

## Some Observations on the Benefits to Nations of Adopting IFRS

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## Aims of this presentation

1. summarise key findings of research that has been conducted on the benefits of adopting IFRS
2. mention
  - some of the more challenging aspects of this research
  - work that remains to be done

## 5 questions to consider

1. What is the role of accounting standards?
2. Why have countries adopted IFRS?
3. What benefits have been reported?
4. What else will help to maximise the benefits from IFRS?
5. How can we researchers do a better job when assessing the benefits from IFRS?

## Q1: what is the role of accounting standards?

Help resolve a serious agency problem

1. insiders know more than anyone else about the firm and their plans but need capital from outsiders to implement them
2. outsiders know they do not know as much and will charge a premium
3. managers can commit to a reporting regime to reduce this cost
4. adopting "standard practice" is much less costly than individual contracts

## Q2: why have countries adopted IFRS?

European Union (EU), 2002

1. eliminate barriers to cross-border trading in securities
2. ensure companies' accounts are more
  - reliable
  - transparent
  - easily compared
3. increase market efficiency
4. reduce the cost of capital

## Q2: why have countries adopted IFRS?

Australia, 1997

1. reduce the cost of capital
2. compete on equal footing with overseas countries
3. maintain investor confidence

Korea

1. enhance transparency
2. promote competitiveness of Korean companies
3. provide expansion opportunities for
  - Korean financial companies
  - Korean accounting industry

**Q3: what benefits have been found?**

Eliminating barriers to cross-border investing

1. analysts' forecasts
  - accuracy
  - disagreement
  - following
  - volatility in forecast revisions
2. stockholdings of
  - mutual funds, US and international
  - institutional investors

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**Q3: what benefits have been found?**

Improved "quality" of financial information

- quality of disclosures
- quality of accounting
  - income smoothing
  - "benchmark beating"
  - accruals (various measures)
  - conservatism, eg, timely recognition of losses (as in Basu)

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**Q3: what benefits have been found?**

Improved comparability of financial reports

- with US GAAP
- across countries

Usefulness and value-relevance

- returns-earnings relationship
- predicting stock price using earnings and book value of equity

Market efficiency (synchronicity)

Liquidity

Cost of capital

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**Summary of claimed benefits**

Improved analysts' forecasts

Better access to international equity markets

Higher quality disclosures and earnings numbers

More efficient prices in equity markets

More liquid equity markets

Lower cost of equity capital

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**Q4: what else will help maximise the benefits?**

Acceptance of the standards as issued  
 Effective compliance monitoring and enforcement  
 Education and technical support  
 Independent audit  
 Legal backing for standards

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**Q5: how can we researchers do better?**

Lots of questions still to be fully researched; eg

1. what is the cost v. benefit trade-off (benefits have been emphasised so far)?
2. what potential benefits have not yet been fully assessed?
3. which firms are the "losers" and which are the "winners"?
4. can we refine our sub-samples to gain deeper insights?
5. can we improve our models to allow, eg, for learning?
6. can we improve our controls for confounding factors?
7. what role does corporate governance play in obtaining benefits?
8. how important are socio-economic factors?

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