ARTICLE IN PRESS
ACCOUN-00743; No of Pages 4

Available online at www.sciencedirect.com
ScienceDirect
The International Journal of Accounting xx (2016) xxx – xxx

The International Journal of Accounting

Reply

Response to Discussion of "Security Returns and Volume Responses around International Financial Reporting Standards (IFRS) Earnings Announcements"

Kingsley O. Olibe

Kansas State University, United States

Received 29 February 2016

Editor: A. Rashad Abdel-khalik

Abstract

This paper responds to Perkins' (2016) preferred methodology—association study rather than the use of an event study research design in Olibes' (2016) paper (Security Returns and Volume Responses around International Financial Reporting Standards (IFRS) Earnings Announcements). As noted by Collins and Kothari (1989), association studies recognize that investors likely learn "information about earnings and valuation relevant events from non-accounting information sources." As Callen et al (2009, 1364) note, event study analyses provide more direct evidence regarding the information conveyed of earnings disclosures. Most notably, in an empirical setting in which the focus is on testing the impact of new earnings information on stock returns and trading volume, it is vital to know when information arrives and the duration investors use that information in making investing and trading decisions. This reasoning justifies the methodology employed in Olibe (2016).
© 2016 University of Illinois.

Jel Classification: M41
Keywords: Security Returns; Information Content; IFRS; Trading Volume and earnings disclosures

E-mail address: olibeko@ksu.edu.

http://dx.doi.org/10.1016/j.intacc.2016.04.005
0020-7063 © 2016 University of Illinois.

Please cite this article as: Olibe, K.O., Response to Discussion of "Security Returns and Volume Responses around ..., *The International Journal of Accounting* (2016), http://dx.doi.org/10.1016/j.intacc.2016.04.005

The purpose of this article is to reply to Perkins' (2016) insightful discussion of "Security Returns and Volume Responses around International Financial Reporting Standards (IFRS) Earnings Announcements." I am delighted that Perkins (2016) finds the results to have important policy and regulatory implications to regulators and accounting standard setters.

Fundamentally, using an event study methodology, I test empirically whether the market reacts in the period leading up to the public disclosure and the period subsequent to the disclosure (an issue of market efficiency). I agree in principle with the research design suggested by Perkins (2016); however, such research design seems less appropriate in the setting I examined. Unlike Olibe (2016), most research investigating the usefulness of IFRS adoption relies on the value relevance literature without sufficient consideration of the efficiency of the markets tested.

The returns/earnings relation is examined using either an "event study" or an "association study" approach. As noted by Collins and Kothari (1989, p. 144), "event studies infer whether the earnings announcements, per se, causes investors to reassess their cash flow expectations as revealed by security price changes measured over a short time period" (e.g., Ball et al., 2000; Cready & Hurtt, 2002; Cready & Mynatt, 1991; Morse, 1981; Olibe, 2006; among others). In an empirical setting in which the focus is on testing the impact of new information such as earnings announcements on stock returns, it is important to know when information arrives, as well as the period of investors' use of that information. It is well known that timely information processing can aid investment efficiency by reducing adverse selection, liquidity risk, and information risk (e.g., Lambert, Leuz, & Verrecchia, 2007).

In contrast to an event study, in an association study, returns over relatively long periods (fiscal quarters or years) are regressed on unexpected earnings (e.g., Collins & Kothari, 1989, p.144). Typically, causality is not inferred. As noted by Collins & Kothari (1989, p.144), association studies recognize that market participants likely learn "information about earnings and valuation-relevant events from non-accounting information sources." Association tests do not provide direct evidence that investors directly use IFRS earnings information or that the information is timely. Callen et al. (2009, p.1364) contend that "event study analyses provide more direct evidence concerning the information conveyed of earnings disclosures and heteroscedasticity concerns are mitigated.".[1]

When unexpected returns (UR) are regressed on the earnings/unexpected earnings, as suggested by Perkins (2016), the coefficient on earnings/unexpected earnings is the earnings response coefficient (see, for example, Collins & Kothari, 1989; Feltham & Pae, 2000). In particular, the earnings response coefficient is expressed as:

$$\mathrm{ERC} = \mathrm{COV}\left(\mathrm{UR}_t, \mathrm{earn}_t\right)/\mathrm{VAR}\left(\mathrm{earn}_t\right).$$

[1] See Collins and Kothari (1989) for differences between an "event study" and an "association study."

Download English Version:

https://daneshyari.com/en/article/7415552

Download Persian Version:

https://daneshyari.com/article/7415552

Daneshyari.com