Thursday, November 15, 2018

12:00 p.m. LUNCH, Charles F Knight Executive Education Center, Anheuser Busch Dining Room, 3rd floor.

1:00 Welcome to Olin, Knight Center, Room 200.

1:15 **“The Role of Credit Rating Changes on Opacity in the Municipal Bond Market,”**
Presented by *Delphine Samuels,* MIT

Discussion led by *Greg Waymire*, Emory University

Abstract: This paper examines the role of credit rating changes on municipalities’ disclosure decisions. Using Moody’s recalibration of their municipal ratings scale in 2010 as an exogenous upgrade to municipal credit ratings, we find that upgraded municipalities significantly reduced their disclosure of financial information relative to unaffected municipalities. Consistent with rating upgrades decreasing municipal issuers’ cost of capital and reducing investors’ demand for disclosure, we find that this reduction is greater for issuers with greater ex–ante information asymmetry, greater ex–ante investor reliance on disclosure, and lower monitoring by underwriters and the federal government. Collectively, our results suggest that higher ratings can reduce the transparency of debt issuers’ information environments by reducing borrowers’ incentives to disclose financial information.

2:25 Break

2:45 **“Earnings of Cash Flows: Which is a Better Predictor of Future Cash Flows?”**
Presented by *Suresh Nallareddy*, Duke University

Discussion led by Steve Penman, Columbia University

Abstract: We reexamine the relative ability of earnings and cash flows in predicting future cash flows to achieve two objectives: (i) reconcile the mixed evidence in the prior literature, and (ii) investigate the implications of temporal shifts in accrual accounting for trends in cash flow predictability. Three key insights emerge from our analyses. First, contrary to conventional wisdom, we find that cash flows are superior to earnings in predicting future cash flows. After evaluating several alternative explanations, we attribute the mixed evidence in prior research mainly to measurement errors induced by the balance sheet method of estimating cash flows. Second, we find that earnings’ ability to predict future cash flows is increasing over the period 1989-2015. However, this trend is attributable to the increasing predictive ability of cash flows rather than accruals. That is, while cash flows show an increasing ability to predict future cash flows over time, accruals display no such trend. Our findings are robust to US and international settings. Finally, we document that the increasing predictive ability of cash flows is associated with shortening operating cycles, decreasing working capital accruals, and increasing intensity of intangibles over time.

3:55 Break

4:15 **“Asset Pricing Consequences of Strategic Trading and Activism,”**
Presented by *Iván Marinovic*, Stanford University

Discussion led by *Chandra Kanodia*, University of Minnesota

Abstract: This paper studies the asset pricing implications of investor activism. We consider a setting where a blockholder can both trade the firm's shares and influence the firm value by exerting costly effort. The blockholder's ability to add value varies over time. We consider two scenarios: i) When the market observes the blockholder's ability, the blockholder's trading is characterized by Coasian dynamics: The blockholder is unable to exploit his market power because he trades too fast inducing a competitive price. Furthermore, when his ability to add value increases, the blockholder sells shares thereby diminishing his incentive to exert effort. ii) By contrast, when the blockholder privately observes his ability, the dynamics of trading and activism change drastically: As the blockholder's ability improves, he buys shares. He does so gradually to mitigate the price impact of his trading. As the blockholder's stock-holdings grow, a virtuous circle unravels that boosts the firm's productivity and reduces the firm's cost of capital. In the long-run, the presence of information asymmetry about the blockholder's ability leads to a more concentrated ownership, more intense activism, and higher firm productivity. However, it also leads to more volatile cash flows, and a higher risk-premium. The implications for the firm's stock price are ambiguous.

5:25 Ph.D. Poster Session and cocktails, Knight Center, Room 340.

6:45 DINNER, Anheuser Busch Dining Room, 3rd floor.

Friday, November 16, 2018

7:00 a.m. BREAKFAST, Knight Center second floor break area.

8:00 **“Beyond Performance: When Potential Matters to Employee Career Outcomes,”**
Presented by *Carolyn Deller*, University of Pennsylvania

Discussion led by *Katherine Schipper*, Duke University

Abstract: Using proprietary data from a multinational organization pertaining to almost 15,000 unique managerial employees, I examine how forward-looking evaluations of *potential* (i.e. promotion prospects) are related to employees’ voluntary departure decisions. Amongst newly-hired employees, I find that the likelihood of an employee voluntarily leaving the organization is decreasing in rated potential, and that an upward revision in potential is associated with a reduced likelihood of leaving. Conversely, for longer-tenured employees, voluntary departures are unrelated to potential ratings, except that the likelihood of departure is greater following a downward revision in potential. Overall, my findings highlight the importance of potential to the voluntary departure decisions of employees, which has important implications for how firms measure and communicate potential.

9:10 Break

9:30 **“Selective Disclosure Contracts”**
Presented by *Jordan Schoenfeld*, Georgetown University

Discussion led by *Wayne Landsman*, University of North Carolina

Abstract: Principal-agent theory predicts that to the extent voluntary disclosure is a contractible action, sophisticated principals will write contracts with managers that specify the disclosure action space. Consistent with this idea, this study provides some of the first evidence that managers and large shareholders often write contracts that specify voluntary disclosure actions, including selective access to internal accounting records and trade secrets, the right to inspect company premises, and observer directorships. Of the 1,637 contracts in my sample from 1996 to 2015, 549 specify disclosure provisions, and these provisions are more prevalent in firms with increased manager-shareholder information asymmetry. Finally, I use these contracts to directly show a subtle and lesser known feature of Regulation Fair Disclosure, namely that it reduces but does not eliminate selective disclosure to shareholders.

10:40 Break

11:00 **“The Revolving Door Between the PCAOB and Large Audit Firms”**
Presented by *Brad Hendricks*, University of North Carolina

Discussion led by *Ray Ball*, The University of Chicago

Abstract: This paper provides basic facts on worker flows between former Public Company Accounting Oversight Board (PCAOB) employees and large audit firms. Using a large sample of publicly available curricula vitae, we document that an increasing number of former PCAOB employees join U.S. audit firms in senior-level positions during recent years. We also find that the number of PCAOB employees hired by these firms is positively related to the number of deficiencies reported in their prior PCAOB inspection report, and that the number of deficiencies reported in firms’ future inspection reports is negatively associated with the number of former PCAOB employees hired. However, this latter relation is not observed for the year in which these employees join the firm, but rather during the subsequent period when the employees would be less likely to have personal access to private information about the firm’s annual inspection. Although this pattern of findings is generally supportive of a “human capital” hypothesis, we are unable to rule out that the future reductions may be attributable to former PCAOB employees that obtain confidential information about future inspections via former colleagues at the PCAOB.

12:10 p.m. LUNCH, Charles F Knight Executive Education Center, Anheuser Busch Dining Room, 3rd floor or Pappy’s Smokehouse.