

# USC Marshall

School of Business

## **ACCT 626: Advanced Capital Markets Research in Accounting**

### **Fall 2021**

This is a 1.5 unit course

Offered on Tuesdays from 2p.m. to 5p.m. for the second half of the semester

### **Professor Richard Sloan**

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**Office Hours: 3.45pm to 5pm on Mondays and Wednesdays**

Zoom Link: (see Blackboard)

Office: ACCT 125

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## **COURSE DESCRIPTION**

This course will survey major areas of advanced capital markets research in financial reporting. This course builds on ACCT 624 and covers advanced and emerging topics in capital markets research.

## **LEARNING OUTCOMES**

Upon successful completion of this course, students will be able to:

1. Conduct your own advanced capital markets research.
2. Critically evaluate new advanced capital markets research.
3. Generate your own advanced capital markets research ideas.
4. Determine whether and how your own research ideas significantly contribute to existing advanced capital markets research.

## **COURSE MATERIALS**

The materials for this course will consist exclusively of articles that I will make available via the course's Blackboard site.

## **GRADING**

Your grade for the course will be determined as follows:

	<b>Points</b>	<b>Percentage</b>
Written Answers to Discussion Questions	30	30%
Article Reviews & Presentations	20	20%
Final Project	40	40%
Class participation	10	10%

### **Answers to Discussion Questions:**

I have assigned discussion questions for each of our sessions. You should prepare short written answers to these discussion questions (no more than two pages total for each session) and submit them prior to the start of the assigned session. The discussion questions are identified on the course outline and are available on Blackboard. They should also be submitted via Blackboard prior to their assigned session. There are six sets of discussion questions that are each worth 5% for a total of 30%.

### **Article Reviews & Presentations:**

One student will be assigned to lead the discussion for each article covered in the course. We will arrange the presentation schedule during our first session. The assigned student will provide a review of the article to other students via the Wiki on Blackboard prior to the beginning of the relevant class and will lead the discussion during class. The review should include:

1. A summary of what the article claims to achieve.
2. A summary and evaluation of the key hypotheses.
3. A summary and evaluation of the data and research design.
4. A summary and evaluation of the results and associated conclusions.

**Final Project:** The final project requires you to conduct your own archival research project that builds on one of the papers or topics covered in the course. I will provide guidance on suitable topics. If you would like to select a different topic, you should contact me for approval prior to commencing the project. I have attached a sample final project description at the end of this syllabus. You will make preliminary project presentation during our final session and the final project write-up is due by 5pm on Thursday December 9.

### **Class Participation:**

Class participation is expected regardless of whether you are assigned as a discussion leader. Your class participation grade will be based on your participation of the discussions that are led by other students. This includes identifying and correcting errors and omissions made by the discussion leader, offering alternative perspectives to those provided by the discussion leader and requesting appropriate clarification of points made by the discussion leader. Finally, you should carefully read all articles in advance of the class in which they are covered.

## **USC CLASSROOM POLICIES**

1. Active class participation is important in achieving the learning objectives for this course. Unless students provide an accommodation letter from USC OSAS or from Marshall detailing visa or travel restrictions, attendance and active participation is expected in the classroom.

2. Any student with such accommodations should submit their accommodation document to their instructor as soon as possible. Your instructor will then provide regular access to a recording of the class and an opportunity to regularly make up missed in-class participation.
3. Students who are experiencing illness should not attend class in person. Please inform the instructor in advance of the class session to discuss what accommodations will be made to allow for the make-up of missed class work and missed in-class participation. Students will not be penalized for not attending class in person under these circumstances.

## **TECHNOLOGY REQUIREMENTS (ONLINE INSTRUCTION)**

Online lectures through Zoom will be provided in Blackboard. Therefore, you must have access to the Internet to view/hear lectures. No special software is required.

To participate in learning activities and complete assignments, you will need:

- Access to a working computer that has a current operating system with updates installed, plus speakers or headphones to hear lecture presentations;
- Reliable Internet access and a USC email account;
- A current Internet browser that is compatible with Blackboard (Google Chrome is the recommended browser for Blackboard);
- A working video camera and microphone for use on Zoom;
- Microsoft Word as your word processing program; and
- Reliable data storage for your work, such as a USB drive or Office365 OneDrive cloud storage.

If your computer does not have Microsoft Word, the Office 365 package is available to you free of charge and allows you to install Word, Excel, PowerPoint, Outlook, OneNote, Publisher, and Access on up to 5 PCs or Macs and Office apps on other mobile devices including tablets. Office 365 also includes unlimited cloud storage on OneDrive. To download Office 365 log into your student (University) email through a web browser, choose Settings (top right corner), and select software. If you have further questions or need help with the software, please contact the USC ITS service portal.

## **CLASS ETIQUETTE**

In order to maintain a class environment that is conducive to learning, I suggest the following code of class etiquette:

1. Arrive at class on time and avoid leaving early.
2. Bring a name tent to each class and try to sit in the same location.
3. Turn off cellphones and other audible electronics.
4. Do not use laptops or phones, except in classes where we build and analyze financial models (I will identify these classes in advance).

5. Show respect for one another by exhibiting patience and courtesy in exchanges. Using appropriate language and restraining from verbal attacks upon those whose perspectives differ from your own is a minimum requirement. Courtesy and respect are the norm for class participation.
6. If you feel that another class member is negatively impacting the classroom environment, let me know, and where appropriate, I will anonymously communicate your feedback.

## **COURSE OUTLINE AND ASSIGNMENTS**

### **Session 1: Tuesday, October 19**

#### **Non-GAAP Earnings: Foundation Papers**

**Assignment:** Session 1 Discussion Questions

Bradshaw, M.T. and Sloan, R.G., 2002. GAAP versus the street: An empirical assessment of two alternative definitions of earnings. *Journal of accounting research*, 40(1), pp. 41-66.

Bhattacharya, N., Black, E.L., Christensen, T.E. and Larson, C.R., 2003. Assessing the relative informativeness and permanence of pro forma earnings and GAAP operating earnings. *Journal of accounting and economics*, 36(1-3), pp. 285-319.

### **Session 2: Tuesday, October 26**

#### **Non-GAAP Earnings: Selected Subsequent Contributions**

**Assignment:** Session 2 Discussion Questions

Barth, M.E., Gow, I.D. and Taylor, D.J., 2012. Why do pro forma and street earnings not reflect changes in GAAP? Evidence from SFAS 123R. *Review of accounting studies*, 17(3), pp. 526-562.

Bentley, J.W., Christensen, T.E., Gee, K.H. and Whipple, B.C., 2018. Disentangling managers' and analysts' non-GAAP reporting. *Journal of accounting research*, 56(4), pp. 1039-1081.

Laurion, H. and Sloan, R.G., 2021. When Does Forecasting GAAP Earnings Entail Unreasonable Effort? *Journal of accounting and economics*, Forthcoming.

### **Session 3: Tuesday, November 2**

#### **Accounting-Based Pricing Anomalies: PEAD**

**Assignment:** Session 3 Discussion Questions

Bernard, V.L. and Thomas, J.K., 1989. Post-earnings-announcement drift: delayed price response or risk premium? *Journal of accounting research*, pp. 1-36.

Bernard, V.L. and Thomas, J.K., 1990. Evidence that stock prices do not fully reflect the implications of current earnings for future earnings. *Journal of accounting and economics*, 13(4), pp. 305-340.

Chordia, T. and Miao, B., 2020. Market efficiency in real time: Evidence from low latency activity around earnings announcements. *Journal of accounting and economics*, Forthcoming.

### **Session 4: Tuesday, November 9**

#### **Accounting-Based Pricing Anomalies: Profitability**

**Assignment:** Session 4 Discussion Questions

Novy-Marx, R., 2013. The other side of value: The gross profitability premium. *Journal of financial economics*, 108(1), pp. 1-28.

Ball, R., Gerakos, J., Linnainmaa, J.T. and Nikolaev, V.V., 2015. Deflating profitability. *Journal of financial economics*, 117(2), pp. 225-248.

Erhard, R. and Sloan, R.G., 2019. Explaining the Profitability Anomaly. Available at SSRN 3431482.

**Session 5: Tuesday, November 16****Analysts Forecasts: Foundation Papers**

**Assignment:** Session 5 Discussion Questions

Brown, L.D., Hagerman, R.L., Griffin, P.A. and Zmijewski, M.E., 1987. Security analyst superiority relative to univariate time-series models in forecasting quarterly earnings. *Journal of accounting and economics*, 9(1), pp. 61-87.

O'Brien, P.C., 1988. Analysts' forecasts as earnings expectations. *Journal of accounting and economics*, 10(1), pp. 53-83.

Clement, M.B., 1999. Analyst forecast accuracy: Do ability, resources, and portfolio complexity matter? *Journal of accounting and economics*, 27(3), pp. 285-303.

**Session 6: Tuesday, November 23****Analyst Forecasts: Selected Other Contributions**

**Assignment:** Session 6 Discussion Questions

La Porta, R., 1996. Expectations and the cross-section of stock returns. *The Journal of finance*, 51(5), pp.1715-1742.

Bradshaw, M.T., Richardson, S.A. and Sloan, R.G., 2001. Do analysts and auditors use information in accruals? *Journal of accounting research*, 39(1), pp. 45-74.

Sloan, R. and Wang, A. 2021. Predictable growth and the performance of value investing. Working paper, USC.

**Session 7: Tuesday, November 30****Preliminary Project Presentations****Final Exam: Thursday, December 9****Final Project Submission and Debriefing**

## STATEMENT ON ACADEMIC CONDUCT AND SUPPORT SYSTEMS

### **Academic Conduct:**

Students are expected to make themselves aware of and abide by the University community's standards of behavior as articulated in the [Student Conduct Code](#). Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Part B, Section 11, "Behavior Violating University Standards" [policy.usc.edu/scampus-part-b](http://policy.usc.edu/scampus-part-b). Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct at <http://policy.usc.edu/scientific-misconduct>.

### **Support Systems:**

*Counseling and Mental Health* - (213) 740-9355 – 24/7 on call  
[studenthealth.usc.edu/counseling](http://studenthealth.usc.edu/counseling)

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

*National Suicide Prevention Lifeline* - 1 (800) 273-8255 – 24/7 on call  
[suicidepreventionlifeline.org](http://suicidepreventionlifeline.org)

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

*Relationship and Sexual Violence Prevention and Services (RSVP)* - (213) 740-9355(WELL), press "0" after hours – 24/7 on call  
[studenthealth.usc.edu/sexual-assault](http://studenthealth.usc.edu/sexual-assault)

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

*Office of Equity and Diversity (OED)*- (213) 740-5086 | Title IX – (213) 821-8298  
[equity.usc.edu](http://equity.usc.edu), [titleix.usc.edu](http://titleix.usc.edu)

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants. The university prohibits discrimination or harassment based on the following *protected characteristics*: race, color, national origin, ancestry, religion, sex, gender, gender identity, gender expression, sexual orientation, age, physical disability, medical condition, mental disability, marital status, pregnancy, veteran status, genetic information, and any other characteristic which may be specified in applicable laws and governmental regulations. The university also prohibits sexual assault, non-consensual sexual contact, sexual misconduct, intimate partner violence, stalking, malicious dissuasion, retaliation, and violation of interim measures.

*Reporting Incidents of Bias or Harassment* - (213) 740-5086 or (213) 821-8298  
[usc-advocate.symplicity.com/care\\_report](http://usc-advocate.symplicity.com/care_report)

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office of Equity and Diversity |Title IX for appropriate investigation, supportive measures, and response.

*Office of Student Accessibility Services - (213) 740-0776 <https://osas.usc.edu>. [SASfrntd@usc.edu](mailto:SASfrntd@usc.edu)*  
Support and accommodations for students with disabilities. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs.

*USC Support and Advocacy - (213) 821-4710*

[uscsa.usc.edu](http://uscsa.usc.edu)

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

*Diversity at USC - (213) 740-2101*

[diversity.usc.edu](http://diversity.usc.edu)

Information on events, programs and training, the Provost's Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

*USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call*

[dps.usc.edu](http://dps.usc.edu), [emergency.usc.edu](http://emergency.usc.edu)

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

*USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call*

[dps.usc.edu](http://dps.usc.edu)

Non-emergency assistance or information.



**ACCT 626**  
**Survey of Financial Reporting Research: Advanced Capital Markets**  
**Sample Final Project**

**Overview:**

The final project requires you to conduct your own archival research project that builds on one of the papers or topics covered in the course. I have outlined several possible project topics below. Feel free to choose on one of these topics. Alternatively, you may select your own topic, subject to my approval. If you choose the latter option, send me an outline of the project (similar to what I have provided below) and I will let you know if it is suitable. Please note that I encourage you to help each other with this project. Feel free to work in pairs, discuss ideas and findings with each other, assist each other with programming, shared datasets etc.

**Project 1. Characteristics of Aggressive Non-GAAP Reporters**

Barth et al. (2013) and Bentley et al. (2018) conclude that managers who aggressively exclude recurring expenses from non-GAAP earnings are behaving opportunistically. For this project, you will investigate whether these firms have lower quality financial reporting on other dimensions. In particular, you will investigate whether they are they more likely to be subject to AAERs and accounting restatements.

**Project 2. Alternative Measures of PEAD**

Prior research shows that the post-earnings announcement drift is evidenced using several measures of ‘earnings surprise’ including random walk in annual earnings, seasonal random walk in quarterly earnings, actual versus consensus EPS, earnings announcement stock return and various measures of revenue surprise. For this project, you will try to construct a robust measure of earnings surprise and compare its ability to predict a stock price drift versus existing measures. Examples of measures you could consider include the revision in the consensus analyst forecast of next quarter earnings around the earnings announcement and various measures of gross margin and operating earnings surprise.

**Project 3. Cross-Sectional Determinants of Information Content of Earnings Announcements**

Recent research shows that the information content of earnings announcements has substantially increased over the last 20 years. For this project, you will identify cross-sectional determinants of the relative information content of earnings announcements. Potential determinants include growth expectations (e.g., analyst forecasts of future sales growth), information uncertainty (e.g., loss making firms or large investments in intangibles) and investor disagreement (e.g., high short interest).

#### **Project 4. Impact of Earnings Quality on Returns during Market Corrections**

[Armstrong, Glaesar and Kepler \(2019\)](#) show that the stock returns of firms with lower accounting quality are more sensitive to unexpected changes in monetary policy. One question that came up during the paper presentation was whether this is simply a manifestation of a broader tendency for the returns of firms with lower accounting quality to be more sensitive to large market-wide movements in stock returns (particularly negative market moves). For this project, you will seek to determine whether this is the case.

#### **Specifics:**

Your project should follow the steps described below:

1. Clearly state your research question(s) along with any associated hypotheses.
2. Briefly summarize any relevant related research.
3. Describe your research design and explain why it is appropriate to address the research question at hand.
4. Describe the data sources that you use to test your research question and explain any limitations of the data.
5. Conduct empirical tests to analyze your research question(s), using appropriate empirical measures and test statistics.
6. Describe the findings of your empirical tests and summarize your conclusions.

The project should be a concise and readily comprehensible report and is therefore limited to ten pages of text and five pages of supporting tables. You should also prepare a short presentation (less than 20 minutes and 10 slides) summarizing your report for presentation in our final class.