

Research on Anticipated and Actual Effects of Converged Reporting: Examining IFRS Adoption in Europe

Edward J. Riedl

May 2008





A Tale of Two Papers

Market Reaction
to the Adoption
of IFRS in Europe

Causes and Consequences of
Choosing Historical Cost
versus Fair Value

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Similarities:

IFRS

EU (multi-country setting)

Address notion of convergence

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EU (multi-country setting)

Address notion of convergence

Differences:

- | | |
|-----------------------|-------------------|
| – across industries | – single industry |
| – multiple standards | – single standard |
| – anticipated effects | – actual effects |

Market Reaction to the Adoption of IFRS in Europe

- Research Questions:
 - Do investors *anticipate* net benefits or costs with IFRS?
 - Do these perceptions vary predictably across firm characteristics?

- Setting:
 - Event-study (16 events affecting IFRS adoption)
 - EU (18 countries)

- Research Design (three levels)
 - aggregate reaction to IFRS across sample dates (portfolio level)
 - univariate reactions by firm characteristics (portfolio level)
 - multivariate analysis (firm level)

Market Reaction to the Adoption of IFRS in Europe

Variable	Intended as Proxy for	Predicted Sign	Coefficient (<i>p</i>-value)
<i>Intercept</i>		+	0.0070 (0.000)
<i>ADR</i>	information quality	–	–0.0016 (0.007)
<i>Turnover</i>	pre-adoption information asymmetry	–	–0.0019 (0.000)
<i>Closely_Held</i>	“	+	0.0043 (0.006)
<i>Herf</i>	“	+	0.0116 (0.093)
<i>Code</i>	comparability/ enforcement	–	–0.0028 (0.000)
<i>Big4</i>	“	+	0.0001 (0.495)
<i>Bank</i>	industry	+/-	0.0013 (0.048)
<i>N</i>			35,136
<i>Adjusted-R²</i>			0.0013

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Consistent with overall positive reaction to IFRS

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Consistent with lower reaction if pre-adoption reporting quality is high

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Consistent with larger reaction if have higher pre-adoption information asymmetry

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Consistent with lower reaction if domiciled in country with likely weaker enforcement

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Robust to:

- Five proxies for information quality
 - *Standards applied*
 - *# Exchanges*
 - *Analyst following*
 - *Size*
- Bootstrap
- Clustering by country/industry, and firm/industry

Market Reaction to the Adoption of IFRS In Europe

(1) Do investors anticipate net benefits or costs with IFRS?

- Net benefits, reflected in positive market reaction to IFRS adoption
- Broad positive reaction (16 of 18 countries)
- Reaction is not primarily driven by banks/IAS 39

(2) Do these perceptions vary predictably across firm characteristics?

- Positive reaction if have high pre-adoption information quality
 - consistent with perceived benefits from IFRS due to convergence
- More positive reaction if have low pre-adoption information quality
 - consistent with anticipated improvements in information quality
- More positive reaction if have higher information asymmetry
 - consistent with IFRS expected to reduce information asymmetry
- Lower reaction if domiciled in code-law country
 - consistent with concerns regarding implementation/enforcement

Causes and Consequences of Choosing Historical Cost versus Fair Value

- Research Questions:
 - Do investors perceive fair value (FV) as beneficial?
 - What are the determinants of choosing historical cost (HC) versus FV?
 - Does disclosure versus recognition of FV matter?

- Setting:
 - Pre/post periods surrounding IFRS adoption, EU (13 countries)
 - Investment property (real estate) industry – IAS 40
 - Firms must choose either HC model (with FV disclosure) or FV model

- Research Design:
 - Causes/consequences of providing FV pre-IFRS
 - Which firms are affected most from required FV provision under IFRS
 - Causes/consequences of choosing HC model (with required FV disclosure) versus FV model post-IFRS under IAS 40

Causes and Consequences of Choosing Historical Cost versus Fair Value

Country	Firms	Pre-IFRS		Model choice under IFRS	
		No FV	FV	Cost	FV
	#	#	#	#	#
Austria	3	2	1	1	2
Belgium	8	1	7	0	8
Denmark	3	0	3	0	3
Finland	4	0	4	0	4
France	13	6	7	7	6
Germany	11	5	6	5	6
Italy	3	1	2	2	1
Netherlands	4	0	4	1	3
Poland	2	0	2	0	2
Spain	3	1	2	2	1
Sweden	8	0	8	0	8
Switzerland	5	0	5	0	5
UK	33	0	33	0	33
Total	100	16	84	18	82

Causes and Consequences of Choosing Historical Cost versus Fair Value

Variable	Predicted	Sample 1 – All Obs		Sample 2 – ex-UK	
Panel A. Bid-ask spread model					
<i>Intercept</i>	?	5.972 (7.04) ***	6.139 (7.24) ***	4.509 (4.21) ***	4.901 (4.66) ***
<i>LogMCAP</i>	–	–0.351 (6.06) ***	–0.348 (6.05) ***	–0.225 (3.04) ***	–0.232 (3.23) ***
<i>LogPRICE</i>	–	–0.035 (0.64)	–0.041 (0.74)	0.060 (0.90)	0.074 (1.15)
<i>LogSTD_RET</i>	+	0.237 (1.92) **	0.263 (1.93) **	0.337 (2.18) **	0.364 (2.43) ***
<i>LogCLOSEHELD</i>	+	–0.038 (0.57)	–0.031 (0.47)	–0.415 (2.47)	–0.397 (2.43)
<i>IMR</i>	–	–0.148 (1.97) **	–0.111 (1.42) *	–0.540 (4.22) ***	–0.459 (3.54) ***
<i>FV_PRE</i>	–		–0.317 (1.59) *		–0.435 (2.21) **
<i>N</i>		100	100	67	67
<i>Adj-R²</i>		49.88%	50.68%	53.89%	56.66%

- Consequences in pre-IFRS period
- Control for self-selection (1st stage model of providing fair value in pre-IFRS period)
- Firms providing fair value have lower information asymmetry
- Similar results using trading volume and standard deviation of returns

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Causes and Consequences of Choosing Historical Cost versus Fair Value

- Do investors perceive fair value (FV) as beneficial?
 - Yes, evidenced in lower bid-ask spread, higher turnover, lower standard deviation of returns for firms providing FV in pre-IFRS period
- What are the determinants of choosing historical cost (HC) versus FV?
 - Pre-IFRS (disclose versus do not disclose decision)
 - Post-IFRS (disclose versus recognition decision under IAS 40)
 - Both driven by ownership structure and commitment to transparency
- Does disclosure versus recognition of FV matter?
 - Limited evidence that it does not appear to matter
- Analysis is on-going, so stay tuned