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Accounting

“Voluntary Adoption of Independent Audit Committees: Theory and Empirical Evidence from Toronto Venture Exchange Listed Firms”

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Abstract

This study investigates how the tradeoff between the costs and benefits associated with complying with high-quality corporate governance affects firms' decision to adopt the more stringent governance policy and the likely capital market impact of regulatory compliance. We first examine why some Toronto Venture Exchange (TSX Venture) listed firms voluntarily adopted the more stringent governance policy that requires all audit committee members to be independent and financially literate in 2004. We develop a parsimonious analytical model that shows both compliance costs and financing needs have an impact on firms' adoption decision. Confirming the model's predictions, we find that TSX Venture firms with low compliance costs and future financing needs are more likely to adopt the new policy voluntarily. The evidence is consistent with the argument that firms consider both the cost and benefit factors when deciding whether to establish an audit committee with all independent and financially literate members. The analytical model also shows that high quality audit committees enhance firm value by reducing the likelihood of resource diversion by management. Consistent with the predictions of our analytical model, we find that the adoption decision has a positive impact on firm value and a negative impact on firms' cost of equity capital for both Toronto Stock Exchange (TSX) and TSX Venture listed firms.

Date: March 19, 2012 (Monday)

Time: 15:00 – 16:30

Venue: J318

ALL ARE WELCOME!

A Short Biography of Professor Yue Li

Prof. Li holds a PhD in Accounting from Queen's University, MBA from University of Toronto and Bachelors of Science from Huazhong University of Science and Technology, Wuhan, China. Before joining University of Toronto, he was a visiting Scholar of School of Accountancy in the Chinese University of Hong Kong. His major research areas include Contemporary Accounting and Environmental Accounting and Management.