

Mannheim, November 2019

Spring Term 2020

ACC 750 Accounting Seminar

The Economics and Principles of Disclosure Regulation: Compliance and Enforcement

Lecturers: Professor Jannis Bischof / Professor Jens Wüstemann

I. Admission and Seminar Dates

We accept applications for the seminar until **December 15, 2019**, for the fast-close period and until **January 15, 2019**, for the final-close period. Please submit your applications via email to Amaraa-Daniel Zogbaya (azogbaya@mail.uni-mannheim.de). You can access the seminar registration form under the following link: <https://www.bwl.uni-mannheim.de/en/wuestemann/teaching/>.

For the seminar writing phase, you can choose between **two eight-week periods**: the **fast close period** spans from **January 2, 2020 to February 27, 2020** and the **final close period** from **February 17, 2020 to April 13, 2020**. Please indicate in your registration document in which period you intend to write your seminar thesis. We will publish the allocation of paper topics via email on January 2, 2020 and on February 17, 2020, respectively (at 12 pm).

The seminar presentations will take place on **May 14 and 15, 2020**.

Please consult the relevant examination regulation ("Prüfungsordnung") and module catalog ("Modulkatalog") for information on minimum admission requirements.

II. Seminar Paper and Presentation

1. Preliminary Remarks

Corporate disclosure and financial reporting are frequently regulated, mandated, or standardized. Three recent developments have spurred disclosure regulation around the world. First, a series of financial crises (e.g., the sovereign debt crisis in 2012 or the financial crisis in 2008) and corporate scandals (e.g., Enron in the US, Tesco in the UK, or Parmalat in Italy) have led to calls for regulatory reform. Second, many countries have adopted International Financial Reporting Standards (IFRS) in an attempt to increase the harmonization and global convergence of accounting rules and reporting standards. Third,

concerns about the competitiveness of countries' capital markets and the internationalization of capital markets have increased the demand for tighter securities and disclosure regulation.

However, there are downsides of any expansion of regulatory activities and new rules impose costs on the regulated firms. Consistent with these observations, policy makers, regulators, and standard setters increasingly demand cost–benefit analyses of regulatory measures. When it comes to firm disclosure, the trade-off is not obvious *ex ante*. Economic theory offers compelling reasons for both the cost and benefit of increased transparency with the relative magnitudes of these costs and benefits ultimately being an empirical matter. From the perspective of a regulator, it is also important who will have to bear the costs and who will gain from the benefit of increased transparency. Especially, if the benefits prevailed at the firm level, rational managers would voluntarily increase their disclosures to the optimal level. In such a case, only externalities for other parties could justify any regulatory intervention in firms' disclosure process.

An important stream of research on disclosure regulation empirically assesses *how* regulation affects (capital) market phenomena via changes of disclosure equilibria. In addition, accounting research examines *why* voluntary disclosure exists in the first place. These studies on voluntary disclosure can provide useful evidence on economic links and consequences of disclosure and reporting activities, including externalities. In essence, they contribute to an “inventory” of potential economic outcomes, which is useful to consider when evaluating disclosure regulation.

A profound knowledge of examined institutional settings is a prerequisite to empirically testing theoretical predictions. Institutional details allow researchers to more precisely identify the changes that the regulation caused, assess the validity of untestable identification assumptions, and improve the ability to take a Bayesian approach to causal inferences. As a major example, studies that focus on broad regulatory changes in a single country face the criticism that the state of prior regulation, the new rules, their implementation and their enforcement are essentially a bundle and, therefore, difficult to separate. Thus, the prominent question about the relative importance of rules versus enforcement strength implicitly underlies any research that exploits regulatory changes around the globe.

Overall then, disclosure regulation is a highly relevant and recurring policy issue that deserves significant attention by academic research. Recently, the German Research Foundation (DFG) established a new Collaborative Research Center (SFB) in Mannheim, the first SFB in DFG history that covers a core field in business administration. The new SFB initiative (www.accounting-for-transparency.de) is supposed to directly address these questions and provides strong evidence for their general relevance. The seminar will be in the spirit of these ideas.

The seminar starts by examining the economics of disclosure. Theoretical arguments on the costs and benefits of voluntary disclosure provide a basis for discussing the potential effects of disclosure regulation and enforcement, and its *raison d'être*. In the second part of the seminar, we will focus on selected institutional designs and disclosure regulations in the E.U. and the U.S. to build a normative and principles-based foundation for empirical studies on regulatory changes. In a third part of the seminar, we will turn

to empirical evidence from selected regulatory settings that illustrate the status quo of high-quality research in accounting.

2. Topics and Related Literature

Part A: The Economics of Disclosure

(1) The Economics of Voluntary Disclosure

- **Topic 1:** “Excepted costs of increased disclosure: firm- and industry-specific economic forces” (Supervisor: *Amaraa-Daniel Zogbayer*)
 - *Ali, Ashiq/Klasa, Sandy/Yeung, Eric*: Transparency and firm innovation, in: JAE, Vol. 58. (2014), 240–64.
 - *Huang, Allen/Hui, Kai W./Li, Reeyarn Z.*: Federal Judge Ideology: A New Measure of Ex Ante Litigation Risk, in: JAR, Vol. 57 (2019), 67–93.
 - *Verrechia, Robert E.*: Essays on disclosure, in: JAE, Vol. 32. (2001), 97–180.

(2) The Economics of Mandatory Disclosure

- **Topic 2:** “Externalities and spillover effects of disclosure regulation: privately held vs. publicly listed firms” (Supervisor: *Patricia Breuer*)
 - *Leuz, Christian/Wysocki, Peter D.*: The Economics of Disclosure and Financial Reporting Regulation: Evidence and Suggestions for Future Research, in: JAR, Vol. 54. (2016), 525–622.
 - *Admati, Anat R./Pfleiderer, Paul*: Forcing Firms to Talk: Financial Disclosure Regulation and Externalities, in: RFS, Vol. 13 (2000), 479–519.
 - *Minnis, Michael/Shroff, Nemit*: Why regulate private firm disclosure and auditing?, in: ABR, Vol. 47. (2017), 473–502.

(3) The Economics of Enforcement

- **Topic 3:** “Rules and enforcement: the choice of an institutional design” (Supervisor: *Nicolas Rudolf*)
 - *Holthausen, Robert W.*: Accounting Standards, Financial Reporting Outcomes, and Enforcement, in: JAR, Vol. 47. (2009), 447–458.
 - *Christensen, Hans B./Hail, Luzi/Leuz, Christian*: Mandatory IFRS reporting and changes in enforcement, in: JAE, Vol. 56 (2013), 147–177.
 - *Bischof, Jannis/Daske, Holger/Elfers, Ferdinand/Hail, Luzi*: A Tale of Two Supervisors: Compliance with Risk Disclosure Regulation in the Banking Sector, *Working Paper*, <https://dx.doi.org/10.2139/ssrn.2580569>.

Part B: Principles of Disclosure Regulation

(4) Disclosure Regulation

- **Topic 4:** “Critical Assessment of the disclosure regulations for the presentation of non-financial information under German GAAP”/ „Kritische Würdigung der handelsrechtlichen Vorschriften zur Darstellung nichtfinanzieller Leistungsindikatoren im Lagebericht“ (Supervisor: *Marcel Rost*)
 - *Englert, Mario:* Offenlegung und Prüfung nichtfinanzieller Leistungsindikatoren sowie Haftungskonsequenzen aus ökonomischer Sicht, in: Essays on public pressure and legitimacy in times of economic crisis, Mannheim 2015, 127–57.
 - *Lanfermann, Georg:* EU-Richtlinie zur Angabe von nichtfinanziellen Informationen, in: WPg, Vol. 68 (2015), S.322–6.
- **Topic 5:** “Interference of voluntary disclosure incentives and mandatory disclosure requirements: the case of protective disclosures in the US” (Supervisor: *Amaraa-Daniel Zogbayer*)
 - *Dye, Ronald A.:* Optimal disclosure decisions when there are penalties for nondisclosure, in: RAND Journal of Economics, Vol. 48. (2017), 704–32.
 - *Heitzman, Shane/Wasley, Charles/Zimmerman, Jerold:* The joint effects of materiality thresholds and voluntary disclosure incentives on firms’ disclosure decisions, in: JAE, Vol. 49. (2010), 109–32.
 - *Loss, Louis/Seligman, Joel/Paredes, Troy:* Fundamentals of Securities Regulation, 1 & 2 (7th ed.), 2018. New York: Wolters Kluwer Law & Business.
- **Topic 6:** “The Role of Market Discipline in European Banking Supervision” (Supervisor: *Nicolas Rudolf*)
 - *Basel Committee on Banking Supervision:* The interplay of accounting and regulation and its impact on bank behaviour, Working Paper 31 (July 2017).
 - *Bischof, Jannis/Daske, Holger/Elfers, Ferdinand/Hail, Luzi:* A Tale of Two Supervisors: Compliance with Risk Disclosure Regulation in the Banking Sector, Working Paper, <https://dx.doi.org/10.2139/ssrn.2580569>.
 - *Flannery, Mark:* The faces of “market discipline”, in: Journal of Financial Services Research, Vol. 20 (2001), 107–119.

(5) Enforcement of Disclosure Regulation

- **Topic 7:** “Harmonization of financial reporting in the EU through the mandatory adoption of the IFRS? Critical analysis of the enforcement of the IFRS on a European level” (Supervisor: *Christine Atanasov*)
 - *Berger, Axel:* The Development and Status of Enforcement in the European Union, in: AiE, Vol. 7 (2010), 15–35.
 - *Christensen, Hans/Hail, Luzi/Leuz, Christian:* Mandatory IFRS reporting and changes in enforcement, in: JAE, Vol. 56 (2013), S. 147–77.

- *Wüstemann, Jens/Kierzek, Sonja*: Transnational Legalization of Accounting – The Case of International Financial Reporting Standards, in: Brütsch, C. (Editor): Law and Legalization in Transnational Relations, 2007, 33–57.
- **Topic 8:** “Interpretation or Enforcement of rules? Critical analysis of the enforcement of goodwill accounting in Germany” (Supervisor: *Christine Atanasov*)
 - *Küting, Karlheinz/Ranker, Daniel*: Tendenzen zur Auslegung der endorsed IFRS als sekundäres Gemeinschaftsrecht, in: Betriebs-Berater, Vol. 59 (2004), S. 2510–5.
 - *Wüstemann, Jens/Kierzek, Sonja*: Transnational Legalization of Accounting – The Case of International Financial Reporting Standards, in: Brütsch, C. (editor): Law and Legalization in Transnational Relations, 2007, 33–57.
 - *Wüstemann, Jens/Wüstemann, Sonja*: Why Consistency of Accounting Standards Matters: A Contribution to the Rules-Versus-Principles Debate in Financial Reporting, in: Abacus, Vol. 46 (2010), S. 1–27.

Part C: Empirical Evidence on Disclosure Regulation

(6) Regulatory Design

- **Topic 9:** Effects of securities regulation: the case of the Market Abuse Directive (Supervisor: *Amaraa-Daniel Zogbayer*)
 - *Christensen, Hans B./Hail, Luzi/Leuz, Christian*: Capital-market effects of securities regulation: Prior conditions, implementation, and enforcement, in: RFS, Vol. 29. (2016), 2885–924.
 - *Christensen, Hans B./Maffett, Mark/Vollon, Lauren*: Securities regulation, household equity ownership, and trust in the stock market, in: RAST, Vol. 24. (2019), 824–59.
 - *Cumming, Douglas/Johan, Sofia/Li, Dan*: Exchange trading rules and stock market liquidity, in: JFE, Vol. 99. (2011), 651–71.
- **Topic 10:** Leveling the informational playing field: evidence from Regulation FD (Supervisor: *Patricia Breuer*)
 - *Bailey, Warren/Li, Haitao/Mao, Connie X./Zhong, Rui*: Regulation Fair Disclosure and Earnings Information: Market, Analyst, and Corporate Responses, in: JF, Vol. 58. (2003), 2487–514.
 - *Irani, Ashad J./Karamanou, Irene*: Regulation Fair Disclosure, Analyst Following, and Analyst Forecast Dispersion, in: Accounting Horizons, Vol. 17. (2003), 15–29.
 - *Jorion, Phillipe/Liu, Zhu/Shi, Charles*: Informational effects of regulation FD: evidence from rating agencies, in: JFE, Vol. 76. (2005), 309–30.
- **Topic 11:** Reporting incentives and accounting standards: evidence from IFRS adoption (Supervisor: *Patricia Breuer*)
 - *Daske, Holger/Hail, Luzi/Leuz, Christian/Verdi, Rodrigo*: Adopting a Label: Heterogeneity in the Economic Consequences around IAS/IFRS Adoptions, in: JAR, Vol. 51. (2013), 495–547.

- *Isidro, Helena/Nanda, Dhananjay/Wysocki, Peter*: On the Relation between Financial Reporting Quality and Country Attributes: Research Challenges and Opportunities, Working paper. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3427028.
- *Christensen, Hans B./Hail, Luzi/Leuz, Christian*: Mandatory IFRS reporting and changes in enforcement, in: JAE, Vol. 56. (2013), 147–77.
- **Topic 12:** “The role of supervisory disclosures for bank transparency” (Supervisor: *Nicolas Rudolf*)
 - *Bischof, Jannis/Daske, Holger*: Mandatory Disclosure, Voluntary Disclosure, and Stock Market Liquidity: Evidence from the EU Bank Stress Tests, in: JAR, Vol. 51. (2013), 997–1029.
 - *Jordan, John S./Peek, Joe/Rosengren, Eric*: The Market Reaction to the Disclosure of Supervisory Actions: Implications for Bank Transparency, in: JFI, Vol. 9. (2000), 298–319.
 - *Kleymenova, Anja/Zhang, Li*: The Interaction of Mandatory and Voluntary Disclosures: Evidence from the Dodd-Frank Act, Fama-Miller Center for Research in Finance, Working paper.
 - *Goldstein, Itay/Sapra, Haresh*: Should Banks' Stress Test Results be Disclosed? An Analysis of the Costs and Benefits, in: Foundations and Trends in Finance, Vol. 8, 1–54.

III. Administration and General Information

1. Supervision

In general, you should contact your assigned supervisor shortly after the allocation of topics to discuss the general direction of your topic and the principles of writing an academic seminar paper. In addition, we expect that you present and discuss the structure and content of your term paper at one or two more meetings with your supervisor. Please check the list of topics and the chair's website on how to get in contact with your supervisor.

2. Formal Guidelines

Please check the "Guidelines for Academic Writing" („Richtlinien für die Anfertigung wissenschaftlicher Arbeiten“), which are available for download on the relevant chair's website. Seminar papers need to be written in English (seminar papers of topics 4, 7 and 8 can be written in German). Please note that students in the English-track of the MMM program must write their seminar papers in English. In general, seminar papers consist of 14 to 16 text pages, excluding indices and appendices. You should start your paper with a clear and concise introduction that motivates the topic and derives the main research question of your paper. The introduction should be approximately 1-1.5 pages in length and conclude with a short outline of the course of your study. Accordingly, your seminar thesis shall end with a conclusion that summarizes the main findings of your paper. You can find further details in the "Guidelines for Academic Writing".

3. Submission of Seminar Papers and Presentations

Please submit two printed copies of your written seminar thesis to Silke Frankl (office assistant to Prof. Wüstemann) or Julia Peemöller (office assistant to Prof. Bischof) during the regular office hours. Seminar papers must not be bounded by hard- or paperback; stapled copies are sufficient. In addition, please submit a digital version of your paper to your supervisor. The digital version shall include, if applicable, all relevant digital content of your thesis (such as MS Excel files, internet resources, etc.). Seminar papers need to be submitted until 12 pm on the ending date of either the fast or final close period (*vide supra*). Extensions of the submission deadline are only possible in accordance with the examination regulation if you can present a medical certificate. Please note that it is not possible to extend the working period beyond the date scheduled for the seminar presentations. In addition to the written seminar thesis, you are required to prepare a presentation based on your submitted seminar paper. The language of the seminar is English. Details on the content and structure of your presentations will be available from your supervisors only after the submission of your written papers. The presentation slides have to be handed in on April 30, 2019 the very latest.

4. Grading

Grading is based on the written paper (60%), the presentation (40%) and active seminar participation. Attendance at all seminar sessions is mandatory, and all participants are expected to participate in the seminar discussions.

5. *Seminar Preparation and Materials*

To effectively prepare for the seminar and the discussions, we will provide all participants with relevant introductory literature as well as the final presentations via ILIAS. Further information on the availability of additional material will be announced in time.

6. *Examiner/Supervisor*

The students will be examined / supervised by the following Professor / Research Assistant:

Topic 1 (part A)	Prof. Wüstemann / Amaraa-Daniel Zogbayer
Topic 2 (part A)	Prof. Bischof / Patricia Breuer
Topic 3 (part A)	Prof. Bischof / Nicolas Rudolf
Topic 4 (part B)	Prof. Wüstemann / Marcel Rost
Topic 5 (part B)	Prof. Wüstemann / Amaraa-Daniel Zogbayer
Topic 6 (part B)	Prof. Bischof / Nicolas Rudolf
Topic 7 (part B)	Prof. Wüstemann / Christine Atanasov
Topic 8 (part B)	Prof. Wüstemann / Christine Atanasov
Topic 9 (part C)	Prof. Wüstemann / Amaraa-Daniel Zogbayer
Topic 10 (part C)	Prof. Bischof / Patricia Breuer
Topic 11 (part C)	Prof. Bischof / Patricia Breuer
Topic 12 (part C)	Prof. Bischof / Nicolas Rudolf