Rising Scholars Conference
Accounting Student Research Presentations

David Sunghyo Kim
dskim@mit.edu

MIT
Sloan School of Management

David Kim is a fourth-year PhD student in accounting at MIT Sloan School of Management. He is keen on examining the determinants and effects of information frictions in the capital market, with a particular focus on the asset management industry and fintech.

Abstract:

Strategic Peer Selection of Mutual Funds

I show that firms strategically change their operations to elicit more favorable comparison sets against product market competitors due to relative performance evaluation scheme. To do so, I examine Morningstar ratings of mutual funds. Since 2002, Morningstar ratings are based on relative past performance within one of nine size-value categories. It creates an incentive for funds to move toward categories with weaker past performance. Using the 2002 Morningstar ratings reform as an exogenous shock to this incentive, I demonstrate that funds tend to receive rating upgrades when changing categories and that it is driven by funds near category borders strategically adjusting their portfolios. I then explore three repercussions of this strategic behavior. First, funds achieving rating upgrades through category changes attract comparable fund flows to those upgraded without category changes. Second, funds compromise performance to adjust portfolios for category changes, leading to long-term reversal of initial upgrade in ratings. Third, this behavior triggers spillover effects, with existing funds in the new category experiencing rating downgrades. This study contributes to the literature on mutual fund benchmarks, unintended costs of RPE, and strategic peer selection with practical implications for investors and information intermediaries.

Pu Gu
gupu@bc.edu

Boston College
Carroll School of Management

Pu Gu is a third-year PhD student in accounting at Boston College. Her research focuses on how information and information intermediaries, especially social media and financial analysts, shape market participants' decision-making and affect capital markets. She is also interested in novel settings and unstructured data. In her free time, she enjoys jogging and gardening.

Abstract:

The Information Wall after the Fall of the Price Wall: The Effects of Fractional Trading on Corporate Disclosure

I investigate whether managers of high-priced firms change their disclosure policies to deter retail investors and retain dedicated institutional investors after the introduction of fractional trading.

Some firms, such as Berkshire Hathaway, keep their share price high consistently to attract their desired investors (long-term and dedicated institutional investors) and dissuade their undesired investors (retail investors). The introduction of fractional trading allows investors to buy less than one full share of a firm's stock and gives retail investors access to high-priced firms. Fractional trading increases both trading from retail investors and price volatility for high-priced firms. I hypothesize that after fraction trading removes the deterrent effect of high share price, managers of high-priced firms will make less public disclosure (fewer management forecasts), make disclosure less readable (more complex financial reporting), and make themselves less visible (fewer press releases and less social media coverage) to dissuade retail investors.

I find consistent results and the results are stronger for firms with unstable institutional investor base before and firms with higher investor recognition. To supplement the information reduction, managers make their conference calls more informative and interactive to increase direct communications with institutional investors. Additional results show that these adjustments are effective in decreasing stock price volatility and trading from retail investors.

Prior research mainly focuses on how demand from investors affects firms' discourse. My research adds to the literature by showing the opposite direction: how managers use corporate disclosures to manage their investor base. My research also shows the effects of fractional trading beyond retail trading activity and volatility in the capital market: managers' choice of corporate policies.

Md Enayet Hossain
mdenayet.hossain@unt.edu

University of North Texas
G. Brint Ryan College of Business

Enayet is a doctoral candidate in Accounting at the University of North Texas and is currently on the job market. His research interest lies in the implications of large language models and generative AI for accounting research and practice, specifically in financial disclosure and the financial media setting. He is also interested in teaching financial reporting and accounting analytics. In his spare time, Enayet enjoys playing cricket and spending time with his family.

Abstract:

Media Bias and Selective Quotations from Corporate Earnings Announcements

The news media plays an important role in disseminating corporate financial news to market participants (Tetlock 2007; Bushee et al. 2010; Twedt 2016; Blankespoor, deHaan, and Marinovic 2020; Guest 2021). Recent research, however, suggests that the news media sometimes slants news for various reasons, including political bias (Rees and Twedt 2022), incentives to cater to the preferences of consumers (e.g., Gentzkow and Shapiro 2006), and incentives to sensationalize news stories (Ahern and Sosyura 2015). A common method in prior research for identifying media slant is to gauge the linguistic tone of the underlying media article (e.g., Tetlock 2007; Gurun and Butler 2012; Hillert et al. 2014; Rees and Twedt 2022). For instance, Rees and Twedt (2022) find that media outlets use a more negative tone when reporting on the earnings announcement of firms with opposing political leanings. The media's use of tonal words, however, is a form of overt bias that may be relatively easy for readers to detect. In this study, I test for evidence of a relatively more covert form of reporting bias. I leverage recent developments in artificial intelligence (AI) to introduce a new measure of the extent to which an information intermediary selectively uses ("cherry picks") quotations from the original information source. Specifically, I examine whether political incongruence between the news outlet and the reporting firm is correlated with the extent to which the quoted sentences are reflective of the overall content of the entire earnings announcement.

To measure the extent to which a quoted sentence reflects the overall content of the press release, I use the summary score of the quoted sentences generated using an extractive summarization algorithm. I collect relevant media articles about firms within six days [0,5] of the earnings announcement window from the Nexis Uni database. I require each sample firm to have an earnings announcement that is directly quoted by a media article. I measure the political ideology of firms and the political leanings of media outlets following similar methodologies in Rees and Twedt (2022). My final sample consists of 150,252 firm-quarter-press release sentences from 1,056 articles quoting 721 quarterly earnings press releases from 104 unique firms.

I find that media outlets, in general, disseminate highly representative information from press releases by citing sentences with high summary scores. I also find that the media's tendency to cite representative information from press releases attenuates (strengthens) when the media and the firm have different (the same) political ideologies, suggesting political ideology is

associated with the extent to which news outlets quote language that is most reflective of the underlying content of the earnings announcement. Further analysis reveals that news outlets' cherry-picking behavior varies with the direction of the earnings news. I find evidence that congruent media outlets are likely to quote highly representative information from the press release from an earnings announcement in which the firm beats analysts' earnings forecasts.

My study extends prior literature on media slant, which has focused primarily on tonal word choices while shedding little light on other journalistic choices that shape the overall negative or positive impression conveyed by an article. My evidence suggests that cherry picking management's words from press releases is one way in which journalists can influence the narrative around a reported event. Lastly, my study extends prior methodological approaches to textual analysis in accounting research by offering one potential avenue in which this literature may advance, i.e., the incorporation of large language models in textual analysis in accounting.

Aliya Korganbekova
aliyak@bu.edu

Boston University
Questrom School of Business

Aliya Korganbekova is a PhD candidate in Accounting at Boston University Questrom School of Business. Her research focuses on accounting disclosure and regulation with an emphasis on sustainability. Her job market paper explores real, disclosure and spillover effects arising from state-level climate change regulations. Prior to academia, Aliya worked as an auditor at KPMG for 4 years.

Abstract:
Real, Disclosure and Spillover Effects of U.S. State-Level Climate Change Regulations

Given the barriers to national and global climate change regulations, what are the direct and spillover effects of subnational regulations? Using the staggered adoption of U.S. state-level greenhouse gas (GHG) regulations as a natural experiment, I find significant reductions in corporate GHG emissions in adopting states. Affected firms also increase GHG emissions disclosures and reduce the number of GHG-related 10-K risk disclosures. Furthermore, I document large spillover reductions in GHG emissions for treated firms' affiliated operations in non-adopting states. These findings suggest possible alternate pathways to reduce GHG emissions if national or supranational policy coordination is not possible.