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From

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Abstract

This study investigates whether specific accounting standards motivate firms to disclose more extensive voluntary information to investors, thereby enriching investors’ information environment beyond the direct disclosure impact of the standards themselves. Specifically, we focus on accounting for R&D, which prescribes the largest difference between US GAAP and IFRS: while GAAP mandates the immediate expensing of all internal R&D outlays, IFRS calls for the capitalization of development costs, under certain circumstances. We hypothesize that the process of capitalization generates a large amount of valuation-relevant information. Whether firms share some of this information with investors—an important externality of accounting-standard-setting—is an empirical question which we explore in this study.

Our major finding corroborates our hypothesis: the extent of voluntary, R&D-related disclosure is significantly higher in IFRS firms than in US GAAP firms, particularly for information items directly related to the conditions of IFRS for capitalization of development costs. Notably, we show that the difference-in-difference between the IFRS and GAAP firms’ total disclosure score over time is highly significant. We further show that accounting information (earnings, book value of equity, R&D expenditures) as well as voluntarily disclosed information are complements and that both are value-relevant for high-technology investors. Moreover, the incremental value-relevance of the voluntary disclosures is higher for IFRS firms, compared with US GAAP firms. The positive relation between our disclosure index and firms’ market values informs about the positive consequences of voluntary disclosure for firms. Lastly, we document that, consistent with previous research, three proprietary cost proxies stand out as consistent determinants of the extent of information disclosed by R&D intensive firms: the firm’s protection of its R&D innovations (e.g., through patents), the firm’s progress in its product(s) pipeline, and the availability of venture capital. Notwithstanding, after controlling for the impact of the different determinants of disclosure, firms reporting under IFRS voluntarily disclose more information on their R&D activities compared with their US GAAP counterparts.

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