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Evidence that Market Participants Assess Recognized and Disclosed Items Similarly when Reliability is Not an Issue

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ABSTRACT: We provide evidence that disclosed items are not processed differently from recognized items when the disclosures are salient, not based on management estimates, and amenable to simple techniques for imputing as-if recognized amounts. For a sample of firms with both capital and operating leases, we find that as-if recognized amounts for leases are generally reliable and that both recognized lease obligations and disclosed lease obligations are associated with proxies for costs of debt and equity. The magnitudes of these associations are not statistically different across accounting treatments, suggesting that market participants impound as-if recognized operating lease obligations and recognized capital lease obligations similarly into costs of capital. Conditioning on the reliability of as-if recognized operating lease obligations, we find a difference in the association between recognized versus as-if recognized lease obligations and proxies for the costs of debt and equity when the operating lease disclosures are less reliable.

Keywords: *recognition vs. disclosure*; *reliability*; *leases*; *costs of capital.*

Data Availability: *Data used are available from public sources identified in the study.*

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