Discussion:
Do cross-listed firms provide the same quality disclosure as U.S. firms? Evidence from the internal control deficiency disclosure under Section 302 of the Sarbanes-Oxley Act

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Motivation

Cross-listed firms are less likely to be censured for departure from the new regulations (e.g., Section 302), thus their internal control reports are likely less informative about their underlying internal control quality.
Findings

Known determinants of internal control quality have less explanatory power for internal control problems in cross-listed firms.

The association between earnings quality and internal control quality is weaker for cross-listed firms, and this seems to be driven by cross-listings from low investor-protection countries.
Suggestions

The authors might follow Ashbaugh-Skaife et al.’s cost of capital and internal control paper and form *predictions* for which firms they expect to disclose internal control problems among cross-listed firms.

Likely, based on the current results, the prediction errors would be greater for cross-listed firms.

However, these errors could reflect that the *challenges* differ for U.S. versus cross-listed firms.
IC Prediction Model

Have the “predicted” firms subsequently disclosed internal control problems under Section 404 (in 2007)?

Do the “predicted” firms exhibit the expected lower earnings quality?

→ Would provide more direct evidence that the weaknesses have in fact been under-identified and/or disclosed.
Suggestions

Care should be taken when suggesting that cross-listed firms are shirking, as there is some confusion about whether reporting material weaknesses under Section 302 is mandatory.

There should probably be some discussion about this confusion regarding the requirements of Section 302 (see Ashbaugh-Skaife et al. 2007 JAE; Doyle et al. 2007 JAE).
Suggestions

The authors might consider examining restatements, which are ex post evidence that there was a material misstatement, and thus likely an (unreported) internal control problem.

The authors suggest this test might lack power, as cross-listed firms may also be less likely to restate, however, if there are results, the results are more direct than indirect measures of accruals quality.
Summary

Overall a very nicely written and well-executed study that adds to our knowledge about cross-listed firms as well as the effectiveness of our new internal control rules.