Accounting Group: Selected Doctoral Theses

"Mispricing and the Demand for Fundamental Information"
Author: Samuel Anderson (2022)
Committee: Eric So (co-chair), Joseph Weber (co-chair), Rodrigo Verdi
Abstract:
I provide evidence that investor demand for accounting information intensifies following nonfundamental shocks to prices. Using quasi-exogenous variation in security prices due to forced mutual fund sales, I find that mispricing triggers an increase in the consumption of accounting information, especially among institutional investors. This increase in information consumption subsequently predicts both the speed and extent to which prices return to their pre-shock levels, as well as price informativeness around future earnings events. Taken together, these findings not only demonstrate that mutual fund flow-induced mispricing shapes investors' information consumption, but also highlight the useful role of accounting information in enhancing the informational efficiency of securities markets following temporary mispricing.

"Private equity fund valuation management during fundraising"
Author: Brian Baik (2022)
Committee: Rodrigo Verdi (chair), John E. Core, Michelle Hanlon
Abstract:
I investigate whether and how private equity fund managers (GPs) inflate their interim fund valuations (net asset values or NAVs) during fundraising periods. Specifically, I study the extent to which the GPs inflate NAVs by managing valuation assumptions (e.g., valuation multiples), influencing the financial metrics (e.g., EBITDA and sales) reported by the private firms in their portfolios, or both. Using a sample of buyout funds and their portfolio firms in Europe, I find that funds managed by low reputation GPs show more dramatic forms of NAV inflation by managing upward not only valuation multiples but also portfolio firm performance. The results are robust to a number of alternative explanations. Low reputation funds that employ some form of real earnings management show success in fundraising. Overall, I illustrate the mechanisms behind inflated fund valuations during fundraising periods and provide evidence supporting the argument that low reputation GPs are more likely manipulating NAVs than timing fundraising periods.

"The Role of Portfolio Disclosures in the Mutual Fund Industry"
Author: Ki-Soon Choi (2022)
Committee: Rodrigo Verdi (co-chair), Eric So (co-chair), Joseph Weber
Abstract:
I study whether increased transparency of fund portfolio disclosures improves outcomes for mutual fund investors. Exploiting the staggered adoption of the SEC's Form N-PORT, which improved the quality and quantity of information on fund strategies and risk profiles, I find a reduction in performance manipulation and managerial rent extraction, evidenced by decrease in risk shifting and management fees. The results are pronounced among funds that offer institutional share classes, suggesting that institutional investors benefit more from the new disclosures. I also show that investors become better at allocating capital to funds that will perform well in the future. Collectively, my findings highlight the role of portfolio disclosures in mitigating agency problems in delegated asset management by affecting managers' and investors' investment decisions.

"Auditors' Role in Fair Value Monitoring: Evidence from Security-Level Data"
Author: Natalie Berfeld (2021)
Committee: Nemit Shroff (co-chair), Joseph Weber (co-chair), Andrew Sutherland, Rodrigo Verdi
Abstract:
I study the role of the audit firm as monitor of its clients' fair value (FV) measurements. Specifically, using a setting in the insurance industry where I can identify fair values at the security level, I find that audit firms' security-specific FV experience is associated with increased consistency in valuations among clients holding the same security, consistent with audit firms developing FV expertise at the security level. Moreover, FV consistency is higher when the audit office is in a more concentrated market, and when the client is economically less important to the audit office, consistent with audit office market incentives affecting FV audit quality. My study sheds light on the mechanisms that shape the role of auditors in monitoring the increasingly important yet subjective FV determination process.

"Labor Supply and Accounting Firm Mergers"
Author: Inna Abramova (2020)
Committee: Joseph Weber (chair), John Core, Nemit Shroff, Andrew Sutherland
Abstract:
In this paper, I study how regulation-induced accounting labor supply shocks affect the audit market. Using a novel dataset that includes both large and small accounting firms, I identify labor supply shocks using the 150-Hour Rule and the Mobility Provision and investigate the resulting incidence of mergers and acquisitions (M&A). I find that a reduction in labor supply increases accounting firms' M&A activity and leads to a higher audit market concentration. My results suggest that accounting firm growth decisions and audit market structure depend on the supply of labor.

"The Effect of Financial Reporting on Strategic Investments: Evidence from Purchase Obligations"
Author: Suzie Noh (2020)
Committee: Rodrigo S. Verdi (co-chair), Eric So (co-chair), Joseph Weber
Abstract:
I examine whether mandating the disclosure of investments influences firms' strategic interactions. I exploit an SEC regulation requiring firms to report off-balance sheet purchase obligations, such as commitments to inventory purchases, CAPEX, R&D, and advertising. Motivated by theory on strategic investments, I predict and find that firms respond to the regulation by increasing investments if they have substitutive product market strategies with competitors, and decreasing investments if they have complementary strategies. This two-way finding is consistent with firms using investments to influence competitors' behavior in ways that increase their own profits. I show that changes in investments are concentrated among firms with large market share, which have a greater ability to influence competitors' actions, and that they have real effects on firms' sales and profit margins. Collectively, my results illustrate a novel channel through which financial reporting shapes firms' investments and competition.

"The Effect of Market Transparency on Corporate Disclosure"
Author: Georg Rickmann (2020)
Committee: Eric So (co-chair), Rodrigo Verdi (co-chair), Joseph Weber
Abstract:
Market prices and trading in financial markets are important information signals that reveal firm specific information to the public. I study how the observability of such prices and trading (hereafter, "market transparency") affects firms' disclosure incentives. I exploit the staggered introduction of TRACE, which made bond prices and transactions publicly observable, and show that firms provide more guidance when their bonds' prices and trading become observable. This effect is stronger for firms with informationally sensitive bonds and firms without exchange-listed bonds prior to TRACE. Also, firms become particularly more likely to disclose bad news, consistent with the notion that investors' access to market information limits managers' incentives to withhold information. I corroborate my results using (1) a small controlled experiment, in which prices and trading are revealed for a randomized set of bonds, and (2) threshold rules used by the regulator. Taken together, my results suggest that observable market outcomes inform investors not only directly, by aggregating and revealing investors' information and beliefs, but also indirectly by increasing corporate disclosure.

"Mandatory Corporate Patent Disclosures and Innovation"
Author: Jinhwan Kim (2019)
Committee: Rodrigo Verdi (co-chair), Eric So (co-chair), S.P. Kothari, Andrew G. Sutherland
Abstract:
I investigate the effect of corporate patent disclosures on innovation. Using the American Inventor's Protection Act (AIPA) as a plausibly exogenous shock to corporate patent disclosures, I find evidence of the AIPA shaping innovation through two simultaneous channels. First, the AIPA encourages a firm to innovate by facilitating access to the scientific information contained in other firms' patent disclosures. Second, the AIPA discourages a firm from innovating by increasing the risk of leaking business-related strategies through its own patent disclosures. These findings are consistent with the view that corporate patents contain information useful for both science and business, and highlight their respective roles in generating both spillover benefits and proprietary costs of mandating patent disclosures. Finally, using textual analysis, I find that firms with high proprietary costs respond to the AIPA by strategically changing their patent disclosures to obfuscate exploitable business-related signals.