11:00 a.m.	<b>BREAK</b>	Convention Level
11:00 a.m.–12:30 p.m.		
SPONSOR EDUCATION SESSIONS:	<b>CONCURRENT SESSIONS VI</b>	Convention Level
		
12:30 p.m.–2:00 p.m.	<b>THE CAAA MEMBERS' LUNCHEON</b>	Toronto I & II
SPONSOR	<i>Chair: Merridee Bujaki, 2015–2016 CAAA President, Carleton University</i>	
	<b>Creativity and Diversity in Accounting Research</b> <i>Moderator: Name, University</i> <i>Speaker: Ole-Kristian Hope, University of Toronto</i>	

SATURDAY

12:30 p.m.–2:00 p.m.	<b>THE CAAA MEMBERS' LUNCHEON (CONTINUES)</b> <b>Empire &amp; Royal (Level 1)</b> <b>CPA Canada Presenter's Title</b> <i>Speaker: Jesse Brown, Affiliation</i> <i>Tem et, tes et rem querum et ut autet quo tem rehendumae pori rent. Ota solupta volore nonsequ iandeliqui a nonecatum iur ma dolecerehene nobitafia eic tem volorbis experro expliquam qui rehendi taeptur sundam et ea quamus et es ea cus pro fliquat rempell itates quaecus, utatenistium il et fugitiam et res magniscipie testrum essum corepudi officat. Bore laborerum rehenitetur? Qui officius verioistenda consequi aepera sam, ullaccus mi, quo beata-si menditi fundus sunt quas doloresequo ex enducimi, sed etur?</i>
2:00 p.m.–3:30 p.m. SPONSOR EDUCATION SESSIONS: 	<b>CONCURRENT SESSIONS VII</b> <b>Convention Level</b>
3:30 p.m.–3:45 p.m.	<b>BREAK</b> <b>Convention Level</b>
3:45 p.m.–4:45 p.m. SPONSOR EDUCATION SESSIONS: 	<b>CONCURRENT SESSIONS VIII</b> <b>Convention Level</b>
<b>Reception:</b> 5:30 p.m.–6:30 p.m.  <b>Dinner:</b> 6:30 p.m.–9:30 p.m.  SPONSOR  	<b>SATURDAY EVENING SOCIAL EVENT</b> <i>Location: St. Andrew's Club &amp; Conference Centre 150 King Street West, 16<sup>th</sup> Floor Toronto, ON M5H 1J9</i> <b>Entertainment</b> Live music courtesy of the John Roby Trio. <b>Awards Presentations</b> <b>2015 George Baxter Award</b> <i>Presenter: Vaughan Radcliffe, Western University</i> <b>Howard Teall Innovation Award</b> <i>Presenter: Penny Parker, Fanshawe College</i> <b>First Place:</b> "Identifying and Managing Control System Benefits and Costs" by Norman Sheehan, University of Saskatchewan. <b>Second Place:</b> "A Course Designed to Help Students Succeed in their Accounting Studies" by Sylvie Deslauriers, Université du Québec à Trois-Rivières. <b>Keith Boocock Doctoral Scholarship</b> <i>Presenter: Jeremy Justin, Canadian Public Accountability Board</i> <b>Estey Undergraduate Essay Competition</b> <i>Presenter: Krista Fiolleau, University of Waterloo</i> <b>The Presentation of CAAA Service Plaques to Outgoing Board Members</b> <i>Presenter: Alan J. Richardson, University of Windsor</i>



# Concurrent Sessions V

9:15 a.m.–10:45 a.m.

Sponsors  
Education Sessions:



All sessions are on the Convention Level.

## 5A - Market Analysts

Room: Carmichael

Session Chair: **B. Louise Hayes**, University of Guelph

### The Informativeness and Monitoring Effect of Analysts' Comments on Earnings Quality

\***Zhongwei Huang**, ESSEC Business School

This paper investigates the informativeness of analysts' comments on earnings quality (EQ comments) and how these comments affect opportunistic reporting behavior. Using Loughran and McDonald (2011) Financial Sentiment Dictionaries to quantify EQ comments, I find that the market's reaction to the release of analyst reports increases with the favorableness of EQ comments and the results are robust to controlling for broker and analyst fixed effects, quantitative forecasts and other text in the analyst reports. Further analysis suggests that the market's reaction to EQ comments is primarily driven by comments written with certainty. In addition, firms heavily criticized by analysts regarding earnings quality are more likely to have future accounting restatements, have a higher level of discretionary accruals in the current period but experience a significant decrease in discretionary accruals in the subsequent period after controlling for accruals reversal. This decrease is not accompanied by an increase in real activities management. Taken together, the paper contributes to the literature by providing direct evidence on whether analysts detect low quality earnings and aggressive earnings management and how analysts monitor managers' financial reporting behavior.

### Do Short Sellers Discipline Financial Analysts? Evidence from a Quasi-Natural Experiment

\***Yun Ke**, Brock University

**Kin Lo**, University of British Columbia

**Jinfei Sheng**, University of British Columbia

**Jenny Li Zhang**, University of British Columbia

This paper examines the impact of short sellers on financial analysts' forecast bias. Exploiting the SEC's Regulation SHO as an exogenous shock to the cost of short-selling, we find that short sellers can discipline financial analysts and reduce their forecast bias. The disciplining effect is more pronounced when firms have moderate levels of analyst coverage, high levels of institutional ownership, and greater earnings management. We conclude that short sellers positively contribute to price and market efficiency by reducing analysts' forecast bias.

### Product Market Competition and Analyst Forecasting Activity: International Evidence

**In-Mu Haw**, Texas Christian University

**Bingbing Hu**, Hong Kong Baptist University

\***Jay Junghun Lee**, University of Massachusetts Boston

In this study, we investigate how product market competition affects the extent of analyst following and the properties of analyst forecasts. Using a broad sample of firms from 37 countries over the 1990 to 2008 period, we find that firms that operate in more concentrated industries and with stronger pricing power are associated with greater analyst following, higher forecast accuracy, and lower forecast dispersion. Moreover, the effect of product market power on analyst following and forecast properties is more pronounced in countries with less effective competition laws and higher entry costs. These findings suggest that high industry concentration and a dominant market position enhance the earnings predictability of firms and lower their information uncertainty, and that country-level institutions that promote competition effectively constrain the power in product markets.

## 5B - Corporate Governance

Room: Jackson

Session Chair: **Susanna Gallani**, Michigan State University

### Corporate Governance, Board Interlocks and Environmental Performance: Evidence of Large Canadian Firms

**Irene M. Herremans**, University of Calgary

\***Jing Lu**, Nipissing University

This paper studies corporate governance, board interlocks and firms' environmental performance in Canada to clarify the relationship. Specifically, the research questions of interest follow: Do firms with board interlocks have better or worst environmental performance? What appears to be the optimal level of board interlocks?

\* Presenter

SATURDAY

Using a sample of firms listed on S&P/TSX Composite Index in 2012, we first find a non-linear relationship between directors' busyness (measured by average number of boards per director) and firms' environmental performance. Using curve estimation regression statistics, we find the optimal number of boards per director is about two. Second, we find a negative relationship between a firm and its interlocking firms' environmental performance both in aggregate form and in pairs. This evidence indicates that firms with good and poor environmental performance are mingled together through board interlocks in Canada. Third, this paper also confirms the findings in previous research that firms with large board size, good corporate governance, low demand for external funding, high risks, and high takeover defenses have better environmental performance.

This paper provides empirical evidence of a mid-range, contingency-based, inverted U-shaped relationship between board interlocks and firms' environmental performance. It contributes to the debate whether there is a positive or negative relationship between board interlocks and environmental performance suggested by resource dependency theory and agency theory. For boards and individual directors, this paper improves their understanding of board composition, which may lead to strategic decisions to improve corporate governance structure and practice, especially through succession plans. For investors, this research demonstrates the values and impacts of board interlocks. For policy makers, this paper provides empirical evidence that might suggest the necessity to consider interlock regulations.

## Meet/Beat Market Expectation, Accounting Conservatism and Corporate Governance

**Bikki Jaggi**, Rutgers, The State University of New Jersey

**Anthony C. Ng**, Hong Kong Polytechnic University

\***Hua Xin**, Rutgers, The State University of New Jersey

Accounting conservatism has been recognized as a reporting strategy that benefits shareholders and financial statement users. We hypothesize that managers in general are likely to sacrifice the benefit associated with accounting conservatism when adopting meeting/beating market expectations (hereafter MBME). Our findings show a negative association between MBME, proxied by analysts' consensus forecasts, and accounting conservatism, defined in terms of conditional conservatism (Basu, 1997; Ball and Shivakumar, 2005, 2006) and we show that such relationship is not a mechanical connection between reporting strategy and managerial incentives to report higher earnings. Further analyses shows that the negative relationship still exists after controlling for expectation as well as accrual-based and real earnings management. However, we document that G-index (Gompers et al., 2003), reflecting corporate governance in terms of anti-takeover provisions, has a significant impact on the negative association between accounting conservatism and MBME. Such finding shows that firms with less anti-takeover provisions, proxied by G-index, are less likely to sacrifice the benefit associated with conservative accounting for MBME.

## 5C - IFRS, XBRL, and Reporting Quality

*Room: Varley*

*Session Chair: Adam M. Esplin*, University of Alberta

### Mandatory IFRS Adoption and Information Contents of Earnings Announcements: The Canadian Case

**Muhammad Kabir**, McMaster University

**Tien Lee**, McMaster University

\***Yi Liu**, McMaster University

We investigate the impact of mandatory adoption of International Financial Reporting Standards (IFRS) in Canada on the information content of earnings announcements of Canadian companies. The motivation stems from the possibility of filling the gap in the extant literature in a natural experiment setting in Canada, which is arguably a unique case with possible policy implications for the U.S. Moreover, there exists a paucity of research on impact of IFRS in the Canadian context. Using a comprehensive database of Canadian companies, we find that the mandatory adoption of IFRS enhances the information content of earnings announcement in terms of abnormal return volatility, but not in terms of abnormal trading volume. We provide an explanation for this departure from prior studies. Our results are robust to a broad array of sensitivity tests.

### XBRL Adoption and Bank Loan Contracting: Early Evidence

**Gary Chen**, University of Illinois at Chicago

**Jeong-Bon Kim**, City University of Hong Kong

\***Jee-Hae Lim**, University of Waterloo

**Jie Zhou**, National University of Singapore

This study examines whether and how the mandatory adoption of eXtensible Business Reporting Language (XBRL) for financial reporting influences bank loan contracting. We analyze a large sample of loans granted in the period of 2007–2013. We find the following results: The adoption of XBRL reduces the loan spread, on average, by 13 basis points. This result is economically significant and robust to alternative research designs (specifically, difference-in-differences and pseudo-event analyses). Second, the reduction in the loan spread is greater for firms with information that is inherently more costly to process. In addition, we provide some evidence that banks impose more favourable non-price terms on the loan in the post-XBRL period. Overall, our results are consistent with the view that the XBRL mandate brings about a more transparent information environment that enhances bank monitoring as well as reduces information search and processing costs.

## Market Reaction to XBRL Filings

Alex Dontoh, New York University

\*Samir Trabelsi, Brock University

In 2009, the SEC mandated XBRL filings in an effort to enhance interpretation and analysis of financial statements. Recently, however, there have been complaints by some Fortune 500 companies that XBRL filings have not proven useful and have advocated for the SEC to scale down its implementation. This study investigates whether XBRL filings provide useful information to capital markets. We test predictions from Bayesian-inspired theory suggesting that individuals under-react to information releases initially if they expect subsequent follow-up disclosures to improve on the quality of the initial release. We investigate this prediction by examining differences in how the market reacts to quarterly earnings announcements between firms that issued XBRL filings during the Voluntary Filing Program (VFP) period and a matched sample of firms that did not. Using a differences-in-differences research design, we find that the market reacted significantly less to earnings announcements of firms that issued XBRL filings compared to a matched sample that did not issue filings during the VFP period but not during the period preceding it. We also find that firms that issued XBRL filings exhibited significantly lower excess return volatility compared to non-filers.

## 5D - Learning Strategies Exchange

Room: Toronto Harris

\*Angela Davis, Booth University

Please join the winners of the Howard Teal Award (Innovations in Accounting Education) Competition as they provide a short presentation and discussion of their submissions followed by an opportunity for participants to mingle and have individual discussions with the authors. If you're looking for ways to "spice up" your course content, this session is for you!

## 5E - Active Learning Strategies in Introductory Financial Accounting

Room: Toronto MacDonald

\*Julia Christensen Hughes, University of Guelph

\*Sara Wick, University of Guelph

\*Louise Hayes, University of Guelph

\*Sandra Scott, University of Guelph

Barb Bloemhof, McMaster University

This session is based on a HEQCO-funded study (<http://www.heqco.ca/SiteCollectionDocuments/Active%20Learning%20Strategies%20ENG.pdf>) that investigated how students experienced and approached their learning in Introductory Financial Accounting at four Ontario post-secondary institutions, spanning a degree-granting college to a research-intensive university. The results highlight the importance of repeated practice and time on task in engaging students and fostering understanding (as distinct from memorization) of course material. Students in the study also reported valuing grade-based incentives to motivate the completion of assigned tasks as well as the importance of positive instructor-student interaction, for fostering self-confidence. The session will include a brief presentation of the results and research methods used in the study, as well as an interactive discussion of strategies for fostering active learning and student engagement in a variety of teaching contexts.

## 5F - Changes for Audit Reporting

Room: Toronto Lismer

\*Darrell Jensen, Ernst & Young LLP

\*Fred Pries, University of Guelph

\*Eric Turner, CPA Canada

Major changes are occurring in how and what auditors say in their reports. In this session, we will provide a brief update on the changes that are occurring and then have a discussion of the opportunities and challenges these changes pose for auditing education. For example, the reporting of key audit matters will provide greater insight into the audit process and will provide examples and cases that can give students greater insight into the key issues in audits. The changes occurring also increase the importance of, and challenges in teaching, fundamental concepts like materiality and risk. We will also step back from the short-term impact of these changes and consider the longer time implications on the auditing profession such as how these changes may affect the skills and competencies that public accounting firms look for in graduates.

## 5G - Tax

Room: Johnston

Session Chair: **Name, Institution**

### Directors' and Officers' Liability Insurance and Tax Aggressiveness

\***Tao Zeng**, Wilfrid Laurier University

This paper examines the relationship between directors' and officers' liability insurance (D&O insurance) and tax aggressiveness. Using large Canadian public companies listed on TSX300 and relying on several proxies for tax aggressiveness including GAAP and cash effective tax rates and the book-tax difference, I find that D&O insurance exhibits a strong negative relationship with the GAAP effective tax rates and a relatively moderate positive relationship with the book-tax difference, but there is no evidence that the D&O insurance is associated with the cash effective tax rates. I interpret these results as indicating that D&O insurance reduces the tax expenses reported in the financial statements but not the actual tax paid. In other words, the D&O liability insurance contributes to financial tax management but not to cash tax savings.

### Forecasting Tax Expense: New Evidence from Analysts

**Brian Bratten**, University of Kentucky

**Cristi A. Gleason**, University of Iowa

\***Stephannie Larocque**, University of Notre Dame

**Lillian F. Mills**, University of Texas at Austin

Using recently available pre-tax earnings forecast data from 2003 to 2012, we infer analysts' income tax expense and effective tax rate (ETR) forecasts and provide the first large-sample evidence on their accuracy and dispersion. Even though managers provide annual ETR estimates each interim quarter, analysts do not merely mimic these estimates. We assert that investigating how financial intermediaries process both tax and pre-tax information avoids the difficulty in prior and concurrent research of drawing inferences from the ETR, which combines tax and pre-tax information. Our results provide evidence that pre-tax forecast accuracy and dispersion are important determinants of tax expense forecast accuracy and dispersion; however firms' tax complexity incrementally explains lower accuracy and greater dispersion for analysts' tax expense forecasts. Finally, we also show that while analysts efficiently use managements' ETR estimates in their tax expense forecasts, they fail to fully consider the implications of these ETR estimates for future pre-tax profitability. Collectively, our findings suggest that tax complexity is important to analysts' forecasting process for both tax expense and pre-tax earnings and the effect of complexity is not mitigated by managers' interim ETR estimates.

### Determinants and Economic Consequences of Firm Participation at Policy-Related Congressional Hearings

\***Vishal P. Baloria**, Boston College

I document the first systematic evidence on the characteristics and economic consequences of firms invited to testify at policy-related congressional hearings. To maximize the power of empirical tests and enhance the generalizability of inferences, I focus specifically on hearings related to corporate taxation. First, compared to a control group closely matched on size and industry, invited firms have more policy-relevant information to offer to the Committee Chair. Second, investor reaction to firm participation at congressional hearings varies predictably based on firm characteristics, including sensitivity to reputational costs and amount of taxes paid. Third, compared to the control group, invited firms reap significant subsequent economic benefits, as their tax payments decline in the two years following the congressional hearing. Among invited firms, this decrease in tax payments is concentrated in firms that have the most to offer to the Committee Chair. Collectively, this evidence suggests that congressional hearings are economically significant events with meaningful consequences for invited firms.

## 5H - Debt

Room: Casson

Session Chair: **Danqi D. Hu**, University of Toronto

### Managerial Ability and the Maturity Structure of Corporate Debt

\***Sean Cao**, Georgia State University

**Chi Wan**, University of Massachusetts Boston

**Holly Yang**, Singapore Management University

Agency theory suggests that short-term debt provides creditors with an effective tool to monitor managers with minimal effort (Stulz 2000; Rajan and Winton 2005). Creditors recognize that talented managers who are better at utilizing firm resources require less monitoring, resulting in less short-maturity debt. Using a measure of managerial ability suggested by Demerjian, Lev, and McVay (2012), we find evidence of a negative relation between managerial ability and the proportion of short-term debt. We show that this relation is stronger for firms with more investment opportunities, consistent with creditors' incentives to monitor low-ability managers with short-term debt when capital allocation is crucial. Our results are robust to alternative measures of managerial ability and various specifications that account for endogeneity. Overall, our findings highlight the role of managerial talent as an undiscovered determinant of corporate debt maturity beyond traditional economic determinants of capital structure.

\* **Presenter**

## Understanding Pension Liabilities: A Closer Examination of Discount Rates

Divya Anantharaman, Rutgers, The State University of New Jersey

\*Darren Henderson, Western University

The discount rate assumption is one of the most critical choices in the accounting for corporate defined-benefit pension plans. Even though U.S. and international standard-setters converge in mandating a high-quality corporate bond rate to discount pension obligations, this mandate lacks a clear conceptual rationale and is subject to much debate, with the risk-free rate and the expected return on pension assets (EROA) often proposed as alternatives. We aim to examine which of these three alternative discount rates, in practice, most closely fits pension values as perceived by equity and debt market participants. We first develop a number of techniques to derive hypothetical values of pension obligations when discounted at each alternative rate, for broad samples of pension sponsors. While discounting at the GAAP-mandated high-quality corporate bond rate best fits debt market perceptions as embodied in credit ratings, we find across samples and techniques that discounting at the EROA produces pension values that most closely fit those embedded in equity market valuations. If a pension plan is expected to continue in existence for the foreseeable future with a specific asset allocation in place, then discounting at the EROA is most relevant to determining whether current assets are sufficient to meet future liabilities, and to determining the plan's future cash flow needs. Our findings suggest that an EROA-based valuation might provide the most useful information from an equity user's perspective.

## The Effect of Annual Report Readability on Cost of Debt

\*Xiaohua Fang, Georgia State University

Yutao Li, University of Lethbridge

Baohua Xin, University of Toronto

Wenjun Zhang, Dalhousie University

This study examines whether and how borrowing firms' financial statement readability affects the contracting features of syndicated loans. Using a sample of loans issued by U.S. public firms in the syndicated loan market over the period 1994-2007, we find strong evidence that firms producing more difficult-to-read annual reports incur higher cost of debt proxied by private loan yield spread. Our results are consistent with the view that annual report readability reduces information processing costs to creditors. In addition, the association between readability and cost of borrowing is more pronounced for firms with weak governance and firms with low relationship intensity.

## 5I - Earnings Management

Room: Tom Thomson

Session Chair: Duane Kennedy, University of Waterloo

### Corporate Governance, Firms' Performance and Earnings Management: Evidence from German Listed Companies

K.A. Mohamed Ehab, German University in Cairo

Marian Hany, German University in Cairo

\*Mostaque M. Hussain, University of New Brunswick

This paper examines the effect of Corporate Governance (CG) on firms' performance and earnings management. Data has been collected from German companies listed on the Frankfurt Stock Exchange. Board characteristics are used as the proxy for it, while performance is measured using the return on equity and the return on assets ratios. Earnings management is measured using the magnitude of accruals in a firm. Three OLS regression models are used to test the research hypotheses. The findings of the study reveal that CG has significant effect on the performance of a firm as well as on its earnings management practices. This study also finds that some characteristics of the board significantly affect firms' performance and earnings management.

### Temporality and Evidence of Earnings Management in Fraud Companies

\*Robert Biscontri, University of Manitoba

Companies manage earnings for a variety of reasons. One method managers use to manipulate earnings in order to meet expectations is discretionary accruals. Fraud and discretionary accruals have been studied in the past but confined in very specific contexts. The purpose of this study is to broaden the generalizability of these studies by addressing two significant issues. First, literature provides ample evidence that companies, who managed earnings illegally resulting in fraud, did so using discretionary accruals. However, do all companies that commit fraud result in financial restatements also display behavior consistent with earnings management? The second issue addressed is that of temporality. Is there a pattern to the use of discretionary accruals in the years leading to fraud? In other words, is earnings management present for just the fraud period or for further periods leading up to the fraud? Using a sample of AAERs issued by the SEC as a proxy for fraud, the results show that earnings management is commonly used in firms who commit accounting fraud broadly, not just those using earnings management as the primary vehicle. The results further show that the earnings management extends to more than one year prior to the fraud.



## A Firm's Earnings and the Likelihood of its Acquisition: Earnings Management by Acquirers

Ashiq Ali, University of Texas at Dallas

\*Todd D. Kravet, University of Connecticut

Bin Li, University of Texas at Dallas

We examine the association between a firm's earnings and its likelihood of being acquired. Prior research argues that underperforming firms are more likely to be taken over because of inefficient management. However, prior literature finds mixed results for the association between earnings and takeover probability. We argue that firms with abnormally high earnings are also attractive takeover targets because of acquirers' incentives to manipulate earnings. We find that a firm's takeover likelihood is positively (negatively) associated with industry-adjusted ROA when the firm's earnings is above (below) industry average ROA. We also find in a series of tests that the positive association is more pronounced when acquirers' have higher incentives, lower costs, and increased opportunity to manage earnings. The positive association is also more pronounced when deal are target characteristics are likely to facilitate earnings management. Finally, we find that investors react unfavorably to the announcement of acquisitions of targets with higher earnings.

## Concurrent Sessions VI

11:00 a.m.–12:30 p.m.

### Sponsors Education Sessions:



All sessions are on the Convention Level.

### 6A - Market Analysts

Room: Carmichael

Session Chair: Gus De Franco, University of Toronto

#### The Information Spillover Effect of Peer Firms' Analyst Coverage

\*Wuyang Zhao, University of Toronto

Prior analyst literature focuses on the impact of financial analysts on the firms they cover, and prior information-transfer literature concentrates on the externalities of information provided by the management. This paper fills gaps in both streams of literature by examining the information spillover effect of the peer firms' analyst coverage on the focal firm. Using observations with unchanged analyst coverage from the prior year, I find that a firm's information environment is positively affected by its peer firms' analyst coverage. The result is robust to different measurements of the information environment, firm fixed effects, changes specifications, exogenous shocks to address endogeneity, and a battery of additional tests. In addition, I find that the spillover effect is weaker when the focal firm has higher corporate disclosure quality, greater analyst following, and a more complex (or unique) business model.

#### Eternal Sunshine: Are U.S. Analysts More Optimistic than Foreign Analysts?

Joshua Livnat, New York University

\*Li Zhang, Rutgers, The State University of New Jersey

A vast literature has documented an optimistic bias of U.S. analysts. This study compares the optimistic bias of U.S. analysts to that of foreign analysts. Using the implied rate of return in target prices (i.e., the ratio of the target price to the stock price one day before the target price announcement), we show that U.S. analysts are significantly more optimistic than their foreign peers, even after controlling for the same set of firms and the same economic conditions. Furthermore, we find U.S. analysts to be more optimistic for foreign-listed stocks, and not only for U.S.-listed stocks. Similar results are obtained for stock recommendations. In subsequent analysis, we find that investors are potentially aware of this bias, reacting more strongly to earnings forecast revisions of foreign analysts than to those of U.S. analysts.

#### Political Uncertainty and Analyst Performance

Vishal P. Baloria, Boston College

\*Keleab Mamo, University of Waterloo

This study examines whether political uncertainty affects the forecasting performance of financial analysts. We conjecture that political uncertainty increases the complexity of the forecasting task for analysts, resulting in less accurate earnings forecasts. We find robust evidence that forecast accuracy decreases in the presence of political uncertainty. We also document that the negative association between forecast accuracy and political uncertainty is more pronounced when political uncertainty is particularly high and when firms are more sensitive to political uncertainty. Our results hold consistently across alternative measures of political uncertainty and analyst performance. Collectively, our evidence suggests that political uncertainty contributes to the complexities analysts encounter in predicting firm performance.

Room: Jackson

Session Chair: **Stephanie F. Cheng**, University of Toronto

### Corporate Governance Ratings and Firm Performance: Canadian Evidence

\***Abiodun Isiaka**, Wilfrid Laurier University

This paper examines the relationship between corporate governance ratings and firm performance using two commercial governance ratings- the Globe and Mail Report on Business (ROB) rating and the Institutional Shareholder Services (ISS) Governance Quickscore. Firm performance is measured as Return on Assets (ROA), Return on Equity (ROE), Tobin's Q and Market-to-Book (MB) ratio. For the ROB ratings, a panel data of 119 firms in the three-year period 2010-2012 was analyzed using univariate and multivariate analysis. The ISS rating for the same firms was examined using Ordinary Least Squares (OLS). The univariate analyses show differences in performance change between good governance and poor governance firms for Tobin's Q and MB ratio. There is also evidence of a difference in MB ratio between high governance risk and low governance risk firms for the ISS rating. The multivariate analyses show significant positive relationship between the sub categories of ROB ratings and firm performance measures; there is however no evidence for the overall score. For the ISS rating, there is evidence that high governance risk firms perform lower than low governance risk firms. Also, there is evidence of some significant relationship between the sub-category scores and firm performance. This study contributes to literature by using a new data source of governance ratings for Canadian firms -ISS and provides more evidence that the sub-category ratings reflect firm performance better than the overall scoring. The results of this study are important to investors, companies and policy makers.

### Blockholder Exit Threats in the Presence of Private Benefits of Control: A Quasi-Experiment from China's Split-Share Structure Reform

\***Ole-Kristian Hope**, University of Toronto

**Han Wu**, Norwegian School of Economics

**Wuyang Zhao**, University of Toronto

Using the Split-Share Structure Reform (SSSR) in China as a quasi-experiment, we examine whether and how non-managerial blockholder exit threats discipline managers when private benefits of control (PBC) are prevalent. SSSR removed the selling restrictions on previously-dominant non-tradable shares, thereby providing a large, exogenous, and permanent shock to the cost for non-managerial blockholders to exit. However, because such exit potentially reduces non-managerial blockholders' threats to control rights and managerial blockholders could benefit from the exit, it is *ex ante* uncertain whether exit threats would be effective in this setting. Using a difference-in-differences design, we find that the shock to exit threats, on average, improves firms' operating performance. Specifically, we find that firms whose non-managerial blockholders experience a larger exit-threat increase have a greater improvement in performance than those whose non-managerial blockholders experience no or a smaller increase. Within the treatment sample, better performance is observed for firms whose managers' wealth is more closely tied to stock prices. Our results are robust to numerous controls, different specifications, and alternative measures of operating performance. The findings suggest that exit threats discipline managers even when PBC are prevalent. Further cross-sectional analyses show that the governance effect of exit threats is weaker when PBC are a stronger concern. In particular, the governance effect for firms headquartered in coastal provinces and with less concentrated ownership (indicators for lower PBC) is significantly stronger than that for firms headquartered in inland provinces and with more concentrated ownership. Finally, we identify improvement in investment efficiency and reduction in agency costs as two potential channels through which the shock affects operating performance, and we show that the changes in performance occur around the time when the expectation of a future increase in blockholders' exit threats is formed.

### Corporate Social Responsibility, Corporate Governance, and Managerial Risk-Taking

**Mohamed Ayadi**, Brock University

**Martin I. Kusy**, Brock University

**Minyoung Pyo**, Brock University

\***Samir Trabelsi**, Brock University

This paper investigates the association between corporate social responsibility (CSR) and managerial risk-taking, as well as the differences in governance structure that affect this association. Using a sample of US public firms, we find that firms with strong CSR records engage in higher risk-taking. Furthermore, we find that accounting for differences in governance structure substantially accentuates this relationship. Prior literature establishes that high managerial risk tolerance is necessary for the undertaking of risky yet profitable investment decisions. Thus, these findings suggest that CSR, rather than being a waste of scarce corporate resources, is instead an important aspect of shareholder value creation. They contribute to the debate on CSR by documenting that corporate risk-taking is one mechanism among others through which CSR maps into higher firm value.

## 6C - Markets

Room: Varley

Session Chair: **Hong Fan**, Saint Mary's University

### Gross Profit Surprises and Cross-Section of Stock Returns

**Peng-Chia Chiu**, Chinese University of Hong Kong

\***Timothy Haight**, Loyola Marymount University

We show that seasonally differenced gross profit surprises predict future stock returns incremental to returns predicted by standardized unexpected earnings (i.e., SUE) and other accounting-based variables with predictive power. Hedge portfolio strategies that exploit the predictive capacity of gross profit surprises generate significant positive returns in most calendar quarters spanning 1977-2010 with magnitudes comparable to SUE-based strategies. We also show that the incremental predictive capacity of revenue surprises documented in Livnat and Jegadeesh (2006) is subsumed by gross profit (i.e., revenues less cost of sales) surprises when returns are measured over three months beginning in the fiscal quarter subsequent to the surprise quarter.

### Addressing Puzzle About Equity Valuation Using Multiples: How Earnings Forecasts Outperform Residual Income Model in Multiples

\***Ja Ryong Kim**, University of Nottingham

Since Liu, Nissim and Thomas (LNT, 2002), researchers have been perplexed by how simple earnings forecasts using multiples apparently outperform the theory-based residual income model in terms of pricing error. This paper explains mathematically how LNT (2002) find this curious result and demonstrates that, in terms of pricing error, the majority of residual income models in fact outperform earnings forecasts using multiples. The explanation for the LNT (2002) result is in their selection of comparators: they choose residual income models that perform the worst among residual income models, and compare them with the best performing multiples. In terms of future return generation, this paper reports that the majority of residual income models again outperform earnings forecasts using multiples, further supporting the superiority of theory-based valuation models to rule-of-thumb based models in price estimation and future return generation. The paper resolves a decade-old puzzle in equity valuation and demonstrates that theory-based valuation models are empirically superior to rule-of-thumb based valuation models.

### Vulture Funds and Fresh Start Accounting of Firms Emerging from Chapter 11 Bankruptcy

**Miles B. Gietzmann**, Bocconi University

\***Helena Isidro**, ISCTE-IUL

**Ivana Raonic**, City University London

When firms emerge from Chapter 11 bankruptcy of the U.S. Bankruptcy Code, historic accounting valuations are cancelled and replaced with updated synthetic market value estimates in order to give the firm a fresh start. We find that distress oriented hedge funds that follow a loan-to-own investment strategy (i.e., vulture funds that acquire distressed debt that is swapped for equity in the emerging firm) strategically influence the fresh start accounting value of the Chapter 11 firm. Holding critical positions in the capital structure of the distressed firm grants vulture funds great influence over the bankruptcy negotiations and the determination of the fresh start value. They have strong incentives to influence fresh start valuations because the effective implementation of a loan-to-own strategy critically depends on the value of their equity position at emergence. We test for such influence by looking at changes in firm value before and after emergence from Chapter 11. We find that the vulture funds that hold strategic debt positions can maximize their returns by driving down firm value at the emergence of Chapter 11 and then they are pleased to see them being driven up when actual market trading commences.

## 6D - Changes for Audit Reporting

Room: Toronto Harris

\***Darrell Jensen**, Ernst & Young LLP

\***Fred Pries**, University of Guelph

\***Eric Turner**, CPA Canada

Major changes are occurring in how and what auditors say in their reports. In this session, we will provide a brief update on the changes that are occurring and then have a discussion of the opportunities and challenges these changes pose for auditing education. For example, the reporting of key audit matters will provide greater insight into the audit process and will provide examples and cases that can give students greater insight into the key issues in audits. The changes occurring also increase the importance of, and challenges in teaching, fundamental concepts like materiality and risk. We will also step back from the short-term impact of these changes and consider the longer time implications on the auditing profession such as how these changes may affect the skills and competencies that public accounting firms look for in graduates.

## 6E - How to Effectively Integrate Strategy in Accounting Courses

Room: Toronto MacDonald

\*Norman Sheenan, University of Saskatchewan

\*Susan Wolcott, CPA Canada

Today's accounting professionals are strategic partners who work in cross-functional teams to shape organizational success. How can accounting educators help their students prepare for this role? This session will introduce teaching and learning ideas for effectively integrating strategy into accounting courses, including management accounting, financial accounting, assurance, and tax.

## 6F - Academic Dishonesty

Room: Toronto Lismer

\*Camillo Lento, Lakehead University

Presentation of the results of a survey of accounting professors across North America regarding trends in academic dishonesty among students enrolled in accounting programs. The results provide insights into the types, reasons for, and controls over dishonesty and the impact of technology in this area. Participants will then have an opportunity to share their experiences through round table discussion.

## 6G - Compensation

Room: Johnston

Session Chair: **Name, Institution**

### The Effect of the Clawback Provision on the Asymmetric Sensitivity of CEO Bonus to Earnings

\*Sung S. Kwon, York University

Gordian A. Ndubizu, Drexel University

Jennifer Yin, University of Texas at San Antonio

Section 304 of the Sarbanes-Oxley Act of 2002 (SOX) sets forth a clawback provision that enables a publicly traded company to recover bonuses and other performance-based compensation from the chief executive officers (CEOs) if their company is required to restate financial statements due to material non-compliances, as a result of misconduct, with financial reporting requirements under the security laws. In this paper, we examine the effect of regulatory changes on the sensitivity of CEO bonus to earnings in the cases of good news and bad news in the periods before and after SOX. We find that asymmetric sensitivity of bonus to earnings exists before SOX but disappears in the post-SOX period. This is consistent with the reduced impact of settling up problems due to the clawback provision. This finding shows that regulatory changes affect compensation contracts and has implications for regulators, managers, politicians, investors, and academics in their assessment of the equitable relationship between executive efforts and executive bonus compensation.

### Managerial Discretion and Task Interdependence in Teams

\*Markus C. Arnold, University of Bern

Ivo Tafkov, Georgia State University

This study investigates whether the effect of managerial discretion over team members' compensation on team performance depends on task interdependence. Task interdependence reflects the degree to which the increase in team performance resulting from a team member's effort depends on the efforts and skills of the other team members. Consistent with our predictions, we find that, regardless of task interdependence, managers use their discretion over compensation to differentiate team members' compensations. However, the effect of this differentiation on team performance depends on task interdependence. Specifically, our results show that managerial discretion over compensation has a positive effect on team performance when task interdependence is absent and negative effect on team performance when task interdependence is present. The results also suggest that predicted effects of task interdependence become more pronounced when task interdependence goes up. Supplemental analysis reveals that differentiating compensation among team members through managerial discretion hurts coordination and helping behavior among them. Our results have practical implications for firms, which have flexibility in designing their incentive systems in a team environment, because we identify conditions under which the effectiveness of granting managers discretion over team compensation is likely to vary.

### The Impact of Investor Horizon on Say-on-Pay Voting

Konstantinos Stathopoulos, University of Manchester

\*Georgios Voulgaris, University of Warwick

Shareholder investment horizons have a significant impact on Say-on-Pay voting patterns. Short-term investors are more likely to avoid expressing opinion on executive pay proposals by casting an abstaining vote. They vote against board proposals on pay only in cases where the CEO already receives excessive pay levels. In contrast, long-term investors typically cast favourable votes. According to our findings this is due to effective monitoring rather than collusion with the management. Overall, investor heterogeneity in terms of investment horizon helps explain Say-on-Pay voting, in particular the low levels of Say-on-Pay dissent, which have recently raised questions over the efficiency of this corporate governance mechanism.

\* Presenter

## 6H - Conservatism

Room: Casson

Session Chair: **Carlo D'Augusta**, Georgia State University

### The Market for Corporate Control and Accounting Conservatism

\***Jeffrey L. Callen**, University of Toronto

**Yuyan Guan**, City University of Hong Kong

**Jiaping Qiu**, McMaster University

This study explores the governance role of accounting conservatism by investigating changes in financial reporting conservatism before and after the passage of state anti-takeover laws. Passage of these laws introduced an exogenous shock to the takeover threat faced by firms and constitutes a natural experiment for investigating the relation between financial reporting and governance. Employing a (proper) difference-in-differences methodology, we find that conditional accounting conservatism increased significantly after the passage of state anti-takeover laws consistent with accounting conservatism acting as a substitute internal governance mechanism for the weakened external governance environment. We further conjecture and document that the resulting increase in conservatism is greater for firms operating in less competitive industries, firms with better performance, and firms with lower institutional ownership. This evidence sheds light on how the financial reporting system interacts with corporate governance mechanisms in alleviating potential agency problems.

### State Capitalism and Accounting Conservatism

\***David Godsell**, Queen's University

**Daniel B. Thornton**, Queen's University

Prior research indicates that companies employ conservative accounting to reduce political costs. This study extends the literature to an international setting, focusing on the degree of accounting conservatism exhibited by the investees of Sovereign Wealth Funds (SWFs). We do not find any evidence of incremental conservatism in domestic investees. However, we find consistent evidence of incremental conservatism for large investments in foreign investees. For foreign investees, we hypothesize and find: 1. Foreign investee accounting is more conservative than that of non-investees, but only for large transaction sizes for which political costs are likely to be the most salient. 2. Foreign investees' incremental conservatism is positively associated with the value of investee securities acquired by SWFs. 3. Foreign investee accounting is more conservative than that of non-investees only in high-political-risk countries; indeed, incremental investee conservatism is negative in low-political-risk countries. 4. The positive association between foreign investee conservatism and transaction size is positively associated with the political-risk of the investee country. The results indicate that SWFs acquiring securities of companies in high-political-risk countries tend to focus on companies whose accounting is more conservative than that of non-investees. The results of the study are consistent with state capitalists seeing accounting conservatism as a means to reduce political costs in international settings.

## 6I - Disclosure

Room: Tom Thomson

Session Chair: **Name**, Institution

### Material Weakness Disclosures and Restatement Announcements

**Li He**, Rutgers, The State University of New Jersey

**Bharat Sarath**, Rutgers, The State University of New Jersey

\***Nader Wans**, Memorial University of Newfoundland

We examine the joint pricing effects of restatement announcements and associated MW disclosures. First, we analyze whether a dual disclosure of both a MW and restatement is viewed more adversely by the market at the time of restatement. We show that firms that announce both a restatement and an associated MW, either before, concurrent with, or after the restatement experience significantly more negative returns and a higher increase of implied volatility than do firms whose restatements were not associated with an MW disclosure. We also find that the joint disclosure of a MW and restatement triggers more class action lawsuits than does a single disclosure of a MW. Second, we examine the PCAOB's premise that MW disclosures are warnings of potential financial misstatements by examining the market reaction to restatements conditional on prior MW disclosures. Our evidence suggests that the market reacts more negatively to restatements that are preceded by a MW disclosure compared to restatements that went unwarned. Overall, our study provides new insights on how capital market participants incorporate information about internal control quality into their perceptions about financial reporting quality.



## The Relative Concentration of Bad versus Good News Flows

\*Vasiliki E. Athanasakou, London School of Economics and Political Science

Norman C. Strong, University of Manchester

Martin Walker, University of Manchester

We examine flows of bad and good news as a feature of the firm's information environment and argue that to the extent managers strategically withhold bad news, this leads to bad news being more concentrated compared to good news. We develop a measure of the relative concentration of bad versus good news based on negative and positive abnormal stock returns. We show that the measure is related to operating volatility and managerial incentives and constraints to withholding bad news. The measure is also related to lower earnings quality and a higher risk of shareholder litigation. These results suggest that the relative concentration of bad and good news flows is inversely related to the quality of the corporate information environment. As such, our measure is a useful complement to research that seeks to directly score the quantity and quality of corporate disclosures.

## Do Managers Withhold Bad News Due to Career Concerns?

\*Ashiq Ali, University of Texas at Dallas

Ningzhong Li, University of Texas at Dallas

Weining Zhang, Cheung Kong Graduate School of Business

This study examines how CEOs' withholding of bad news relative to good news varies with their tenure. As the market is more uncertain about CEOs' ability in their early years of service and relies more on the information disclosed to evaluate CEOs' human capital, we predict that CEOs have stronger incentives to withhold bad news relative to good news in the early years of service than in the later years. Consistent with this prediction, we find that the asymmetric market reaction to the management's bad news versus good news earnings forecasts and the amount of news released prior to good news forecasts relative to that prior to bad news forecasts are larger in the early years of CEOs' service than in the later years. These effects are weaker in firms with stronger monitoring of CEOs. We find similar effect of CEO tenure on the withholding of bad news prior to the announcement of dividend changes.

## Concurrent Sessions VII

2:00 p.m.–3:30 p.m.

Sponsors  
Education Sessions:



All sessions are on the Convention Level.

### 7A - Internal Control

Room: Carmichael

Session Chair: Alex Lyubimov, Concordia University

#### Reputable Inside Directors and Internal Control Effectiveness

Zhijun Lin, Hong Kong Baptist University

\*Byron Y. Song, Hong Kong Baptist University

Zhimin Tian, United International College

The study investigates whether non-CEO inside directors with reputation incentives affect the effectiveness of a firm's internal control over financial reporting. Internal control effectiveness is an important indicator of financial reporting quality. Using a large sample of 7,352 firm-year observations from 2004 to 2012, we find that firms with RIDs are less likely to report internal control weaknesses (ICWs). We also find that RIDs have a more pervasive impact on account-level ICWs than company-level ICWs. Empirical results also demonstrate that the association between RIDs and ICWs is more pronounced for firms with lower audit quality, higher CEO entrenchment, and higher cost of misreporting. These findings add to the few empirical studies examining the determinants of ICWs and have corporate governance policy implications for regulators by supporting the desirable role of inside directors in terms of efficient contracting.

SATURDAY

## The Effect of Reliance on Third-Party Specialists Under Varying Levels of Internal Control Effectiveness on the Audit of Fair Value Measurements

Helen L. Brown-Liburd, Rutgers, The State University of New Jersey

\*Stephani A. Mason, Rutgers, The State University of New Jersey

Sandra Waller Shelton, DePaul University

We examine the effect of third-party specialists and internal control effectiveness on auditor risk assessments and planning judgments related to auditing fair value measurements (FVMs). Accounting estimates are inherently difficult to audit, and the complex finance-based modeling that underlies estimates of many financial instruments may be beyond auditor expertise. Inspection reports issued by the PCAOB consistently cite audit firms for deficiencies concerning judgments related to reliance on management-hired third-party valuation specialists and controls over the FVM process. The growing number of deficiencies has led to the perception that auditors may not effectively evaluate FVMs and related disclosures, internal controls around them, or assumptions made by specialists. We conduct an experiment to examine how reliance on third-party specialists affects auditors' planning judgments for FVMs of financial instruments when observable market data is unavailable under varying levels of internal control effectiveness. We rely on the Heuristic-Systematic Model (HSM) to predict how auditors process information and reach judgments for FVMs. Results indicate that when internal controls are effective and management employs a third-party specialist to provide the FVM, auditors make the lowest inherent risk assessments. Auditors place greater reliance on management-hired third party specialists and are least likely to assess their expertise, objectivity and experience. The findings suggest that, overall, auditors engage in more effortful cognitive processing but the presence of a third-party specialist causes them to pay more attention to expert source cues, which is indicative of source expertise affecting the evaluation of risks associated with more complex and subjective accounting estimates.

## Integrative Contingency-Based Framework of MCS: The Case of Post-Secondary Education

Tony Berry, Manchester Metropolitan University

\*Caroline Pomare, Heriot-Watt University

*Research Question:* The purpose of this article is to explore: (i) whether and how changes in the Management Control Systems (MCS) of Post-Secondary Institutions (PSIs) in Western Canada can be described and explained in terms of formal and informal MCS; and (ii) whether and how changes in the MCS of PSIs in Western Canada can be described and explained in terms of an integrative contingency-based framework of MCS based on regulatory accountability systems, competitive markets and organizational culture?

*Research Method:* The empirical research was undertaken with an exploratory mixed design. The first phase involved descriptive univariate & bivariate statistics as well as non-parametric statistics computed on data from annual reports and financial statements of 46 PSIs in Western Canada to quantitatively explore MCS. The second phase involved the Grounded Theory (GT) analysis of annual reports of 46 PSIs in Western Canada to qualitatively explore formal MCS in relation to changes in contingencies. The third phase involved the GT analysis of 20 semi-structured interviews of senior managers from PSIs in Western Canada to qualitatively explore informal MCS in relation to formal MCS and changes in contingencies.

*Main Findings:* The research showed that emphasis on formal MCS in Western Canadian PSIs resulted in biased compliance within informal MCS. The exploratory research also demonstrated that the distinction between formal and informal MCS was better understood in a wider framing of MCS in terms of regulatory accountability systems, competitive markets and organizational culture.

*Contribution of the Study:* This research led to the elaboration of an exploratory theoretical framework to subsume the distinction between formal and informal MCS into an integrative contingency-based framework of MCS.

### 7B - Disclosure

Room: Jackson

Session Chair: **Name, Institution**

## Joining the Conversation: How Quiet Is the IPO Quiet Period?

\*Matthew C. Cedergrén, New York University

This study evaluates the IPO quiet period, which restricts managers' ability to publicly communicate in the weeks immediately following the IPO. I investigate the effectiveness of and compliance with the quiet period for a sample of 3,380 IPOs from 1996 through 2011, and report several key findings. Firms significantly increase their communication immediately after the quiet period expires, and this manifests in more firm-specific information in returns. While this suggests the quiet period rules are effective on average, I find that there is non-random variation across firms in this effectiveness. In particular, the marginal effect of increased communication on firm-specific information processed by the market is greater for firms which are harder to value or receive less-than-expected attention in the aftermarket. Moreover, notwithstanding overall effectiveness, I find wide variation in the level of compliance with the quiet period, and that firms benefit from non-compliance. In particular, firms with more quiet period "loudness" obtain more analyst attention and are more likely to meet or beat future consensus forecasts. Collectively, the results suggest that (1) the quiet period rules prevent investors from learning useful information in a timely manner, and (2) a lack of SEC enforcement provides advantages to firms that violate the spirit, if not the letter, of the rules. This calls into question whether the IPO quiet period rules—essentially unchanged for over 80 years—remain relevant and useful in modern equity markets.

## Contracting with CEOs to Induce Earlier Disclosure of Bad News: Evidence from Ex-Ante Severance Agreements

Stephen P. Baginski, University of Georgia

John L. Campbell, University of Georgia

Lisa A Hinson, University of Georgia

\*David S. Koo, University of Illinois at Urbana-Champaign

Prior research argues that career concerns provide managers with strong incentives to withhold bad news in the hopes that subsequent events will turn in their favor. This literature provides evidence that, on average, management delays the release of bad news to investors. We combine two streams of recent research to offer two new insights to these findings. First, we show that research design choices lead prior research to understate the extent to which managers voluntarily delay the disclosure of bad news relative to good news. Second, we identify a compensation contract (i.e., ex-ante severance pay agreements) that firms use to explicitly reduce their CEO's career concerns. We find that if managers are promised a sufficiently large payment in the event of a dismissal, they no longer delay the disclosure of bad news relative to good news. Overall, our findings suggest that, on average, managers delay the disclosure of bad news more than previously thought, and that if firms provide compensation contracts to reduce their managers' career concerns, this asymmetric release of information is eliminated.

## 7C - Reporting Quality

Room: Varley

Session Chair: Hwee Cheng Tan, University of New South Wales

### CEO Campaign Contribution Channels and Financial Reporting Quality

C.S. Agnes Cheng, Hong Kong Polytechnic University

Shuo Li, Hong Kong Polytechnic University

Walid Saffar, Hong Kong Polytechnic University

\*Tony Zhang, Hong Kong Polytechnic University

This study investigates whether a CEO's choice on campaign contribution through the corporate channel to recipients advised by firm's political action committee or through the private channel to their own selected recipients is associated with the quality of their financial reporting. Using a sample of 8,502 observations from S&P 500 firms during 1993–2012 over 10 election cycles, we find that CEOs contributing mainly through the corporate channel engage in less earnings management than those contributing mainly through the private channel. The results imply that CEOs' campaign contribution choice of the private channel over the corporate channel represents their strong self-interests and is associated with higher agency costs. We further show that the distinction between the two channels is less important when a CEO's private campaign contributions patterns are aligned with those of their firms. Our results are robust to techniques alleviating the potential endogeneity issue in campaign contribution behaviors and alternative measures of financial reporting quality.

### Volcker Rule: Liquidity, Systemic Risk, and Financial Reporting Quality

Rafet Atkas, Yildirim Beyazit University

Kareem Brown, Brock University

\*Fayez A. Elayan, Brock University

Parunchana Pacharn, Brock University

We investigate whether the market perceives the Volcker Rule as the right prescription for its stated objectives. Using a large and inclusive sample, we assess the market's perception of the rule and its effectiveness using both the equity and credit default swap (CDS) market responses to the announcement of the rule. Our results show that the equity market response to the Volcker Rule announcement is positive while the credit default swap market response is negative, suggesting that the capital markets perceive the Volcker Rule as a positive regulatory measure. We conduct further analyses to determine whether or not there is a different market reaction based on systemic risk, liquidity, level of proprietary trading, and financial reporting quality. We find that banks with higher systemic risk, higher levels of proprietary trading, higher levels of illiquidity, and worse financial reporting quality are more likely to be negatively impacted by the Volcker Rule. We also examine banks' characteristics before and after the announcement of the rule and find evidence that indicate a positive impact of the Volcker Rule.

## 7D - Challenges in Accounting Education: Audit Assurance

Room: Toronto Harris

\*Ralph Tassone, University of Toronto

This session will allow those who teach auditing to discuss topics such as 1) finding the right balance between quality and quantity in covering all the required entry level material (i.e., how to get through a large amount of material while ensuring student understanding); 2) memorizing vs. understanding the material discussed and the affect of student performance on exams; 3) how to get students to read and apply the handbook; and 4) issues in teaching 4<sup>th</sup> year audit courses.

## 7E - Challenges in Accounting Education: Financial Accounting

Room: Toronto MacDonald

\*Christopher Martinez, Centennial College

This interactive session will allow participants to share ideas in a round table format on dealing with topics such as; teaching to students who do not buy textbooks, use of peer or student self-assessment as a part of overall course assessment, the educator as a mentor, and, the potential "value added" by the educator within the learning environment.

## 7F - Challenges in Accounting Education: Management Accounting

Room: Toronto Lismer

\*Jamison Aldcorn, Seneca College

This interactive session will enable management accountants to share and compare their challenges, successes, and crystal ball: how performance management (also known as management accounting) could be taught in a PREP to PEP CPA world. Topics include: ABCs and 123s—Teaching less, better to improve student success, CVP (Costing, Value Added and Process)—Identifying threshold concepts and eliminating non-value added activities/topics, Balanced Scorecard Brainstorming creative accounting tools and techniques, and many more exciting topics... well exciting for accountants, anyway.

## 7G - Audit

Room: Johnston

Session Chair: Ray Zhang, University of British Columbia

### Long-Term Trends in Audit Market Shares: Effects of BIG-4 Pricing Strategies or Non BIG-4 Market Power?

Bharat Sarath, Rutgers, The State University of New Jersey

\*Hua Xin, Rutgers, The State University of New Jersey

We analyze changes in audit fees and market shares of the BIG-4 audit firms (KPMG, PWC, D&T, E&Y) as compared with those of NB-4 (Non-Big 4) auditors in the period 2000-2011. Both relative fees and relative market shares (compared across BIG-4 and NB-4) auditors changed radically over this period due to the enactment of the Sarbanes-Oxley Act (SOX). In addition, one of the major audit firms, Arthur Andersen (AA) was driven out of business. We exploit variations in the effects of these two events across industries and across size quintiles to examine changes in pricing strategies and market shares of BIG-4 and NB-4 auditors. In particular we examine whether the market share changes have been driven primarily by the BIG-4 deterring clients through pricing strategies (which we characterize as "cherry picking") or through more effective competition by NB-4 auditors (which we characterize as NB-4 market power). Our empirical results suggest that both these factors have played a significant role in the realignment of the market share for audit services across BIG-4 and NB-4 auditors following the enactment of SOX and the collapse of AA.

### The IT Auditor Function on Financial Statement and Integrated Audits: Description of Practice and Avenues for Future Research

Tim Bauer, University of Illinois at Urbana-Champaign

\*Cassandra Estep, University of Illinois at Urbana-Champaign

IT plays a critical role in the production of financial statements, and thus, audits over financial statements. However, audit standards provide limited guidance related to the reliance on IT and use of IT auditors; academic literature is sparse on these topics as well. We seek to fill this gap by gaining an understanding of the IT auditor function on financial statement and integrated audits, especially in light of recent PCAOB concerns over undue reliance on IT as a root cause of ICFR-related audit deficiencies. We analyze data from 33 interviews with practicing financial and IT auditors using a research question framework highlighting key points in the audit process. We posit a number of interesting implications including: 1) involvement of IT auditors in audits is a subjective process and thus social and behavioral forces could have a significant influence on the way the two teams work together; 2) while IT auditors are typically involved in planning, the extent can vary and there is likely room for increased involvement, especially around fraud-related procedures; and 3) financial and IT auditors have contrasting views on whether increased involvement of IT auditors on business process-related work is needed, but both groups cited the need for mutual respect and knowledge in both domains. Our findings provide a foundation for academic researchers to identify important research issues, develop theory-based predictions, and design empirical studies to address these issues. Our study also has broad implications for future research in other audit specialist areas, such as tax and valuation.

## Determinants of Internal Audit Quality Post Sarbanes-Oxley Act of 2002

\***Mohammad J. Abdolmohammadi**, Bentley University

**Steve DeSimone**, Bentley University

In this study we utilize responses from 386 chief audit executives (CAEs) of public companies located in Anglo-culture countries, to identify and test the determinants of internal audit quality (IAQ). We then use external quality assessment and improvement programs as an objective dependent variable in a regression where test variables are 1) internal quality assessment and improvement programs, 2) determinants of internal audit quality, 3) measures of internal audit performance, 4) audit committee involvement, and 5) internal audit function age. We test multiple other variables as control variables, including the six variables that U.S. and international standards have identified for the external auditors to consider when deciding on whether to rely on the work of internal auditors. We find strong statistical support for our five test variables, but not control variables, where only one of the SAS 65/128/IAS 610 determinants of IAQ, CIA certification of the CAE, is positively associated with our dependent variable, and only marginally.

## 7H - Analysts and Forecasts

Room: Casson

Session Chair: **Zhongwei Huang**, ESSEC Business School

### The Presence of a Chief Marketing Officer and Management Revenue Forecasts

**David S. Koo**, University of Illinois at Urbana-Champaign

\***Dongyoung Lee**, McGill University

This study investigates the potential role of the chief marketing officer (CMO) in financial disclosures. We find that CMO presence in top management teams is positively associated with the likelihood and frequency of management revenue forecasts. We also find that firms with a CMO issue more accurate revenue forecasts than other firms. CMO presence also has positive implications for the accuracy of earnings forecasts when the firm issues revenue forecasts voluntarily in the same year. These findings indicate that CMOs help mitigate top management uncertainty and, ultimately, contribute to the quality of external disclosures of future firm performance. We also find that CMO firms exhibit stronger stock market reactions to the news in their revenue forecasts than non-CMO firms. This finding is consistent with the notion that CMOs enhance the credibility of management revenue forecasts. Overall, this research shows that CMOs play an important informational role in voluntary corporate disclosures.

### Supplier's Relationship-Specific Investment and Customer's Management Forecasts

\***Kai Chen**, University of Waterloo

In this paper, I examine the effect of relationship-specific investment made by the supplier on the customer's decision to issue management forecasts. Relationship-specific investment made by the supplier has a low value outside the relationship. Anticipating the sunk relationship-specific investment gives the customer more *ex post* bargaining power, the supplier can be reluctant to make relationship-specific investment *ex ante*, leading to underinvestment in relationship-specific assets by the supplier as well as economic loss for the customer. In order to avoid underinvestment by the supplier, the customer firm can use management forecasts to mitigate the supplier's concern. I find that the likelihood and frequency of the customer firm to issue management earnings forecasts is positively associated with relationship-specific investment undertaken by its suppliers. Such positive association is less pronounced when suppliers have a higher bargaining power. Lastly, I find that the issuance of management forecasts by the customer firm contributes to a longer-term customer-supplier relationship.

### The Q&A: Under Surveillance

**Santhosh Abraham**, Heriot-Watt University

\***Matt A. Bamber**, University of Bristol

This study addresses an unanswered paradox: why do analysts invest their time in a discourse which is legally prohibited from being 'useful' in the neo-classical economic sense? To explore this question we draw on direct evidence collected through a series of interviews with senior management (35) and analysts (24) and explain our results through a surveillance framework. During the question and answer session which follows a firm's investor presentation (conference call), there are strict rules preventing new, price-sensitive information dissemination. Nevertheless, analysts engage and participate. We were told that there were a number of key informational incentives. Importantly, however, we were also told that there is a visibility incentive. This is a rare moment where the analyst becomes immediately and simultaneously visible to: i) their clients; ii) the management of the firm they are following; and iii) to the market as a whole. The Q&A, therefore, is a platform for analysts to build (lose) credibility and enhance (destroy) their reputations. Analysts reported the drive not only to produce reliably informed opinions, but also their ability to project the image of someone who has the requisite expertise to do so. Asking 'good' questions during these presentations is important to achieving that. We report this phenomenon for the first time and thus open new research questions and opportunities for accounting and finance scholars, especially those concerned with measuring and understanding analyst behaviour and performance.



## 7I - Earnings Management

Room: Tom Thomson

Session Chair: Sai-Chung Ngan, Fanshawe College

### Earnings Management and Systemic Risk in the Banking Industry

\*Mary L. Ma, York University

Victor Song, University of British Columbia

This study examines the relation between earnings management through loan loss provisions (LLPs) and systemic risk in the U.S. commercial banks. We find that earnings management increases a bank's contribution to systemic crash risk and systemic distress risk, consistent with the notion that earnings management increases information uncertainty and facilitates bad news hoarding. However, the effect disappears during the financial crisis period, consistent with weakened earnings management in recessions. We also find that the same effect strengthens with bank uncertainty and homogenous loans and weakens in the post-SOX period and for banks with Big-Four auditors.

### The Impact of Meeting Earnings Benchmarks in a Multiperiod Oligopoly Setting

\*Hao-Chang Sung, Jiangxi Normal University

Min-Teh Yu, National Chiao Tung University

This study investigates how managing earnings through real activities manipulation in order to meet earnings benchmark and alter competition in the firm's product market. We develop a two-period model in which one of two competing firms knows whether it prefers to maximize profits or to meet or beat a two-period earnings benchmark. The other (rival) firm maximizes profits and does not know the first firm's type (i.e., whether it is a profit-maximization type or earnings-benchmark type). The main results describe a separating equilibrium for some parameter values, and for others, an equilibrium in which the profit-maximization type randomizes to reduce the rival's ability to infer its type. In a separating equilibrium, the earnings-benchmark type will engage in real activities manipulation via raising the price (or the quantity) in the first period at expense of a lower second-period profit, even though this may undermine its competitiveness. In the mixed strategy equilibrium, once the demand uncertainty falls short of expectation, the profit-maximization type probabilistically mimics the earnings-benchmark type and setting a higher first-period price (or a higher first-period quantity) than in the separating equilibrium to mask the effect of demand uncertainty on the firm's first-period profit level in an attempt to avoid profit reduction. We also provide explanation for these equilibrium results which are consistent with existing empirical evidence.

## Concurrent Sessions VIII

3:45 p.m. – 4:45 p.m.

### Sponsors Education Sessions:



All sessions are on the Convention Level.

## 8A - Banking and Trust

Room: Carmichael

Session Chair: Barbara Su, University of Toronto

### Accounting Treatment and Claims of Asset Securitizations

\*Christophe Lejard, Toulouse 1 Capitole University

This study seeks to determine, by exploiting accounting disclosures regarding variable interest entities required by SFAS No. 166, and data related to sales-securitizations bank activities; whether the accounting treatment assigned by bank holding companies to an asset securitization defines its claim, or alternatively, whether bank managers consider asset securitizations as being efficient financing or as credit-risk outsourcing tools. The findings from this study clearly suggest that asset securitizations accounted for as sales are engaged by banks to outsource credit-risk and improve profitability, while asset securitizations accounted for as secured borrowings are engaged to efficiently finance investments.

### Preparer Intention and Accounting Training on Repairing the Trustworthiness of Accounting

\*Michelle C. Lau, Brock University

This paper reports the results of an experiment that examines preparer intention and accounting training on repairing accounting trustworthiness. Results from 151 participants show accounting training as a response to accounting error significantly influences the trustworthiness of accounting information and the preparer; however, the effectiveness of accounting training on trust repair depends on the content of accounting training and nature of preparer error. Responding to an accounting error attributed to preparer competence with technical (e.g., cost) accounting training significantly improves accounting trustworthiness relative to ethical accounting training. However, ethical accounting training provides no benefit to repairing accounting trustworthiness following an accounting error attributed to preparer integrity beyond technical or an absence of accounting training. Collectively, findings from this study have several implications. First, this study provides

insights on ethical and technical accounting training as a strategy to repair accounting trustworthiness following a trust violation involving accounting error. Next, while ethical training is often cited as the primary tool to improve ethical conduct whether disclosing details about ethical training influences perceptions about ethical conduct remains an empirically separate issue. Finally, this study suggests the success of accounting training on repairing accounting trustworthiness depends on whether the mistrusted party can demonstrate its willingness and ability to change. If the mistrusted party is unable or unwilling to adapt to an ever changing business environment, then accounting training will have little if any effect on repairing violated trust.

## 8B - Audit

*Room:* Varley

*Session Chair:* **Name, Institution**

### The Implication of Auditor Operational Efficiency for Auditor Competition

\***Ling Chu**, Wilfrid Laurier University

**Ping Zhang**, University of Toronto

This paper uses a model extended from DeAngelo (1981) to examine audit market and audit pricing. When auditors have differential operational efficiencies, the audit market becomes delicate. On one hand, auditees would like to reduce audit fees by purchasing audit services from the most efficient auditors. On the other hand, the competition in the market can be significantly reduced when there are few auditors in a market. The auditees can end up paying the highest fees, despite the auditors being very efficient. This paper concludes that auditees can minimize auditing fees by maintaining an optimal number of auditors in the market, including some less efficient auditors. The large auditees would have to pay more for they have fewer choices in a market than small auditees. In order to maintain reasonable competition among auditors in a market, auditees pay the more efficient auditors higher fees.

### Do Foreign Directors on Audit Committees Enhance Financial Reporting Quality?

**Maryam Firoozi**, Lawrence Technological University

**Steve Fortin**, McGill University

**Michel Magnan**, Concordia University

\***Shane Nicholls**, Concordia University

With many firms expanding the global scope of their operations, the appointment of foreign directors certainly appears to be a positive governance development as it enhances a board diversity in terms of expertise, experiences and backgrounds. However, a potential drawback is that they also are far removed from the information networks emanating from a firm's headquarters and main operations. In this study, we investigate how foreign directors on the audit committee perform when it comes to monitoring the decisions made by managers regarding financial reporting. We rely on the unique context provided by Canada in which companies have access to a large pool of U.S. directors, a country with which it shares many similarities and is geographically close. Results show that 45% of sample firms have at least one foreign director on the audit committee, with 69% of these firms nominating directors residing in the U.S. In addition, firms with foreign directors on their audit committee have lower earnings quality, both in terms of accruals and informativeness. In this regard, U.S. directors play a major role as the presence of non-U.S. foreign directors does not seem to relate to earnings quality. Our study contributes to the current literature on foreign directors by providing evidence that having directors from a country with many similarities may not necessarily compensate for foreign directors being far from a firm and not being able to monitor the decision-making of managers. This finding is in contrast to studies that find that foreign directors from countries with similarities will do a better job on boards in comparison to other foreign directors. Moreover, the rules-based approach of Canada with respect to audit committee membership may also contribute to the high presence of foreign directors on the audit committee, and in turn, to its negative consequences on their performance. Firms may nominate foreign directors for the purpose of legitimacy and not for their oversight over managers.

SATURDAY

## 8C - CPA Canada's Advanced Certificate in Accounting and Finance: A Review of Program Design and Development

*Room:* Toronto Harris

\***Tashia Batstone**, CPA Canada

\***Gina Létourneau**, CPA Canada

The CPA Canada Advanced Certificate in Accounting and Finance (ACAF) is a nationally recognized certificate for those seeking a challenging and rewarding career in accounting and finance, but not as qualified CPAs. Launching in fall 2015, the CPA Canada ACAF provides the applied accounting and finance skills necessary to enhance career prospects in accounting and finance.

Participants who attend this information session will learn about the ACAF program structure, entrance requirements, and the opportunities for post-secondary institutions to participate.

## 8D - Beyond the Rules of Professional Conduct

Room: Toronto MacDonald

\*Susan Wolcott, CPA Canada

Have you ever wondered how to help students develop ethical reasoning skills? This session will introduce practical ideas for designing effective learning activities and assessing ethical reasoning skills in any accounting course. The session will introduce multiple frameworks for ethical reasoning, including The CPA Way (used in CPA Canada's Professional Education Program).

## 8E - Flipping the Classroom: Using Peer Review Software for Advanced Auditing Course

Room: Toronto Lismer

\*Lisa Harvey, University of Toronto

If you've ever struggled with how to provide students with an added incentive to prepare for an auditing class, you may want to attend this session as we will discuss how the use of peer review software (specifically peerScholar) was used in a fourth year advanced auditing course to explore a different way to flip the classroom without requiring the design and use of online videos. The session will go over the software and discuss the impact it had on the students and the course as a whole plus also how it was used to provide students with plenty of case writing opportunities that involve not only writing a response but also reviewing the responses of others and providing feedback.

## 8F - Disclosure

Room: Johnston

Session Chair: Linda Whittaker, University of Waterloo

### Equilibrium Partial Disclosure in a Strategic Entry Model

\*Kenji Matsui, Kobe University

This paper investigates optimal *ex ante* disclosure policy for firms competing in a product market given the threat of entry. We demonstrate that when there are two incumbent firms and one potential entrant, partial disclosure of private information can dominate full disclosure in Cournot competition with cost uncertainty or Bertrand competition with demand uncertainty. Specifically, an *ex ante* commitment to partial disclosure enables the incumbents to deter entry in equilibrium. Moreover, there are multiple equilibria with respect to the noise of disclosing information, where each incumbent wishes to decrease its own noise but is hopeful the rival incumbent will increase its noise. In this respect, each incumbent has an incentive to "free ride" on the noise of the disclosure by the rival to deter entry. This result provides an accounting insight that the noise of disclosure that a firm adds to its private information has the characteristic of a public good. Finally, we show the existence of an additional equilibrium in which both incumbents fully disclose information that accommodates entry. The incumbents are trapped in a prisoners' dilemma in this equilibrium because they both can increase their profits through entry deterrence by altering their strategies from full to partial disclosure.

### Management Guidance at the Segment Level

Paul André, ESSEC Business School

\*Andrei Filip, ESSEC Business School

Rucsandra Moldovan, ESSEC Business School

Managers add information to their earnings guidance to justify, explain, or contextualize their forecasts. We identify segment-level guidance (SLG) as a type of disaggregated information that multi-segment firms provide with their management guidance and investigate its usefulness for financial analysts' earnings forecasting accuracy, and the influence it has on managers' earnings fixation. We further characterize SLG with measures of precision and item-disaggregation. Results suggest that SLG is associated with better forecasting accuracy, but while providing more item-disaggregated SLG improves accuracy, precision does not seem to matter for analysts. From managers' point of view, SLG creates incentives to engage in earnings management, and more so the more precise SLG is, while more item-disaggregated SLG discourages earnings management, most likely by improving monitoring. In additional analyses, we find that companies in high tech industries known for increased uncertainty in future performance are less likely to provide SLG. In a context where qualitative, narrative, and disaggregated guidance is regarded as a solution to avoid earnings fixation and short termism, understanding which type of information achieves this role, and how, is relevant for managers, investors, and regulators alike.

Room: Casson

Session Chair: **Darren Henderson**, Western University

### **Investment Decisions and Bank Loan Contracting**

\***Wenxia Ge**, University of Manitoba

**Tony Kang**, McMaster University

**Gerald J. Lobo**, University of Houston

**Byron Y. Song**, Concordia University

This study examines how a firm's investment behaviour is related to its subsequent bank loan contracting. A firm's investment behaviour has implications for its future cash flows and hence credit risk. For this reason, firms that deviate from the desired level of investment may be at a disadvantage in obtaining private loans. Using a sample of U.S. firms during 1992-2011, we find that overinvesting firms obtain loans with less favorable terms, such as higher loan spreads, higher probability of loans having collateral requirements, and more covenant restrictions. Additional tests show that neither borrower reputation nor corporate monitoring strength fully explains our results, indicating that a firm's investment behaviour captures a unique dimension of credit risk to lenders.

### **Offshore Operations and Bank Loan Contracting: Evidence from Firms that Set Up Subsidiaries in Offshore Financial Centers**

**Wenxia Ge**, University of Manitoba

\***Jeong-Bon Kim**, City University of Hong Kong

**TieMei Li**, University of Ottawa

**Yutao Li**, University of Lethbridge

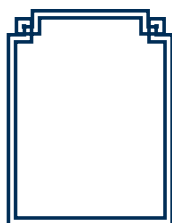
We examine the effects of a multinational firm's operations in offshore financial centers (OFCs) on the price and non-price terms of bank loan contracts. Using a sample of firms from 38 countries that have at least one subsidiary in an OFC, we find that intensive offshore operations are associated with unfavorable loan terms, such as higher loan spreads, smaller loan amounts, a higher probability of a loan being secured by collateral, and more prevalent use of restrictive covenants in a loan contract. To address potential endogeneity with respect to the relation between offshore operations and loan terms, we perform firm-fixed effects analyses, reexamine the relation between the two, using the announcement of OFC black and grey lists by the Organization for Economic Co-operation and Development (OECD) in 2002 as an exogenous shock, and analyze the dynamic link between increasing new subsidiaries in poorly-regulated OFCs and loan terms. The results indicate that the intensity of offshore operations affects loan terms unfavorably. We also find that such effects are more pronounced for more opaque firms and for firms that are headquartered in countries or jurisdictions with weaker legal or regulatory enforcement. Our findings indicate that banks and other private lenders view offshore operations as a credit risk-increasing factor, when lending to multinational firms that have subsidiaries in OFCs.

## 19<sup>th</sup> Annual Ethics Workshop



**Brian R. Carr**, LLB is of Counsel in Toronto with KPMG Law LLP, a law firm affiliated with KPMG LLP. He holds a B.Sc. (1970) and an LL.B. (1973) from the University of Toronto.

Mr. Carr is a former Chair of the Canadian Tax Foundation, a Past-Chair of the National Taxation Law Section of the Canadian Bar Association and former Co-Chair and Member of the CBA/CICA Joint Committee on Taxation. He is a Past-Chair of the legislative sub-committee of the Taxation Section of the Ontario Bar Association. He is currently Co-Chair of the Canadian Bar Association programme “Tax Law For Lawyers”, an educational programme designed for tax lawyers in the first three years of practice. He is an editor of the *Canadian Tax Journal*. Mr. Carr has served as Contributing Editor to *Ward’s Tax Law and Planning* (1983–1995) and as Assistant Editor of the *Canadian Petroleum Tax Journal* (1988–1996). He is the author of “Taxation of Resource Industries” (Carswell, 1987), the co-author and a Co-Editor-in-Chief (with C. Anne Calverley of Fraser Milner Casgrain in Calgary) of “Canadian Resource Taxation” (a loose-leaf service first published by Carswell in 1996) and co-author with Ms. Calverley of *Introduction to Resource Taxation in Canada* (Carswell, 2014). Mr. Carr has written several articles published in the *Canadian Tax Journal*, the *Corporate Management Tax Conference Reports*, the *Canadian Tax Foundation Conference Reports*, and the *Canadian Petroleum Tax Journal*. In 1996, he was co-winner of the Canadian Tax Foundation’s Douglas J. Sherbaniuk Distinguished Writing Award as co-author of “Today’s Butterfly,” published in the Foundation’s 1994 Conference Report. In 2012, he was awarded the Queen Elizabeth II Diamond Jubilee Medal for service to the Canadian Tax Foundation.



**F**irst Last is a



# 19<sup>th</sup> Annual Ethics Workshop

Room: Toronto Harris

SPONSOR **WATERLOO** ACCOUNTING AND FINANCE | CENTRE FOR ACCOUNTING ETHICS

8:45 a.m.–9:00 a.m.	<b>WELCOME</b> <b>Sally Gunz</b> , University of Waterloo
9:00 a.m.–9:15 a.m.	<b>ESTEY AWARD PRESENTATION</b> <b>Krista Fiolleau</b> , University of Waterloo
9:15 a.m.–9:30 a.m.	<b>ETHICS WORKSHOP: PART I</b> <b>The Influence of Guilt Cognitions on Taxpayers' Voluntary Disclosures</b> <i>Research Grant Recipients, Centre for Accounting Ethics:</i> <b>Paul Dunn</b> , Brock University and <b>Jonathan Farrar</b> , Ryerson University
9:30 a.m.–10:30 a.m.	<b>ETHICS WORKSHOP: PART II</b> <b>Ethical Issues in Finance: Issues Identified and Approaches to Education</b>
10:30 a.m.–11:00 a.m.	<b>BREAK</b>
11:00 a.m.–12:00 p.m.	<b>ETHICS WORKSHOP: PART III</b> <b>Ethical Issues in Taxation: Issues Identified and Approaches to Education</b> <i>Speaker: Brian R. Carr</i> , KPMG Law LLP
12:00 p.m.	<b>CONCLUSION</b>

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As part of our initiative to improve communication within the Canadian academic accounting community, we have set up a network of people who will serve as information liaisons between the CAAA and post-secondary institutions around the world. We would like to extend our gratitude to those volunteers who have graciously agreed to serve in this capacity.

**PLEASE NOTE:** If your institution is not represented and you would like to volunteer as a liaison, please contact contact Jacqueline Di Vito at [memberschair@caaa.ca](mailto:memberschair@caaa.ca).

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Markus C. Arnold, University of Bern  
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Ron Baker, University of Guelph  
Vishal Baloria, Boston College  
Matt Bamber, Bristol University  
Phylise Banner, Union Graduate College  
Tashia Batstone, CPA Canada  
Andrew M. Bauer, University of Illinois  
Tim D. Bauer, University of Illinois  
Louis Beaubien, Dalhousie University  
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Brian Carr, KPMG  
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Alex Fisher, CPA Canada  
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245 Fairview Mall Drive, Suite 410  
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