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**
- IGIA capitalization ↑ before firm failure

**Results from the paper, second clue**
- Loss avoidance (or ‘benchmark beating’)
- Earnings management ↑ before SEOs or IPOs

**Results from the paper, third clue**
- Future M&A

**Insights from the literature**
- IGIA capitalization ↑ before firm failure
- Earnings management ↑ before SEOs or IPOs

**Takeaway:**
Demand for complex financial reporting from *preparers* ≠ 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?”**

<table>
<thead>
<tr>
<th>'Informative' reporting incentives</th>
<th>Other (nonreporting) incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalizing IGIA 13%</td>
<td>Don't remember 39%</td>
</tr>
<tr>
<td>Components approach 9% (PPE)</td>
<td>Long-term planning 37% incentives</td>
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</tbody>
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“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)?