

The Persistence and Pricing of Domestic and Foreign Earnings for Multinational Firms

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I investigate how market prices the persistence of domestic and foreign earnings for multinational firms and whether the pricing is affected by the quality of geographic segment reporting. I use Mishkin [1983] test, multiple regression analysis, and a zero-investment hedge portfolio test. I find (1) market underprices the persistence of foreign earnings ; (2) the mispricing of foreign earnings observed in firms with low quality reporting no longer exists in firms with high quality reporting. The latter is important because market's mispricing of foreign

earnings lessens as segment reporting quality increases. In US, market's mispricing observed in the pre-SFAS131 period diminishes after SFAS131. In Japan, the new standard about segment reporting is effective for fiscal year beginning after March 31, 2010. New standard introduces management approach and achieves the convergence with international standards such as IFRS and SFAS. The results of this study suggest that positive effects may occur following the implementation of new standard in Japan.