





High Dimensional Nonstationary Time Series IRTG 1792 Short Course

Timothy Loughran

II. Measuring Information Complexity

Many previous papers attempt to gauge firm-level complexity. We create an omnibus measure of firm complexity in this paper by examining word usage by managers in their annual reports. We develop a word list that effectively measures a firm's complexity in terms of its accounting, business, information, and reporting complications. Larger frequencies of words like *accruals, carryback, global, hedging, mergers, repatriation, securitization,* and *swaps* in the annual report are associated with higher firm-level complexity as proxied by audit fees. Consistent with the word list measuring firm-level complexity, we find a strong positive linkage between the proportion of complexity language and subsequent audit fees.



Tim Loughran is the C.R. Smith Professor of Finance at the University of Notre Dame. Research areas explored by Professor Loughran include the long-run performance of new issues, payment form in corporate acquisitions, value versus growth investment strategies, and the use of textual analysis to gauge the tone of financial documents. Tim received a Ph.D. degree from the University of Illinois (Urbana).



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