Monday, May 30, 2022

Fall Term 2022

Seminar ACC 750

Accounting for Transparency

Lecturers: Prof. Holger Daske/Prof. Dirk Simons

I. Admission and Seminar Dates

We are happy to announce our seminar for the upcoming fall term in 2022. The seminar consists of a written seminar paper and a presentation of your work to your fellow students as well as the academic staff. Seminar papers and presentations are in English. We accept applications until **19 June 2022**.

The seminar registration form can be downloaded from ILIAS (search for: "ACC 750" in HWS 2022 using Portal2 and join the group). If you are interested in participating in our seminar, please download and read the referenced papers before choosing your topics of interest. Further details about the topics are provided in this announcement.

For the seminar writing phase, you can choose between **two eight-week periods**: the **fast-close period** spans from **27 June 2022 to 22 August 2022** and the **final-close period** spans from **5 September 2022 to 31 October 2022**. Please indicate in your registration document in which period you intend to write your seminar thesis. We will publish the result of the application on 27 June for both periods via email. We will announce the allocation of paper topics via email on **27 June 2022** and on **5 September 2022**, respectively (at 12 pm).

The seminar presentations date and place will be announced in due course.

Please consult the relevant examination regulation and module catalog for information on minimum admission requirements. Please submit your application via e-mail to Hala Jada (hjada@mail.uni-mannheim.de). Your application should include your bachelor's certificate, a recent transcript of records, and a completed registration form following the instructions provided in the form. The final topic will be assigned according to your preferences as far as possible. If you have any further questions, please contact Hala Jada (hjada@mail.uni-mannheim.de).

II. Preliminary Remarks

The TRR 266 "Accounting for Transparency" is a newly established collaborative research center, with a team of more than 100 dedicated researchers across the region, funded by the German Research Foundation (Deutsche Forschungsgemeinschaft – DFG). The centre was established partially in response to prominent calls for increased transparency, particularly after the recent series of financial crises, prominent accounting scandals and public outrage about excessive shifting of taxable profits by global corporations. The TRR 266 has the following three stated goals: i) understand how transparency is established by regulation and information exchange, ii) understand how transparency affects society, and iii) develop tools to assess the transparency of firms and to enhance transparency. The stated goals are being achieved by conducting several projects classified into three categories: A, B and C (https://www.accounting-for-transparency.de/).

In line with the TRR objectives and projects, our seminar will focus on the same main areas. In Part A, we will evaluate how transparency is established in corporations, regulations, and non-profit organizations. More specifically, in topic 1, we focus on evaluating the role of mandatory CSR disclosures in comparison to voluntary CSR disclosures in enhancing corporate transparency. In topic 2, we move on to discuss regulatory transparency, using the EU's accounting standard setting as a case to study how corporate lobbying affects the transparency of this process. In topic 3, we study the determinants and consequences of transparency in the world of non-profit organizations.

Part B focuses on the effects of transparency. Topic 4 starts by focusing on the effect of transparency enhancements on information processing costs that investors incur and the feedback role of such costs. Subsequently, topic 5 sets to evaluate the effects of transparency on the interaction between mandatory and voluntary disclosures. Topic 6 analyzes drivers and consequences of transparency in the world of corporate philanthropy.

Finally, Part C focuses on data and tools for better transparency in accounting practice and research. Starting with data for accounting research, topic 7 attempts to utilize the recent regulatory change of requiring XBRL financial reporting in the EU to create a dictionary that can be used in future studies investigating the determinants of accounting terminology. Determining the pool of firms required to implement a certain regulation is a critical step in evaluating the effects of that regulation. Therefore, topic 8 attempts to create a detailed guide to reach the sample of firms mandated to adopt IFRS in the EU. Switching the focus from accounting research to accounting practice, topic 9 evaluates the ability of machine learning in enhancing data processing.

Part A: Establishing Transparency

Topic 1: Mandatory vs. Voluntary Sustainability Reporting

The increasing urgency perceived in society regarding climate change matters draws attention to corporate activities as well as the corporate reporting about the activities. Thereby, a widely held belief is that more transparency in reporting also leads to better activities. Regulators and standard setters worldwide are reacting to the pressure and developing mandatory standards for sustainability reporting (SASB, European Commission/EFRAG, ISSB). However, not just regulators react, firms themselves answer their stakeholders' demand for more sustainability information. Thus, the question arises whether a mandatory reporting regime indeed leads to more or fewer sustainable outputs than the voluntary disclosure by firms.

- Aghamolla, C., & An, B. J. (2021). Mandatory vs. Voluntary ESG Disclosure, Efficiency, and Real Effects. *Working Paper*, Available at SSRN: https://ssrn.com/abstract=3975948.
- Christensen, H. B., Hail, L., & Leuz, C. (2021). Mandatory CSR and Sustainability Reporting: Economic Analysis and Literature Review. *Review of Accounting Studies,* 26(3), 1176-1248.
- Grewal, J., & Serafeim, G. (2020). Research on Corporate Sustainability: Review and Directions for Future Research. *Foundations and Trends® in Accounting*, 14(2), 73-127.

Topic 2: Transparency of Politics - The Role of Corporate Lobbying in Accounting Standard Setting

In the European Union, lobbying plays a major role in the creation of regulations and directives. The joint Transparency Register of the European Commission and the European Parliament lists more than 10,000 registered interest group organizations (Dionigi et al., 2017). A particularly interesting arena for corporate influence in policy making is accounting and transparency regulation (Walton, 2020). The European Parliament is the body to discuss and adopt accounting regulation such as the International Financial Reporting Standards (IFRS) within the framework of its endorsement process. Anecdotal evidence suggests that members of the European Parliament have indeed been exposed to high amounts of lobbying activities within the procedure of adopting accounting standards (Crawford et al., 2014).

The goal of this seminar thesis is to create a better understanding of the transparency of the EU's regulatory process. This goal should be achieved by reviewing and consolidating the literature that deals with the particular area of (corporate) lobbying in accounting standard setting in the EU.

- Crawford, L., Ferguson, J., Helliar, C. V., & Power, D. M. (2014). Control Over Accounting Standards Within the European Union: The Political Controversy Surrounding the Adoption of IFRS 8. *Critical Perspectives on Accounting*, 25(4-5), 304-318.
- Dionigi, M. K., Dionigi, K., & Finotello. (2017). *Lobbying in the European Parliament*. 1st Edition, Cham, Switzerland.
- Walton, P. (2020). Accounting and Politics in Europe: Influencing the Standard. *Accounting in Europe*, 17(3), 303-313.

Topic 3: Announce it with Trumpets? Reporting Transparency in the Nonprofit Sector.

Historically, nonprofit disclosure levels were limited despite this sector's significance. However, in more recent years, NPOs started to provide more disclosure to maintain public trust. Furthermore, NPOs are increasingly making use of new communication platforms and engaging with the public to achieve their missions.

The purpose of this topic is to study the transparency and reporting practices of NPOs. The areas that should be addressed include identifying determinants of NPO reporting, and the role of rating agencies and the type of information these rating agencies provide (e.g. Guidestar, Pro Publica, Charity Navigator). Mandatory reporting requirements across the world (e.g. USA form 990 vs 990-N, reporting requirements to Charity Services in New Zealand) should also be reviewed. Furthermore, the student should analyze how NPOs are utilizing new communication channels and creating a social media presence to advance their objectives.

- Harris, E. E., & Neely, D. (2021). Determinants and Consequences of Nonprofit Transparency. *Journal of Accounting, Auditing & Finance*, 36(1), 195-220.
- Harris, E. E., Neely, D. & Saxton, G. D. (2021). Social Media, Signaling, and Donations: Testing the Financial Returns on Nonprofits' Social Media Investment. *Review of Accounting Studies,* (2021), 1-31.
- Harris, E., Petrovits, C. M., & Yetman, M. H. (2015). The Effect of Nonprofit Governance on Donations: Evidence from the Revised Form 990. *The Accounting Review*, 90(2), 579-610.
- Maas, W., & De Waegenaere, A. (2021). Excessive CEO Compensation and Effort Contributions in the Non-Profit Sector. *Working Paper*. Available at SSRN: https://ssrn.com/abstract_id=3828486.

Part B: Effects of Transparency

Topic 4: Who Pays the Cost of Information Processing?

Corporate disclosures, although oftentimes being considered public information, need to be further processed by investors before finding their way into market prices. These processing efforts are not costless to investors. Literature examining information processing costs distinguishes between awareness, acquisition, and integration costs (Blankespoor et al., 2020). The study should discuss how managers adapt their optimal disclosure strategies in response to the existence of investors' information processing costs. The main focus should be on analytical literature examining the feedback effect of processing costs on corporate disclosure strategies.

- Bertomeu, J., Hu, K. P., & Liu, Y. (2020). Disclosure and Investor Inattention: Theory and Evidence. *Working Paper*. Available at SSRN: https://ssrn.com/abstract=3673225.
- Blankespoor, E., deHaan, E., & Marinovic, I. (2020). Disclosure Processing Costs, Investors' Information Choice, and Equity Market Outcomes: A review. *Journal of Accounting and Economics,* 70, 1-46.
- Fishman, M. J., & Hagerty, K. M. (2003). Mandatory Versus Voluntary Disclosure in Markets with Informed and Uninformed Customers. *The Journal of Law, Economics, and Organization* 19, 45-63.

Topic 5: The Interplay between Mandatory and Voluntary Disclosure

There is a vast amount of literature examining the determinants and effects of either mandatory or voluntary disclosure. Yet, these two types of reporting do not mutually exclude each other, but together form the corporate information environment. This thesis aims at investigating the interplay between mandatory reporting requirements and voluntary disclosure practices by considering both analytical and empirical literature. In particular, the thesis should add to the discussion on corporate transparency by considering the following questions: Are mandatory and voluntary corporate disclosure complements and/or supplements? Does the type of relationship depend on the characteristics of the reporting environment? Does one-time mandatory reporting trigger voluntary reporting?

- Bischof, J., & Daske, H. (2013). Mandatory Disclosure, Voluntary Disclosure, and Stock Market Liquidity: Evidence from the EU Bank Stress Tests*. Journal of Accounting Research*, 51(5), 997-1029.
- Einhorn, E. (2005). The Nature of the Interaction Between Mandatory and Voluntary Disclosures. *Journal of Accounting Research*, 43(4), 593-621.
- Hribar, P., Mergenthaler, R., Roeschley, A., Young, S., & Zhao, C. X. (2022). Do Managers Issue More Voluntary Disclosure When GAAP Limits Their Reporting Discretion in Financial Statements?. *Journal of Accounting Research*, 60(1),299-351.
- Noh, S., So, E. C., & Weber, J. P. (2019). Voluntary and Mandatory Disclosures: Do managers View Them as Substitutes?. *Journal of Accounting and Economics*, 68(1), 1-18.

Topic 6: Drivers, Consequences, and Strategic Disclosure of Corporate Philanthropy

At first glance, one might expect that charitable donations represent a positive event, which should motivate firms to disclose information related to it. However, a closer consideration of the influence of corporate philanthropy on various stakeholder groups reveals that this event does not only bring benefits. Therefore, there exist situations where firms strategically avoid disclosure. Overall, the thesis should analyze the strategic disclosure decisions of firms regarding corporate philanthropy. In relation to this, the thesis should discuss the drivers for corporate philanthropy and the consequences of corporate philanthropy on various stakeholder groups while focusing on shareholders.

- Gautier, A., & Pache, A. C. (2015). Research on Corporate Philanthropy: A Review and Assessment. *The Journal of Business Ethics, 343-369.*
- Masulis, R. W., & Reza, S. W. (2015). Agency Problems of Corporate Philanthropy, *Review of Financial Studies, 28* (2), 592-636.
- Wang, H., Jia, M., & Zhang, Z., (2021). Good Deeds Done in Silence: Stakeholder Management and Quiet Giving by Chinese Firms. *Organization Science, 32* (2), 649-674.

Part C: Data for Transparency

Topic 7: Building an Accounting Dictionary with ESEF and XBRL – A Case Study

While lagging behind many years in comparison to the United States, the European Union now for the first time requires issuers to prepare their financial reports in a single electronic reporting format (ESEF). Following a one-year optional ESEF postponement to mitigate the adverse effects of the COVID-19 pandemic, listed companies are now required to publish annual financial reports in accordance with the ESEF starting from 1 January 2022. While studies start to investigate the effects of ESEF on many avenues, ESEF also gives researchers a chance to study variation in the use of accounting language. In particular, three factors affecting the dynamics in accounting terminology use might play a role in determining the level of standardization of accounting language: translation (in the global markets, "non-native" English speaking firms have to translate their local language reports into English and which terminology they choose is an open question), the introduction of new terms for newly introduced concepts (e.g., deemed cost) and terminological changes over time (e.g., the term balance sheet was replaced by the statement of financial position). The underlying data structure of XBRL will enable researchers for the first time to investigate these determinants.

This seminar thesis aims to shed light on the dynamics of accounting terminology in firms' disclosure by: i) providing a literature review on the topic and ii) building a unique accounting lexicon using US GAAP and ESEF XBRL financial statements.

- Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the Harmonization of Transparency Requirements in Relation to Information About Issuers Whose Securities are Admitted to Trading on a Regulated Market and Amending Directive 2001/34/EC. *Official Journal L 390*, 31.12.2004, 38–57.
- Edelmann, G. (2010). International Accounting Standards and Changes in Accounting Terminology. Available at: https://core.ac.uk/download/pdf/11006706.pdf.

- Evans, L. (2010). Observations on the Changing Language of Accounting. *Accounting History*, 15(4), 439-462.
- Fuertes-Olivera, P. A., & Nielsen, S. (2011). The Dynamics of Terms in Accounting: What the Construction of the Accounting Dictionaries Reveals About Metaphorical Terms in Culture-bound Subject Fields. Terminology. *International Journal of Theoretical and Applied Issues in Specialized Communication*, 17(1), 157-180.
- Loughran, T., & McDonald, B. (2011). When is a Liability not a Liability? Textual Analysis, Dictionaries, and 10-Ks. *The Journal of finance*, 66(1), 35-65.
- Loughran, T., & McDonald, B. (2016). Textual Analysis in Accounting and Finance: A survey. *Journal of Accounting Research*, 54(4), 1187-1230.

Topic 8: A Cookbook to Identify Firms Mandated to Adopt IFRS in the EU

The accuracy of the results of empirical research hinges on, among other things, the selection of a representative unbiased sample. Current research rarely describes the exact practical steps used (i.e., the database items). This lack of transparency does not enable reproducibility, which is especially true when databases offer multiple variables or suffer from inherent problems forcing the researcher to make multiple undisclosed decisions. Research on the effects of IFRS implementation represents an area where sample selection is crucial and should vary based on the research question (Pownall and Wieczynska, 2018). While the institutional knowledge regarding factors to be considered when determining the mandated sample increased over time (see Pownall and Wieczynska, 2018), the application of such criteria does not accurately lead to the targeted sample due to inherent problems in the databases items (see Alsarghali et al., 2022). Providing a cookbook on mitigating the inherent problems in the databases and eventually determining mandated firms in the EU is a step towards better sample selection and higher transparency and reproducibility of the research on the effects of IFRS implementation.

The aim of the thesis is to provide a cookbook that researchers can use when determining the sample of mandatory adopters. The student should first review the institutional details and the limitations caused by databases. Then the student should describe the best way to mitigate the database issues and provide detailed instructions to identify firms mandated to adopt IFRS in the EU.

- Alsarghali, S., Daske, H., & Labonte, M. (2022). Research Note: How Far to Push the Limits? A Reassessment of Noncompliance with Mandatory IFRS Adoption. *Working paper*.
- Lara, J. M. G., Osma, B. G., & Noguer, B. G. D. A. (2006). Effects of Database Choice on International Accounting Research. *Abacus*, 42(3-4), 426-454.
- Pownall, G., & Wieczynska, M. (2018). Deviations From the Mandatory Adoption of IFRS in the European Union: Implementation, Enforcement, Incentives, and Compliance. *Contemporary Accounting Research*, 35(2), 1029-1066.

Topic 9: The Potential and Limits of Machine Learning in Information Processing

Over the last decade, we have observed a growing trend of using machine learning in accounting and auditing. With the support of today's computing power, machine learning algorithms process large data sets and detect complex patterns in the data. Consequently, they provide predictions and make inferences. The algorithms thus have been considered to be able to save or even replace the costly manual information processing. By reviewing the literature, this thesis aims to answer three questions. Can machine learning help provide better forward-looking information? If yes, why is it the case? What may be the drawbacks of using machine learning in making accounting (auditing) predictions?

- Bertomeu, J. (2020). Machine Learning Improves Accounting: Discussion, Implementation and Research Opportunities. *Review of Accounting Studies*, 25(3), 1135-1155.
- Ding, K., Lev, B., Peng, X., Sun, T., & Vasarhelyi, M. A. (2020). Machine Learning Improves Accounting Estimates: Evidence From Insurance Payments. *Review of Accounting Studies*, 25(3), 1098-1134.
- Liu, M. (2022). Assessing Human Information Processing in Lending Decisions: A Machine Learning Approach. *Journal of Accounting Research*, 60(2), 607-651.

IV. 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. Once you are assigned a topic, we will provide you with your supervisor's contact information.

2. Formal Guidelines

Please check the "Guidelines for Academic Writing" ("Richtlinien für die Anfertigung wissenschaftlicher Arbeiten"). Seminar papers need to be written in English. In general, seminar papers consist of 14-16 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 Zdenka Pospisil (office assistant to Prof. Daske) or Julia Filusch (office assistant to Prof. Simons) during the regular office hours. Seminar papers need not be bounded; stapled copies are sufficient. In addition, please submit a digital version of your paper using a USB stick or by email. The digital version shall include, if applicable, all relevant digital content of your thesis (such as MS Excel files, internet resources, the literature used, etc.). Seminar papers need to be submitted until 12 pm on the ending date of either the fast or final close period (*vide su-*

pra). 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.

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** must be handed prior to the presentation date, official date of submission and additional recommendations will be provided in due course.

4. Grading

Grading is based on the **written paper (60%)** and the **presentation (40%).** Active seminar participation will be appreciated. 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 and 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. Simons/ Sebastian Kronenberger

Topic 2 (Part A) Prof. Daske/ Benjamin Tödtmann

Topic 3 (Part A) Prof. Simons/ Hala Jada

Topic 4 (Part B) Prof. Simons/ Yasmin Hoffman

Topic 5 (Part B) Prof. Simons/ Thomas Simon

Topic 6 (Part B) Prof. Simons/ Lisa Feil

Topic 7 (Part C) Prof. Daske/ Matthias Uckert

Topic 8 (Part C) Prof. Daske/ Sara Alsarghali

Topic 9 (Part C) Prof. Simons/ Qi Gao