

# DISCUSSION

Of the paper by Hellman, Najjar & Tylaite

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# Summary

## The setting

- Unique setting to observe small private firms' reporting demands
- Firms can choose standards that are external-reporting oriented (K3) or simplified (K2)
- Tradeoff between tax minimization (K2) and 'informative' reporting (K3)

## The findings

- 14% choose K3, despite the costs
  - Accounting determinants
    - + IGIA
    - Tax burden
  - Capital-market determinants
    - 0 Trade credit and debt
    - + M&A activity
- The findings are based on archival *and* survey evidence

## Stated contributions

- Demonstrate firms' demand for reporting IGIA (not allowed under IFRS for SMEs)
- This demand stems from stakeholders other than lenders

## A firm can choose K3 The choice is costly, but could

- Provide better information to users  
IF benefits exceed costs
- “We ... highlight potential issues with the adoption of IFRS for SMEs”
- “external reporting preferences”
- “External-user oriented”
- “higher-quality reporting under K3”

- Offer discretion in financial reporting
- This discretion could be used opportunistically  
IF benefits exceed costs

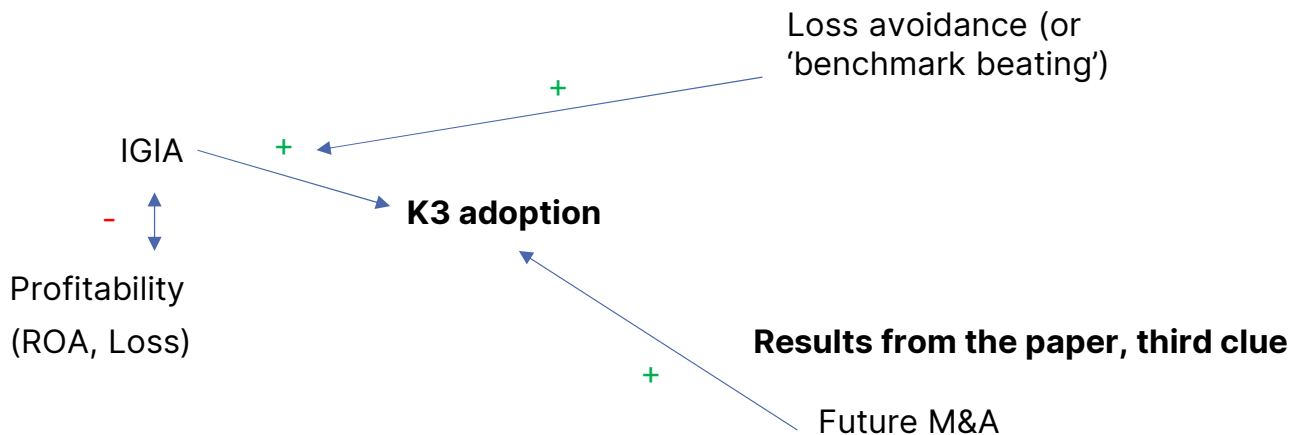
# Do firms choose K3 opportunistically?

Is the capitalization of IGIA better for users?

## Results from the paper, first clue

## Results from the paper, second clue

## Insights from the literature



- IGIA capitalization ↑ before firm failure
- Earnings management ↑ before SEOs or IPOs

Takeaway:

Demand for complex financial reporting from preparers

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Better financial reporting for users

# What factors influenced the K3 choice?

Is K3 an indicator of 'external reporting preferences'?

## Survey evidence

Responses to "What factors influenced the K3 choice?"

### 'Informative' reporting incentives

- Capitalizing IGIA 13%
- Components approach (PPE) 9%

### Other (nonreporting) incentives

- Don't remember 39%
- Long-term planning incentives 37%

"the company is expected to grow which means K3 will become mandatory for the company"

## Archival evidence

A desire to stay at the status quo?

Only possible with K3 (not K2):

- Capitalization of IGIA Corr=0.16
- Expenses by-function Corr=0.50

### Takeaway:

Compliance and 'stay at status quo' seem to explain the K3 adoption. The incentives to make the reporting 'informative' seem less relevant.

## VERY few thoughts on tax

- Tax expenses remain unchanged when capitalizing – but timing differs!
- The tax burden measures could capture profitability: Profitable firms don't need to capitalize IGIA to increase earnings
- The tax results seem sensitive to alternative designs
  - Tables OA2, OA4
  - No results with conforming tax avoidance measures
- Swedish auditors do not mention taxes as a motivation to adopt K3

# Takeaways

## It is interesting that

- Some firms are willing to adopt costly and more complex reporting
- This demand stems from stakeholders other than lenders

## Limitations

- Does *voluntary* K3 adoption improve informativeness of financial reporting for users?
- Is the observed K3 choice an indication of
  - 'External reporting-oriented' incentives?
  - Other incentives (e.g., compliance or status quo)?