Cascino, Clatworthy, Gassen, García Osma and Imam:
The Usefulness of Financial Accounting Information: Evidence from the Field

Github repository: https://github.com/joachim-gassen/use_fai

Additional Materials

Verbal Response Data Coding Process for Survey Experiment

1. Evaluating the Usefulness of Accounting Information[1,2]

We use a coding manual, which serves as a reference guide for the coders on how to code the interviews conducted for the survey experiment. We aim to identify statements where investment professionals discuss rationales for the assessment of the usefulness of different information items, that is, for answers to the general question: "In your opinion: What affects information usefulness?" Answers to this question elaborate on the following: (1) Which subset of information is the investment professional referring to? (2) Which qualitative characteristic(s) of usefulness do they address? (3) Why do they perceive those characteristics to be affected? Also, (4) does the argument justify a higher or lower assessment of usefulness? And, finally, (5) do they specifically refer to the case materials when making the argument, or is this a broader statement?

The unit of analysis is the *statement*. A single textual quote may contain several statements. A statement consists of a <u>topic</u> that is being discussed and an <u>argument,</u> which explains why the

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[1] This manual draws extensively on definitions in the IASB Conceptual Framework (2010) and the Exposure Draft ED/2015/3 (IASB 2015). It contains verbatim definitions extracted from these frameworks, as well as definitions containing minimal rephrasing. Because this is a private document used by the coders, and to enhance readership, we do not always identify the extracted text from those frameworks. No copyright infringement is intended, nor is any attribution of intellectual ownership.

[2] This manual contains both quotes extracted from the interviews and examples created to exemplify and clarify the cases. The quotes extracted from the interviews are clearly identified. They are reproduced in italics, indented and matched to an interview (as Code XX, where XX is the internal number given to that interview).

topic is being discussed. A topic consists of two elements: a) an information subset (i.e., specific line item, financial statement component, or source of information) and b) a qualitative characteristic (i.e., relevance, representational faithfulness, etc.). Thus, the topic subsumes (1) and (2) above. For example, a topic would be the "relevance of revenue." The argument refers to (3) above. This manual identifies all the coded combinations (topics and arguments, see Exhibit AMB1 for a full list and Exhibit AMB2 (both below) for an example of the instrument used to code the interviews).[3] Whilst identifying the information subset discussed may be relatively straightforward, identifying the qualitative characteristics and argument requires a careful assessment. The coding manual contains the definitions, as well as examples, of each of these elements. To the extent possible, there is no overlap between them. For each statement, the coders freely include notes into their coding. Notes are thus not defined in the coding manual in detail, except for those where confusion may emerge.

2. Coding Strategy and Practicalities

2.1. List of Topics and Arguments

To identify the topics and arguments we use an inductive-deductive approach. Specifically, to identify them, we build both on definitions contained in prior literature and conceptual frameworks, as well as on the interviews themselves. All interviews are coded, following the manual, by two independent coders (a main coder and a second coder), working separately.[4] At the end of the process, the second coder revises the coding of the main coder and makes any

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[3] This is an abridged version of a larger coding manual, containing a larger list of topics and arguments. Only content relevant for the paper is included in this manual.
[4] In a first step, three coders separately analyze 33 randomly selected interviews. From this analysis, a number of topics and arguments are identified, and subsequently systematically classified in accordance to a deductive approach. To create this classification, we build on the theoretical concepts of relevance and representational faithfulness (grounded in the research questions of the study).

suggestions for changes. In the final step, the main coder reviews and discusses these suggestions with the second coder and ultimately decides on whether to accept or reject them.

2.2. Unit of Analysis: Statement

A statement may emerge in a single sentence but, also, through a paragraph or combination of paragraphs. A single sentence or paragraph may contain several statements. Ideally, quotes are sufficiently long that statements can be understood out of context. Quotes include full sentences where feasible, including the full stop at the end. When sentences are interrupted by an ellipsis (...) they may also stop there (after the ellipsis). A rationale may span two or more questions asked by the interviewer, if the investment professional elaborates on a previous idea. In that case, the quote should include the different statements that form the argument, and where questions from the interviewer or additional sentences are cut, the coder includes the symbol [...] to note this.

Only content with clear arguments is coded (i.e., what the investment professional says explicitly and where the meaning is clear).[5] For example, and given that the general question posed is: "are financial statements useful?", an answer of "yes" or "no," or of "yes, item XX is very important," is not coded. This information is contained in responses to the quantitative questions. To be coded, a quote needs to explain why the item is useful (and, potentially, why the investment professional rated it as important or unimportant in the Likert scale). In this sense, a quote such as "I give it a 7. I do not use it," is not coded. The quote has no rationale, and because it is a 7, our quantitative data already tell us that the investment professional believes the item is useless.

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[5] As a check, coders are instructed to ask themselves whether another coder would probably agree with them on their coding. If the quote could be coded in five different ways, it is classed as a weak quote and not coded. Exceptionally, if a quote clearly contains more than one topic or rationale, it is coded twice (or as many times as necessary). The template permits identifying cases where the same quote enters the file twice or more.

3. Topics: Information Subsets and Qualitative Characteristics

A topic consists of an <u>information subset</u> *and* a <u>qualitative characteristic</u>. For example, "the relevance of the income statement," "the neutrality of property plant and equipment," "the materiality of goodwill," are examples of topics. We explain our coding of topics in detail below.

3.1. Information Subsets

Information subsets do not usually emerge in a vacuum; they are prompted by the questions. The interviews are structured around our simplified case (available on the GitHub repository), which forms the background to most of the questions asked. This means identifying the <u>topics: 'information subset'</u> discussed (see Exhibit AMB1) is straightforward. They are self-explanatory and, thus, we do not explain them here.

3.2. Qualitative Characteristics: *Relevance (RE)*

Information subsets can be differently assessed depending on whether the investment professional considers that they inform or not about the operating, financing, and investment strategy of the firm (the industry or the economy) and, thus, help them understand the firm business or its business model, its future cash flow generating ability (both the level and risk of those cash flows), managerial performance, etc. Investment professionals score items differently depending on whether they are perceived to provide either predictive or confirmatory information useful for decision-making. Useful definitions from the IASB Conceptual Framework (2010) are:

> *Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.*

> *Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.*

Examples of relevance relating to the <u>Predictive Role</u> of information are cases where investment professionals say whether specific items help them predict future cash flows and risk, for example:

> *"Yes. But I mean, the goodwill does not help me value the business. (It) [...] does not tell you what the business is going to be worth in the future or the present value of the future cash-flow." (Code 8)*

The coders also code under relevance cases where investment professionals mention that accounting has a <u>Confirmatory Role</u>, that is, when it provides feedback on previous actions and evaluations:

> *"A lot of goodwill increases the risk in the company, small amounts of goodwill, well... not decreases the risk but gives you a lower risk in the company. Acquisitions are always risky, and the goodwill is an indicator of how much of that kind of risk you have taken on in the balance sheet." (Code 9)*

> *"Let us put it as 4... because basically, it is going to give you historical information, which not always can be extrapolated to the future, okay, but it is a still a measure of how much investment capital the company has needed in the past." (Code 49)*

As noted in the IASB conceptual framework, information that has a predictive value often also has a confirmatory value. In the coding, it is often difficult to separate them. Therefore, such quotes are coded as relevant <u>Overall</u>. Here, for example, the coders code cases where the investment professional mentions that certain items/elements of the financial statements help them to <u>Understand the Business</u>. An example would be:

> *"it is definitely segment information, because it is probably at least three segments where two are substantially bigger than the third. So, I need to dig deeper into the company and try to understand exactly, is this maybe a mix of a truck manufacturing company and a company that manufactures like construction equipment or something. I mean, I need the segment information to understand the business, not only... and the segment information I require as a minimum is revenue, EBIT and the capital employed." (Code 9)*

A further element that is coded under relevance is <u>Materiality</u>, which is defined in the conceptual framework as a separate element, but within overall relevance. The nature or magnitude of an item may influence its usefulness for decision making. Material items, if omitted or misstated, would

potentially lead to differential decision making. Materiality is expected to be an entity-specific aspect of relevance:

> *"When it comes to the other accounting items, the other intangibles, well, the level does not seem to be particularly high. It is 432 million, it seems to be a regular amortization here." (Code 15)*

> *"We always hear about how numbers are not precise, and I have always said that I would rather have something that is approximately right than exactly wrong. So I think relevance... And it gets into materiality, which is... Because there are some things that are relevant even though they are quantitatively immaterial. If the CEO is embezzling, even if it is a very small amount, it is highly relevant to investment decisions." (Code 83)*

3.3. Qualitative Characteristics: Representational Faithfulness (RF)

To faithfully represent what it purports to represent, information should be free from error, neutral, and complete. Thus, under representational faithfulness the coders code references to Freedom from error. Free from error and representational faithfulness do not mean accurate in all respects. Freedom from error means that there are no errors or omissions in the description of items, and the process to produce them is chosen and applied without errors. For example, an estimate may be inaccurate, but it would be faithful if it is described clearly and accurately as an estimate, and the nature and limitations of the estimating process are explained, and no errors have been made developing it. Errors in estimates can be caused because some phenomena are inherently *complex* and difficult to estimate (see related rationales). In the interviews, *subjectivity* is often cited as lowering the usefulness of financial information. To the extent that this subjectivity is not cited as systematic or intentional, it could be classified as errors (see below for the case when managerial subjectivity leads to systematic errors, that is, to bias). Examples:

> *"I look upon this as a company that produces something physical that leaves the company, and then the inventory receivable trade payables are fairly uncomplicated. I look at them, they are important when I try to estimate them, so I need to compile some kind of key ratios to analyze them, but I do not dig into the footnote trying to figure out whether there are kind of errors including the inventory for example." (Code 9)*

> *"At fair value... Yes, fair value is an art ..." (Code 15)*

"We certainly would be more questioning of areas that involve management judgment. So, with things like revenue recognition of a company like this... and EBITDA measurement... will be pretty hard, solid numbers. But when we get into amortization, goodwill impairment, the balance sheet values of those... and... I suppose, as well the pension liabilities... then that becomes a bit more investment subjective and will give us more concern." (Code 14)

Under representational faithfulness the coders also code cases where <u>Neutrality</u> is discussed. Biased items are not neutral. Biased items are slanted, weighted, emphasized, de-emphasized or otherwise manipulated to alter the probability that information will be received favorably or unfavorably. Information can be systematically biased (e.g., conservative) because of existing GAAP. If existing GAAP does not allow the capitalization of intangible assets, it creates a conservative bias. Examples of biases introduced by accounting standards or of comments on poor accounting:

"BT, the UK telecom operator, they have done a good job over the last seven years or so of convincing analysts their pension liabilities are an accounting fiction, and they present... you know, they present the IFRS deficits, and then they show a different measure of that pension deficit based on a sort of, I think they call it, a medium outcome. So, the IFRS is based on a very conservative outcome of what might happen to interest rates or returns on investment et cetera." (Code 8)

Alternatively, bias can be introduced by management. In this sense, earnings management (EM), impression/tone management and optimism in making estimations are cited concerns. Examples:

"Yes, well, again just looking at the numbers, 644, I would immediately suspect, that it is not the market value. Maybe it was the market value a month ago or so when they did the balance sheet. So, I would put a 4 or something on that. I need to know more about how is it market valued, where in this fair value hierarchy are the investments. Is it a number 1 or a number 2. No, probably it is a number 3, all of it. And then of course the risk that you have valued... a little bit too high... if you need it... is of course higher than if it is all listed large companies." (Code 9)

Usually when coding EM, rationales identifying "Managerial Incentives" (see below) apply. A note may be added by the coder to indicate the extent to which EM is viewed and corrected, or perceived as widespread and, thus, not corrected (EM in the NOTES). Examples:

".... these managers of this business are likely to manipulate earnings.... because I am such a cynic... I think, where managers have got the ability to manipulate within rules to their benefit they will do it. So, I think it is quite high. So, let us go for 2. As in ...when I say 'manipulate' – within the rules ..." (Code 13)

"But I did not own Tesco because of the accounting. And I did not own Tesco. Not because of that specific instance, but I did not own them because every time I saw a metric where subjectivity in accounting was required, they always were at the aggressive end of what was acceptable." (Code 23)

"Unless I thought they were trying to manipulate earnings down and they were doing a little better, because you do get some companies where management are overly conservative with their earnings. So then, I would be more inclined to buy the company, if I thought they were being overly conservative." (Code 23)

"And the market says: "I am sorry, we are busy, we have got a lot of that... we have 1400 other companies to look at. And, you know, if you are just massaging the figures on a headline basis, then we vote with our feet" (Code 14)

To separate Freedom from error from Neutrality, the coders carefully assess whether investment professionals mention simply "subjectivity" or "discretion" in accounting (i.e., Freedom of error), from cases where <u>clear intent</u> is mentioned *explicitly* by, for example, using strong wording such as "massaging the numbers," "fraud," "manipulation," etc. (i.e., Neutrality).

Also, within representational faithfulness, the coders code <u>Completeness</u>. An item is complete if it includes all information, descriptions, and explanations necessary to understand the phenomenon being depicted. For example, for an asset, minimum information includes the nature of the asset, a value, and a description of the measurement criteria used (e.g., original cost, adjusted historical cost, fair value, etc.). Completeness may also entail explanations of significant facts about the quality and nature of the items and the process used to calculate the value. In relation to complete information, two types of comments emerge, one of which is related to specific items and relates to the fact that information about the specific item is not complete. Examples:

(F. Invest.) "what additional data do I get on the book values? Where I get the underlying sort of terms or for holdings in bonds et cetera, then I can calculate market value out of that. But if I only get this number, then it's not that relevant." (Code 4)

(O.I.A.) "Well, it depends on the nature of them, and there is not enough information here to work out which one, what they are. But probably a five." (Code 23)

In addition, sometimes, the investment professionals request additional information to understand the case, a common request is to obtain more years of data or a cash flow statement. Example:

> *(Overall F.R.) "I need more information to assess it. I cannot say that it is not faithfully represented. I cannot say that it is. So it is... basically, a cash flow statement would be a good start for them. I would need the entire notes, particularly the balance sheet in this respect." (Code 15)*

Note that the above quote would be a case where the investment professional justifies a lower overall representational faithfulness because of lack of completeness. This same statement could also be coded as the Cash Flow Statement and Notes justifying a higher overall representational faithfulness, but the coders code what the investment professional discusses explicitly first and foremost, that is, they are marking down overall representational faithfulness because of lack of completeness. Then, this statement can be coded again, with reference to the Cash Flow Statement and Notes, as enhancing representational faithfulness. We do not use quotes that simply state that the case is incomplete.

In some instances, quotes refer to the representational faithfulness of financial statements, but cannot be clearly classified under any of the separate elements into which it is separated; these are coded under Overall.

> *(FR of Revenues) "So, I would say, yes, I have no reason to doubt this, I mean, given the information about the auditing and so on. So it is probably a two at least." (Code 15)*

4. Arguments

Linked to a topic (such as the lack of neutrality of revenue, or the predictive ability of EBITDA, etc.), there can be one or multiple arguments. If no argument can be identified, the quote is not coded. The core of each argument is a rationale that explains why the usefulness of information is affected. Below is a list of rationales that can be structured among the following categories.

4.1. Information-Driven (INFO)

The coders code under this category explanations for why certain information is relevant for the assigned information objective (INFO). We identify three potential rationales that are commonly

used. The information can be helpful to understand the business *per se* (<u>relates to the nature of the business</u>), to assess managerial control over the item (<u>relates to managerial input and/or control</u>), or to predict the future of the business (<u>relevant for forecasting</u>).

> For example, this quote exemplifies an item that is useful to understand the business:

> *"In my mind, the key numbers in terms of relevance would always be the items that underpin cash flows or the core business model cash flows that are represented in the P&L account. And that is why I say, revenue is highly relevant." (Code 24)*

Examples of managerial inputs and effects are usually related to whether the item is relevant because managers <u>have control over them,</u> that is, in answer to the question: "is this item useful for your objective in the case?" The answer may be "Yes, because it is controlled by managers and thus, whatever managers decide directly impacts upon it" or "No, because it is driven by factors outside of the control of management, and thus, it is of no use to assess managerial performance." The following provides an example of this type of quotes:

> *"I put that as a six again, because it's outside the control... largely outside the control of the management team. And if our goal is to assess their performance... changes in income or interest rates et cetera is not something that they could be responsible for." (Code 76)*

This is not be confused with quotes where investment professionals discuss managerial quality or managerial assessment in general, such as the following:

> *"So, for us at the heart of everything is, how good is the management team. And if you've got a good management team that you can trust... that has got a strong financial reporting and clear growth strategy then ... that's as important as any analysis you can do; that judgment call is very important. (Code 18)*

The above quote exemplifies that managerial assessment is a common task for investment professionals, that is, that they assess the performance of management as part of their daily jobs. These quotes are very common; however, the above quote does *not* refer to the usefulness of financial statements for managerial evaluation. Under this category, the coders only code content that refers to items of the financial statements being useful to understand managerial performance.

For example:

> *"And you may also look at... the property, plant and equipment relative the goodwill, for they may have a lot of goodwill and a lot of intangibles, and that's usually a warning sign. Because that's usually another sign of the management being good operationally." (Code 20)*

4.2. Application/Measurement Complexity (MES)

The coders code discussions of application and measurement issues such as, for example, where there is a lack of matching between what is perceived to be the underlying reality and how accounting measures it, or where the transactions are assessed as too complex, regardless of the accounting criteria. We are interested in understanding which information subsets are particularly affected by such concerns.

The coders code cases where the economic reality is considered too complex or there exists significant application uncertainty (such as the uncertainty of how to measure a certain line item) under Application/Measurement Complexity. Examples:

> *"Well, again a 7 because... I don't have any faith that that is really what the present value of their pension liabilities actually is. I think it is because, you know, the corporate bond rate at the moment might not reflect what it will be over the next... over the life of the pension scheme. And there are so many moving parts in that... the pension liability. I mean, you need to have a number, but I don't have a great deal of faith that the actual result is right. And also, me and my thinking has been influenced by companies like BT that have argued that the IFRS pension liability is overly prudent and does not reflect... the likely outcome." (Code 8)*

> *"Yes, that is also very complex to model. I would say a 6, because we have so many assumptions... oh, let us say 7, because many companies are not very prudent on that one because... especially at the moment because of the low interest rates or decreasing interest rates. They try to not be forced to put more money on the table. So, I would say that is a very difficult one to get." (Code 42)*

It could also be that the accounting standards themselves are directly mentioned to justify an assessment; the coders separately code such instances under Accounting Standards Complexity. For example:

> *"Goodwill is just an accounting thing that... it doesn't mean anything; it's generated when an acquisition is made. So... when we buy a business, we buy it ignoring that figure and reconstitute*

our deal-base and exclude... it's not a real thing, it's just an accounting entry. So, to us it is irrelevant" (Code 18)

4.3. Corporate Governance (CG)

The coders code, under this rationale, discussion of corporate governance issues in relation to the topics. For example, "representational faithfulness of Revenue is high because audit is of high quality." Generally, items are likely to be considered of higher usefulness because of good corporate governance (the case firm has good governance - good auditor, good corporate governance, external actuarial services hired). The coders separately code quotes that relate to auditing and external verification.

Auditing: commonly, subjects mention audit quality as important:

> *"So what I know is that this firm has been consistently audited by a leading audit firm. It is fully implementing IFRS, and the opinion is unqualified. Correct? [Continued] Revenue. So I would expect the revenue for a manufacturing sector entity to be faithfully represented. So, one. I mean, a lot of procedures would ensure that there should be... I mean, should have there been fraud, there should be no issues around how that number has been generated." (Code 81)*

External verification: the case mentions that the measurement of pension liabilities is conducted with the help of independent actuarial advice. Quotes that mention this are coded under this category.

> *"When it comes to the pension liabilities, as I said, based on the assumption that is based on independent actuarial advice and assessed annuals, I assume that this is a fair representation of all of their pension liabilities. So, balance sheet is basically not a big concern here, so to speak." (Code 15)*

4.4. Reporting Incentives (INC)

Rationales may refer to the incentives of preparers. The coders code content where investment professionals discuss how their assessments of usefulness of financial statements are affected by managerial compensation, as well as by other managerial incentives (e.g., prestige or labor market concerns, production, etc.). Examples include:

"Well, you have a bonus related to net income in this case. So that you always have to bear in mind." (Code 16)

"I mean, we do look at management compensation and what it is based on and whether that is something that is easily manipulated. Yes, they sometimes have... It is based on certain metrics and you discover they have gamed the metrics to get the best result." (Code 83)

4.5. Other Information (OTIN)

Investment professionals may discuss other information that affects the usefulness of the discussed topic. Recurrent topics are <u>user-side information adjustments</u> to line items (like in EBITDA or other customized key performance indicators), and additional information from the <u>notes to the financial statements and mandated disclosures</u>.

Of interest is the discussion of adjustments. Relative focus on specific items reveals (indirectly) the perceived usefulness of those items. Items that are not considered/discarded/not used/stripped out in calculations would be less useful to investment professionals. Items that are the focus of adjustments are more useful, as investment professionals take the time to make those adjustments. Examples:

"Yes, because of investment income. They would probably try to find a way to use investment income to smooth out fluctuations. That is what I would expect, that is why I would strip it out." (Code 9)

"What I look for is the trends, the historical and... and then the indication of outlook for trends in revenues, in profit margins whether that is an EBITDA margin or an EBIT margin.... and normally stripping out items that would appear to be non-recurring."(Code 8)

"But the financial investments I will treat separately, and kind of strip them out and look upon them separately from like the EBIT in the company. So, I would strip investment income of 148 which I see as directly related to the financial investments, I would strip that 148 out of EBIT and EBITDA when I analyze the company. Because I want the income statement and the balance sheet to be on a kind of operating company, where revenues, going in costs, going out, so, it is like a flow. And to me, financial investments and related investment income is a stock. That you need to value separately." (Code 9)

The coders code the item 'adjusted' or the 'adjusting' item. To decide, the coders may look at the item that is 'improved' after the adjustment but, if unclear, the coding is done twice. Once the

adjusted subset of information is coded as low 'qualitative characteristic X1' because of 'argument Y1,' then the after-adjusted item is coded as high 'qualitative characteristic X2' because of 'argument Y2.'

4.6. Other Rationales

For all categories, we allow "Other" as an additional argument. Coders use the sub-categories where feasible. If a quote is classified as "other," coders are encouraged to (a) reconsider whether they have a reasonably clear quote to justify coding at all, and (b) enter a note explaining the coding problem so that it can be revisited. This also applies when the rationale does not fall into one of the categories or if no clear rationale is given (in this case, dropping the quote is encouraged). This is used when none of the described rationales apply. These types of quotes could refer, for example, to valuable insights into how investment professionals use information. For example:

> *"Going back to valuation theory, I mean, the value of a firm is the net present value. You know that, you know that well. That is what we need. But I mean when we look at companies, we start to look at the business model. That is the first thing, and how does it work, do you believe that they can make money on this thing. Then, we start looking at the industry environment, and then, we start looking at the... I guess the industry environment... is this structured industry, is this a growth industry or not, and so on. And when we are satisfied with those two things, we will start looking to the financials. So that is the actual priority of the three for us. A lot of cases never go to the financial statements stage. So, just "Okay, this is not investable, because we do not believe in the business model. Or we think this is a bad industry to be in." (Code 9)*

5. Justification and Assessment

In addition to coding the topics and arguments, the coders determine the tone of the quote, that is, whether the argument justifies a higher or lower assessment of the usefulness of the information. The way the coders code tone is as follows. If the investment professional mentions a "problem" (i.e., something that makes the number less FR or RE) then the coder classifies it as "justifies a lower assessment" (in this case, it is likely that the Likert score is 5 or greater, indicating low usefulness); if the investment professional mentions a "good" feature (i.e., something that makes

the number more FR or RE) then the coder codes it as "justifies a higher assessment" (in this case, it is likely that the Likert score is 3 or lower, indicating high usefulness). If the comment contains both positive and negative features, or the tone is unclear, then the coders code it as "Can't say." The coding is thus objective in the sense that when the quote relates to a case when they are marking *down* the usefulness of the item, or when they are marking *up* the usefulness item, the coders code it, respectively, as justifying a lower or higher assessment. Tone is, thus, the inverse of the scale used in the instrument. When subjects mark up the item (i.e., they give it a 5, 6, or 7 on the Likert scale) it means that they are negative, and the coders typically code it as "justifying a lower assessment."

6. Link to Case Materials

The coders also note whether the quote is related to the case or is <u>a more general remark</u>. The rule of thumb is that all content relates to the case with the following exceptions. General remarks are used for cases where the investment professionals are clearly making a sweeping statement related to how they do their job, or a philosophical statement. Also, under general remarks the coders code cases where the subjects engage in conversation beyond what is exactly asked in the case. This provides valuable content but needs to be separately identified. The coders also use it when a quote follows a leading question. This identifies cases where the interviewer leads the investment professional or prompts the topic, for example, by bringing up an issue not mentioned by the investment professional and not in the general interview structure.

7. References

IASB (2010). "*Conceptual Framework for Financial Reporting.*" London. IFRS Foundation Publications Department.

IASB (2015). *Exposure Draft ED/2015/3 "Conceptual Framework for Financial Reporting."* London. IFRS Foundation Publications Department.

Exhibit AMB1: Coding Template

TOPIC (Information Subset)	TOPIC (Qualitative Characteristic)	ARGUMENT	JUSTIFICATION	LINK TO CASE
Revenue	RE: Overall	INFO: About the nature of the business	Justifies a higher assessment	Relates to the case
EBITDA	RE: Predictive role	INFO: About managerial impact and/or control	Justifies a lower assessment	No, more of a general remark
Net Income	RE: Confirmatory role	INFO: Relevant for forecasting		
Property, Plant and Equipment	RF: Overall	INFO: Other		
Financial Instruments	RF: Completeness	MES: Accounting standards complexity		
Intangible Assets (other than goodwill)	RF: Neutrality	MES: Application/measurement complexity		
Goodwill	RF: Freedom from error	CG: External verification		
Pension Liabilities		CG: Auditing		
Overall balance sheet		INC: Managerial compensation		
Overall income statement		INC: Other managerial incentives		
Overall financial statements		OTIN: User-side info adjustments		
		OTIN: Notes and mandated disclosures		
		Other rationales		

Abbreviations used: RE=Relevance, RF= Representational Faithfulness, INFO=Information-driven, MES=Application/Measurement, CG=Corporate Governance, INC=Incentives, OTIN=Other Information.

Exhibit AMB2: Coding Instrument

Interview Coding Frontend

Interview id: 1

Interview text (Read only, copy quote from here)

who in practice is actually probably a member of the finance function. So you might have to introduce them to a Finance Director and explain that this guy is a qualified accountant, he is more expensive, but he can do this sort of things. (0:29:11)

Q: These are the benefits you can obtain from it, yes. (0:29:14)

... smaller end, you know, this isn't... the hard ... to get underneath this sort of proxies for free ... 29:23)

Q: Yes. Okay. Thank you. So... free cash-flow is typically the metric you would use? (0:29:36)

A: Yeah, because... I mean, our industry uses generally EBITDA as a sort of structuring number to come with a valuation for a business, so EBITDA times 8 means the company is worth, you know, 10 times 8, it's worth 80 million. And EBITDA is taken as a sort of proxy for free cash-flow. Because it's too hard to try and put working capital into that. (0:30:02)

Q: Yes. Thank you. And in that last question I took us away from the case, and then... but it is helpful for us to know these things that you do as a part of your outside role (0:30:16)

A: As... as... it must be the case when you... if you start of ...

Text of the interview

Selected quote

Quote

Paste quote here: I mean, our industry uses generally EBITDA as a sort of structuring number to come with a valuation for a business, so EBITDA times 8 means the company is worth, you know, 10 times 8, it's worth 80 million. And EBITDA is taken as a sort of proxy for free cash-flow. Because it's too hard to try and put working capital into that.

☑ This quote might be a useful direct quote

Coding of quote, using drop down menus and comments

Topic

Which topic is being discussed? — EBITDA

Which qualitative characteristic is being discussed? — RE: Predictive role

Argument

Why is the qualitative characteristic affected? — INFO: relevant for forecasting

Does the argument justify a higher or a lower assessment of information — Justifies a higher assessment

Does the argument directly relate to the case? — No, more a general remark

Enter any notes or remarks about the coding here, starting with your initials.

Registro: 1 de 10

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