Accounting Recruiting Seminar
Alberta School of Business
Department of Accounting, Operations, and Information Systems

Presents:
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Topic:
Fair Value Accounting and Informational Efficiency: A Look at the Confirmatory Role of Financial Reports

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BUS Room 4-04 (CA Conference Room)

ABSTRACT

Prior analytical research suggests that independently verified financial reports can enhance informational efficiency by serving a confirmatory role, where they discipline managers’ unverified, but more timely, voluntary disclosures. I study the confirmatory role of financial reports by examining how fair value accounting affects two aspects of informational efficiency: (1) the credibility of voluntary disclosures; and (2) the timeliness of price discovery. Relative to historical cost accounting, fair value accounting injects into the financial reports greater measurement uncertainty and greater forward-looking information. I posit that these attributes make the accounting numbers less verifiable and potentially less reliable, which can impede the extent to which financial reports can serve a confirmatory role. Consistent with my prediction, I find that greater fair value exposure is associated with lower management forecast credibility when the forecast conveys good news. I also find that management forecast credibility is decreasing in the extent of measurement uncertainty associated with fair values. In addition, preliminary intraperiod timeliness plots indicate that firms that experience an increase in fair value exposure experience a decrease in intraperiod timeliness during periods of good news. My results, thus far, suggest that fair value accounting can have unintended adverse consequences for informational efficiency, by reducing the value of voluntary disclosures outside of formal financial reports.
(Copies of the paper are available in the AOIS Department offices)