The Value Relevance of Intangible Assets: The Italian Adoption of International Accounting Standards (IAS/IFRS)
by Morricone, Oriani, and Sobrero

Discussion

Bronwyn H. Hall

What is value relevance?

- The reporting of information that helps to predict firm value conditional on other available information
- If the assets are valued correctly, this is essentially an econometric "prediction" problem, and can be analyzed as such.
- If not, a very difficult problem – what is value relevance when the value is "wrong"?
  - But this may not matter, since the investor wants to predict the market value, even if it is wrong in some fundamental sense

Another problem

- Investors are entitled to use any functional form they like to predict value from information received.

- We have no idea what they are using, but it is probably not linear.

- Better to try a more general form with power terms (in logs)

Two possible approaches

- Out of sample prediction comparisons using MSE (standard in the forecasting literature)
  - Could be done here by splitting samples
- Nested or non-nested hypothesis testing
  - Compare R-squares for two different sets of information
  - Build the best fitting model using one set of information and add additional information to see if it improves the fit
    - Do you have the data to do this?

Approach taken in this paper

- Two time periods: before and after intro of IAS (1996-2004;2005-2006)
  - Regress market value on the identical sets of variables and test if coefficients are the same
- Does this make sense?
  - Not if the valuation equation is changing over time (and note the absence of time dummies)

Discussion

- If equations for both periods have the same observables on the right hand side, differences say something about the left hand side, not about the value relevance of the RHS variables.
- E.g., book value coefficent falls from 1.3 to 0.5 and net income coeff. rises from 1 to 2.3, but presumably these were reported the same in both periods – so what does this mean?
- R&D and strategy

Minor questions

- Were time dummies included?
  - Change in number of years from Italian GAAP to IAS – implications for R-squares and changing functional form
  - Useful to look at partial R-squares after time effects removed
- Need to explain more precisely what the impairment test is.
- Were right hand side variables logged?
- Expensed R&D is not value relevant in Italy – see Hall and Oriani