

**Relaxing the Reconciliation Requirement in Non-U.S. Firms' SEC Filings:  
Firm Incentives and Changes in Earnings Informativeness**

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# **Relaxing the Reconciliation Requirement in Non-U.S. Firms' SEC Filings: Firm Incentives and Changes in Earnings Informativeness**

## **Abstract**

We investigate the changes in earnings information content, for U.S. equity markets, following the 2007 relaxation of the SEC requirement to reconcile IFRS earnings and stockholders' equity to U.S. GAAP in annual regulatory filings. We analyze a sample of non-U.S. firms listed on U.S. exchanges that use IFRS, domestic GAAP, or U.S. GAAP from 2005 to 2008. Prior literature finds no changes in informativeness following the regulation for IFRS-using firms. However, when we partition the IFRS-using firms into two groups based on three different measures of managers' incentives to provide informative disclosures, we find that those firms with incentives to be more informative had significant increases in the information content of their earnings. Furthermore, we do not find any decrease in information content of earnings for firms without such incentives. In an additional analysis we document that this change in earnings informativeness was associated with a change in earnings attributes.

# **Relaxing the Reconciliation Requirement in Non-U.S. Firms' SEC Filings: Firm Incentives and Changes in Earnings Informativeness**

## **I. Introduction**

For fiscal years ending after November 15, 2007, the U.S. SEC began accepting the financial statements of non-U.S. firms prepared using International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) (i.e. full IFRS), without reconciliation of earnings and stockholders' equity to U.S. GAAP. The SEC is also considering allowing U.S. firms to file their financial statements using IFRS beginning in 2016 for all public firms and as early as 2012 for some firms (Leone, 2009; PWC, 2010). The SEC received over two hundred comment letters, some expressing grave concern at the proposal and others urging the adoption of IFRS (KPMG, 2008).

The regulatory change eliminating the reconciliation requirement has generated considerable research. Yet, papers examining either the usefulness of accounting numbers or the properties of the numbers have found little or no difference when the required reconciliations were eliminated (Kim, Li, and Li, 2011; Jiang, Petroni, and Wang, 2010). However, these papers look at the change for the group of cross-listing firms as a whole. In contrast, Kang, Krishnan, Wolfe, and Yi (2012) split the non-reconciling firms based on the strength of investor protection in the firm's home country and find an increase in earnings persistence for firms from weak investor protection countries, and an increase in forecast dispersion for firms from strong investor protection countries. However, they do not directly investigate the relationship between the increased persistence for firms from weak investor protection countries and the information content of those firms' earnings.

We extend this literature in two ways. First, we explicitly incorporate firms' reporting incentives in the analyses. We use three alternative measures of firm's reporting incentives: (i)

the number of pages in their last two reconciliations prior to the rule change; (ii) a composite measure derived from underlying firm characteristics similar to Daske et al. (2011); and (iii) whether the firm is domiciled in a code- or common-law country. Second, we directly investigate the impact of the regulatory change on the information content of earnings, using value relevance, abnormal volume, and abnormal return variance as proxies for information content, and the impact that reporting incentives had on this relationship.

A large body of literature has found that incentives are at least as important as regulation in firms' reporting decisions (Ball, Robin, and Wu, 2003; Christensen, Lee, and Walker, 2008). Prior research indicates that both domicile-level reporting incentives and firm-specific incentives determine the usefulness and properties of cross-listed firms' reporting. At the domicile-level, Hope, Kang, and Zang, (2007) find that firms domiciled in jurisdictions with weaker regulations are less likely to cross-list on US exchanges and once cross-listed try to avoid increased reporting and disclosure, by listing on OTC markets or choosing a private placement. At the firm level, authors have discovered that cross-listed firms generally have characteristics, such as lower share of controlling shareholders and smaller differences between controlling and cash flows rights, that reflect firm-level incentives to provide high-quality information (Doidge, Karolyi, Lins, and Miller, 2009).

The reconciliation requirement is a constraint on management's reporting. Non-U.S. firms that report using non-U.S. GAAP and reconcile to U.S. GAAP may increase confidence in their reported earnings by minimizing the differences between the two measurements. A number of papers show that investors and regulators regard large reconciliation differences as a concern (Chen and Sami, 2008; Leuz, 2006). If firms that were required to reconcile their earnings to U.S. GAAP chose from among their reporting GAAP alternatives those that minimized the

differences between the initially reported and reconciled earnings, then the reconciliation requirement may have acted as a constraint on their choices among allowable alternatives within IFRS (see also Barth, Landsman, Lang, and Williams, 2012; Lang, Raedy, and Yetman, 2003).

It is possible that the removal of the constraint will lead to more informative financial reporting.<sup>1</sup> However, in the discussions leading to relaxing the reconciliation requirements one concern was the potential for increased earnings management from abuse of the greater discretion available under IFRS (Lang, Raedy, and Wilson, 2006). Since the use or abuse of this increased discretion is a function of managers' reporting incentives, we provide direct evidence on the validity of these alternative hypotheses by incorporating proxies for reporting incentives in our empirical tests.

Our analyses are conducted on 520 firms that were listed on U.S. exchanges on April 1, 2009, for which we collected data from 2005 through 2008. Since we collected data from SEC Forms 20-F<sup>2</sup> for our analyses, we did not rely on Worldscope or Compustat for data on GAAP, which may include classification errors (Christensen et al., 2008; Daske et al., 2011). In our investigation of the effects of eliminating the reconciliation requirement on non-U.S. firms' choice of GAAP, we find that between 2006 and 2008 70 firms changed their reporting GAAP. Of these, 62 switched to full IFRS including 23 firms that switched from U.S. GAAP. Further,

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<sup>1</sup> An example of a change in accounting choice that can become more informative after the relaxation of the reconciliation requirement is the treatment of development costs for internally developed intangibles. Under U.S. GAAP, development costs are always expensed as incurred. IFRS also allows these costs to be expensed. Alternatively, under IFRS they can be capitalized if the company meets all six of the following criteria: (1) technical feasibility is reached; (2) the ability to use or sell the intangible is demonstrated; (3) intention to complete the intangible exists; (4) the way the intangible will generate future benefits is demonstrated; (5) sufficient resources to complete the development are present; and (6) it is possible to reliably measure the expenditures associated with the intangible during its development. These criteria are dependent on management's intentions and expectations. Thus, pre-2007, firms would have chosen to expense these costs under IFRS to reduce the difference between their IFRS income and U.S. GAAP income. However, post-2007, the companies can capitalize these costs, diverging from the U.S. GAAP treatment which in turn would change the attributes of their reported numbers and possibly make their reported numbers more informative.

<sup>2</sup> We use the term "Form 20-F" to refer to all annual regulatory filings with the SEC by non-U.S. firms. This includes Forms 20-F, 40-F (for Canadian firms), and 10-K.

43 of the 62 conversions to full IFRS occurred in 2007. No firms switched from IFRS to any other GAAP, and no firms provided voluntary reconciliations. Since a majority of the firms switched to full IFRS with most of these changes occurring in 2007, the change in accounting standards is likely to be attributable to eliminating the requirement to reconcile for firms using full IFRS. This strong reaction provides evidence that the elimination of the reconciliation requirement was viewed by firms as a sufficiently significant event to warrant immediate changes in financial reporting policies.

We investigate the informativeness of reported earnings before and after the rule change, using value relevance, mean and median abnormal volume, and abnormal return variance as proxies for earnings informativeness. We divide our sample into two subsets based on the accounting rules firms used in 2007: companies that used IFRS in 2007 and did not reconcile to U.S. GAAP (IFRS firms), and a control group of non-U.S. firms that were unaffected by the change, consisting of both firms that used U.S. GAAP in 2007 and firms that reconciled from domestic GAAP to U.S. GAAP in 2007. We further subdivide IFRS firms into two groups, based on their reporting incentives. Similar to other papers we find no evidence of a change in value relevance or information content of earnings from before to after the regulatory change for the firms that use full IFRS and do not reconcile when we evaluate that group as a whole, and a significant decrease in abnormal volume for the control firms. In contrast, when we conduct the analysis on the IFRS firms separated into two groups based on their incentives to provide more or less informative financial disclosures, labeled firms with stronger versus weaker reporting incentives respectively, we find strikingly different results. The change in the abnormal volume from before to after the relaxation of the reconciliation requirement is significantly different from zero for firms with stronger reporting incentives, based on all three of our proxies for

strength of reporting incentives. We also find that the firms with weaker reporting incentives experienced a significant increase in abnormal volume (mean- and median-adjusted) relative to the control firms. However, the firms with stronger reporting incentives experienced an additional increase in abnormal volume incremental to that experienced by the firms with weaker reporting incentives. In addition, the firms with stronger reporting incentives experienced a significant increase in value relevance relative to the control group for two out of the three proxies for strength of reporting incentives and relative to the firms with weaker reporting incentives for one of the proxies for strength of reporting incentives. We do not find any significant change in abnormal return variance for any group. The increase in earnings informativeness when the reconciliation is not required is consistent with results in Jiang et al. (2010).

In additional tests, we examine whether the change in informativeness is associated with an underlying change in earnings attributes, using measures commonly investigated in prior literature – smoothness, persistence, predictability, nearness to cash, timeliness, and conservatism (Barton, Hanse, and Pownall, 2010). We find that firms with stronger reporting incentives, as measured by the number of pages in their prior reconciliations, had significant and material changes in their earnings attributes after the regulatory change. We not only document significant changes in most of the earnings attributes for these firms, but also find significant difference-in-differences between them and the firms with weaker reporting incentives on timeliness, smoothness, and nearness to cash. We also find significant difference-in-differences in timeliness, persistence, and predictability for the firms with stronger reporting incentives versus control firms. In contrast, the difference-in-differences between the firms with weaker

reporting incentives and the control firms is marginally significant for only one of the six attributes – nearness to cash.

Our paper contributes to the literature in several ways. We have the most comprehensive sample of the papers that examine this regulatory change, both in terms of the number of firms and the time period. Most papers have fewer than 100 sample firms, except Kim et al. (2011) which includes 240 firms. However, the time period in that study is only one year before and the year of the regulatory change (2006 and 2007). Using a longer time period for our study both before and after the regulatory change mitigates concerns that our results are driven by other factors.<sup>3</sup>

In addition, prior literature generally focuses on changes in the usefulness of the Form 20-F when it is released but we are interested in the impact of the removal of the reconciliation requirement on the underlying accounting. Therefore, we focus on changes in the information content of the earnings announcement rather than the filing of the 20-F.<sup>4</sup>

Finally, we expect our investigation to inform the policy debate about the substitutability and comparability of IFRS and U.S. GAAP, as well as to help us to understand the interaction between reporting incentives and accounting rules. The difference in earnings informativeness conditional on firms' reporting incentives is particularly salient given the lack of changes in informativeness documented in the prior literature when the analysis is done without regard to firms' reporting incentives. These results should also be of interest to managers as they choose among the GAAPs available to them and decide whether to voluntarily reconcile to U.S. GAAP.

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<sup>3</sup> We use two years before and two years after the regulatory change in our sample. Expanding the sample further in the pre-period would confound the interpretation of our results due to the large number of countries that adopted IFRS in 2005, and the need for lagged measures of several variables, measured using the same GAAP as in the observation year, to be included in the analysis.

<sup>4</sup> Consistent with these studies we also ran our primary analysis using the 20-F filing date and found no change in the information content of the 20-F itself.

Finally, the evidence on changes in information content will be useful to standard setters as they work towards convergence between U.S. GAAP and IFRS.

The rest of this paper is organized as follows. In the next section, we review prior literature and develop our hypothesis. Section III presents empirical design and summarizes firms' responses to the relaxation of the reconciliation requirement. Section IV investigates the change in informativeness of firms' earnings announcements after the removal of the reconciliation requirements. Section V presents extensions and diagnostics, including an examination of the associated change in earnings attributes. Section VI summarizes our results and discusses their policy implications.

## **II. Prior Literature and Hypothesis Development**

Prior research shows that market participants find the information in the reconciliation between non-U.S. GAAP and U.S. GAAP numbers useful. Pope and Rees (1992) and Rees (1996) show that reconciliations filed with the SEC have incremental explanatory value for stock returns not only for U.S. investors but for firms' domestic investors as well. Along similar lines, Chen and Sami (2008) document a positive correlation between two-day abnormal trading volume and the absolute difference between U.S. and non-U.S. GAAP earnings. Gordon, Jorgensen, and Linthicum (2010) show that between 2006 and 2008 the U.S. GAAP reconciliation was incrementally informative and value relevant. Consistent with reconciliations providing information to the markets, Mashruwala, Byard, and Suh (2010) demonstrate an association between the 2007 relaxation of the SEC reconciliation requirement for IFRS users and a decrease in information transfer from cross-listed IFRS firms to their U.S. counterparts.

In the context of these findings, it is surprising that research following the 2007 relaxation of the reconciliation requirement has failed to find any significant changes in earnings

informativeness and earnings attributes. Jiang et al. (2010) find no evidence that the relaxation of the reconciliation requirement impacted firms' abnormal volume, return volatility, or bid-ask spread. Kim et al. (2011) find no evidence that the elimination of the reconciliation requirement has a significant impact on liquidity, probability of informed trading, cost of equity, forecast error and bias, dispersion, institutional ownership, stock price efficiency or synchronicity.<sup>5</sup>

Kang et al. (2012) split firms that discontinue reconciliations based on the strength of investor protection in the firms' home countries. They find evidence that firms from weaker investor protection countries experienced increased persistence after the regulatory change, but they find no evidence that increased persistence led to increased earnings informativeness for their sample. They find that firms from stronger investor protection countries experienced an increase in analyst forecast dispersion subsequent to the regulatory change, and interpret their combined evidence to indicate that firms from weaker investor protection countries had incentives to improve disclosure quality to compensate for the loss of information previously contained in the U.S. GAAP reconciliation. In contrast to their paper, we directly investigate changes in the information content of earnings following the regulatory change.

There are several reasons for the lack of reaction documented in prior research on the elimination of the reconciliation requirement. For instance, there is mixed evidence on whether firms compensate for the reduction in information by increasing other disclosures. Yu (2011) finds a significant increase in voluntary disclosures in annual reports and earnings press releases following the elimination of the reconciliation requirement. Analyzing the changes in voluntary disclosure following the 2007 rule change, she finds an increase in voluntary disclosure for

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<sup>5</sup> Both Jiang et al. (2010), and Kim et al. (2011) measure the change in their measures of liquidity and information content around the 20-F filing date. This indicates that removing the reconciliation requirement did not have an impact in the information content of the 20-F (at least along these dimensions). In contrast, we are interested in changes in the underlying earnings, so we measure changes in information content around the firms' earnings announcement dates.

previously reconciled items, more information in earnings press releases, and a greater number of footnote pages. However, Yu (2011) also demonstrates that the increase in disclosure is closely related to firm incentives such as the percentage of U.S.-related revenue and the existence of U.S.-based competitors. Somewhat at odds with Yu's findings, Kim et al. (2011) do not find that firms modify their voluntary disclosure policies to compensate for the loss of information.

Another reason for finding weak or no effect of the relaxation of the reconciliation requirement might be the decline in the usefulness of reconciliation information in recent years leading up to the relaxation. Henry, Lin, and Yang (2009) finds that differences from 2004 to 2006 between U.S. GAAP and IFRS, although decreasing in magnitude, remain large, significant, and value relevant.<sup>6</sup> Chen and Sami (2009) find that abnormal trading volume is related to the gap between U.S. GAAP income and non-U.S. GAAP income in years up to 2006 but not in 2007, possibly due to the convergence between U.S GAAP and IFRS. Another possible reason may be the quality of enforcement of the reconciliation requirement in the U.S.: some authors claim that enforcement for non-U.S. firms in the U.S. is at best lax (Siegel, 2005) and that in some cases firms use a U.S. listing to avoid stricter enforcement and regulation in their home jurisdiction (Licht, 2003).

We propose as an alternative explanation for the lack of significant findings following the relaxation of the 2007 reconciliation requirement that ignoring firm level incentives obscures the effects of the regulatory change. Daske et al. (2011) find that firms which were committed to

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<sup>6</sup> One reason for the reduced usefulness of the reconciliation may be the ongoing convergence effort between IASB and FASB, aimed at reducing the differences between the two sets of standards. However, despite the reduction in differences between U.S. GAAP and IFRS the differences in net income reported under the two standards can still be considerable. In a study of 100 non-U.S firms traded in the U.S. in 2006, Plumlee and Plumlee (2008) document an average (median) difference between IFRS and U.S. GAAP net income of -0.4% (-9.9%). Moreover, the difference is still sizable for some firms, ranging from -206% to 253% of net income.

increasing their transparency (“serious adopters”) experienced a positive and economically significant net effect on market liquidity after adopting IAS and IFRS but firms without such a commitment (“label adopters”), experienced no change in liquidity post-adoption. Thus, similar to the Daske et al. (2011) partition of voluntary IFRS adopters into “serious” and “label” adopters, we partition companies that discontinue reconciling in 2007 into firms with stronger versus weaker reporting incentives.

Investors’ use of information in the reconciliations, particularly the difference between companies’ U.S. GAAP and non-U.S. GAAP earnings, acts as a constraint on managers’ choice of accounting policy. The constraint arises from non-U.S. firms’ need to minimize the difference between the accounting numbers they report under local GAAP and U.S. GAAP. Larger differences in the process of reconciliation are perceived by investors as a sign of earnings manipulation by the company under its local GAAP, as in the case of Daimler-Benz’s initial listing in the U.S. (Radebaugh et al., 1995). Commenting on the differences between U.S. GAAP and domestic GAAP numbers, a Citigroup analyst observed: “The differences could well result in investors and/or analysts coming to different conclusions about the financial position and performance of the business depending on the GAAP used.” (Jetuah, 2007: p. 1). Leuz (2006) suggests that larger differences could also increase scrutiny by home country authorities. Another downside of these differences is an increase in uncertainty among market participants about firms’ underlying economics (Chen and Sami, 2008) and greater concern among investors (Leuz, 2006).

Additionally, research on both the reporting and investment side supports the argument that it is in the best interest of cross-listed firms to decrease the size of reconciliations. Examining accounting choices in five policy areas of firms from the UK, France, Germany, Japan, and

Australia, Tarca (2002) finds that non-U.S. firms cross-listed in the U.S. were more likely to align their policy choices with U.S. GAAP than were firms listed only on their home exchanges. Similarly, Landry and Callimaci (2003) show that Canadian software firms cross-listed in the U.S. were more likely to follow the U.S. GAAP treatment of R&D expenses. These firms preferred to forego the opportunity to signal their projects' success using the choices afforded by Canadian GAAP in order to achieve closer U.S. GAAP alignment. Similarly, Ashbaugh and Olsson (2002) find that firms forego revaluing assets upwards under IAS to align their accounting choice more closely with U.S. GAAP. Bradshaw, Bushee, and Miller (2004) find that the market rewarded non-U.S. firms which exhibited greater conformity with U.S. GAAP with increased U.S. ownership from 1989 to 1999. Similarly, looking at a later period (2002-2006), Plumlee and Plumlee (2007) find that U.S.-listed non-U.S. companies had higher levels of trading if they used U.S. GAAP instead of local GAAP, suggesting that U.S. investors have a preference for familiar standards.

Following the rule change, companies might choose higher informativeness because of the higher reporting incentives they demonstrated by cross-listing in the U.S. Prior literature has found that, unlike their domestic counterparts, cross-listed firms have characteristics that make them subject themselves to stricter enforcement. These firms usually grow faster, are more likely to be in the technology industries, and need the expert attention of analysts abroad (Degeorge and Maug, 2006). Cross-listed firms also have a lower percentage of controlling shareholders and smaller differences between control and cash flow rights (Doidge et al., 2009). Consistent with these differences in incentives, Lang et al. (2003) find that, unlike their domestic counterparts, cross-listed firms manage earnings less aggressively, report in a more conservative and timely manner, and exhibit a stronger association between their accounting numbers and

share price even before listing on the U.S. market. Lee and Chiu (2010) also find that following the rule change, firms use less accounting discretion indicating that managers do not, on average, abuse their increased reporting discretion.

On the other hand, U.S.-listed non-U.S. firms no longer required to provide a reconciliation may choose accounting standards and policies that give them more opportunity to manipulate earnings, making their earnings less informative to investors. This possibility is suggested by studies showing that the reporting incentives of cross-listed firms are weaker than the incentives of U.S. firms. For example, despite the fact that companies cross-listed in the U.S. show improved accounting quality compared to their domestic counterparts, they do not reach the quality of earnings and earnings attributes of U.S. companies (Bradshaw and Miller, 2008). In addition, non-U.S. firms are more likely to manage earnings, and report earnings that are less informative to U.S. investors than do U.S. firms (Lang et al., 2006).

Relaxing the reconciliation requirement lifts one constraint on managers' reporting discretion, further strengthening the role of reporting incentives. Firms with stronger reporting incentives are likely to increase the informativeness of their reported earnings with the elimination of the constraint to minimize the gap between their two sets of reported incomes. On the other hand, firms with weaker reporting incentives are more likely to abuse this greater discretion to manage their reported earnings and thus reduce the information content of the reported earnings.

**H<sub>a</sub>:** *The SEC's relaxation of the reconciliation requirement is associated with an increase (decrease) in earnings informativeness for firms with incentives to provide more (less) informative disclosures.*

### III. Sample Selection and Descriptive Statistics

Our sample includes all non-U.S. firms listed on NYSE or NASDAQ as of April 1, 2009, an initial sample of 706 firms. We removed 130 firms from Caribbean nations designated as tax havens by the OECD. We removed another 21 ETFs, firms that listed subsequent to the change in regulation, and firms that failed to file 20-Fs during the time period 2005-2008; and 33 firms that did not file SEC Forms 20-F specifically in 2007.<sup>7</sup> We excluded two Japanese firms, Fujifilm and Nissan Motor Corp., because they file 20-Fs using Japanese GAAP without reconciliation to U.S. GAAP under a long standing exemption provided by the SEC. For the remaining 520 firms, we collected the GAAP used by the company and whether the non-U.S. GAAP users provided reconciliations to U.S. GAAP from their 2005-2008 20-F filings.

We expect that the removal of the reconciliation requirement will change managers' reporting decisions. The most direct decision likely to be influenced is the choice of GAAP. The choice to change GAAPs is costly requiring training of existing and new personnel and use of consulting services to prepare the new financial statements; change in the firm's IT and reporting infrastructure; and communication with customers, suppliers, and investors to help them understand the effect of the new standards on the financial statements (Jermakowicz and Gornik-Tomaszewski, 2006; Dunne, Fifield, Finningham, Fox, Hannah, Helliard, and Power, 2008). However, reconciling to U.S. GAAP is also costly as suggested by a large degree of non-compliance with the reconciliation rule documented in prior research (Frost and Kinney, 1996; Licht, 2003). Thus, we believe that a firm's decision to incur the cost of changing its reporting

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<sup>7</sup> Throughout the paper we define fiscal years relative to the effective date of the regulatory change. The change was effective for years ending after November 15, 2007. We classify the first year in which the firm could prepare their 20-F using IFRS and not provide a reconciliation as its 2007 fiscal year. Therefore, all fiscal years ending between November 16, 2007 and November 15, 2008 are classified as 2007 fiscal years; other years are adjusted similarly. We remove firms without a 2007 20-F because this information is necessary to determine the impact the change in regulation had on their reporting choices.

GAAP to IFRS in order to avoid reconciling provides evidence on the impact of this regulatory change on the relative costs and benefits of an IFRS adoption. Table 1 provides insight into this impact by documenting the number of companies that changed GAAPs during the period 2005-2008 and their new GAAP.

[Insert Table 1 about Here]

Over the entire time period 70 of our 520 firms or 13% of the sample changed GAAPs. The vast majority of these firms, 62, converted to IFRS, which gave them the option to discontinue reconciling post-2007. Twenty-three of these 62 firms switched from U.S. GAAP to IFRS. To the extent that the SEC believes that U.S. GAAP provides better protection to investors (as evidenced by the relatively slow pace at which the U.S. is moving towards adopting IFRS), this is an unintended consequence of the rule change. Of the eight firms that converted to a GAAP other than IFRS, seven converted to U.S. GAAP, and one converted from U.S. GAAP to a domestic GAAP. The majority of the GAAP changes, 47 of the 70 (67%) occurred in 2007 – the first year the SEC relaxed the reconciliation requirement for non-U.S. filers using full IFRS. Of the 47 firms that changed GAAPs in 2007 more than 90% adopted full IFRS.<sup>8</sup> In fact, the frequency of the use of full IFRS more than doubled from 2005 to 2008. In 2005, only 57 firms in our sample reported that they prepared their financial statements using full IFRS compared to 117 firms in 2008.

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<sup>8</sup> The majority of sample companies that switched to full IFRS in the period 2006–2008 were not required to do so by their home jurisdictions. In 2006, three of the five switching firms came from the EU, which required the use of EU IFRS, and one was domiciled in Turkey, which did not require the use of either form of IFRS. The only firm required to use IFRS by its home jurisdiction was domiciled in South Africa, which adopted IFRS in 2005. In 2007, 40 of the 43 switching firms were not required to use full IFRS by their home jurisdictions (12 came from New Zealand and Australia, which use a regional version of IFRS, two were from India and Israel, neither of which required IFRS as of 2007, and 26 were from the EU). The only three firms for which the switch was required were from South Africa. Firms in the EU using U.S. GAAP were required to adopt IFRS as implemented by the EU in 2007 but not full IFRS as issued by the IASB. Finally, in 2008, of the 14 switching companies, 11 were from countries which did not require full IFRS (three were from Hong Kong and used a local version of IFRS, four were from India and Brazil, which had not adopted IFRS as of 2008, and four came from the EU). The remaining three switching firms came from Israel which mandated full IFRS starting in 2008.

While this evidence demonstrates a change in *de jure* accounting, it is only suggestive of *de facto* changes in reported accounting numbers. To investigate *de facto* changes in accounting we collected the data necessary to calculate earnings informativeness measures from Compustat and CRSP. This requirement reduced the sample by 274 firm-year observations (25 firms). In addition, we excluded 13 firm-years in which the firm had cash flows from operations that were negative and exceeded in absolute value 100% of average assets. Finally, we excluded firm-year observations in which the firm changed GAAP in order to eliminate the confounding impact of a change in GAAP on firms' earnings information content. These requirements left a final sample of 1,727 firm-years representing 495 firms (panel A of table 2). Panel B of table 2 describes the distribution of the sample by country. The largest number of observations in our sample, 441 firm-years (25.5%), is from Canada<sup>9</sup> followed by Israel with 13.1% of the sample.

[Insert Table 2 about Here]

We divided the sample into two groups based on whether the firm used IFRS in 2007. The test sample includes firms that used IFRS in 2007 and did not reconcile to U.S. GAAP<sup>10</sup> (IFRS firms), and the control sample includes both the firms that used U.S. GAAP in 2007 and those that used domestic GAAP and reconciled to U.S. GAAP. We further subdivide our IFRS firms sample into firms with stronger versus weaker reporting incentives using three proxies discussed below.

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<sup>9</sup> Although Canadian firms have different filing requirements under the *Multi-Jurisdiction Disclosure System (MJDS)* filing form 40-F instead of Form 20-F, they are still required to reconcile the differences in their reported numbers under Canadian GAAP to U.S. GAAP (SEC, Form 40-F). However, it is sufficient to have these statements audited under Canadian Auditing Standards, audit in accordance with U.S. auditing standards is not required.

<sup>10</sup> We were able to find a reconciliation to U.S. GAAP for three firms in 2007 that use IFRS. However, these firms all used U.S. GAAP in 2006, and under IAS 1, were required to reconcile from their prior GAAP to IFRS in the year of adoption. None of these firms provided a reconciliation in 2008, so there is no evidence that this should be viewed as a "voluntary" disclosure of an IFRS to U.S. GAAP reconciliation. However, we included these firms in our control group under the assumption that the disclosure incentives raised by a reconciliation requirement remained until the first year that they did not provide a reconciliation.

Our first proxy for the strength of firms' reporting incentives is the average number of pages in the reconciliation footnote in the two years prior to the rule change, 2005 and 2006. This metric is comparable to measures used in prior studies, such as Koo et al. (2010) who use the length of a press release as a proxy for the extensiveness of disclosure. Our second measure is "Firm Factor", similar to Daske et al. (2011). It is the first principal component from a factor analysis of firm level characteristics commonly associated with reporting incentives: the natural log of the market value of equity, total liabilities divided by total assets, return on assets, the book-to-market ratio, percentage of closely held shares, and foreign sales over total sales. We treat firms with scores higher (lower) than the median as having stronger (weaker) reporting incentives for each measure. Our final measure of reporting incentives is an economy-level measure of reporting incentives, common- versus code-law jurisdiction, based on the firm's domicile. Firms in common-law jurisdictions have incentives to provide more informative financial statements for equity markets (Ball, Kothari, and Robin, 2000).

Table 3 provides details of the reporting incentives proxies, as well as the correlations among the three measures. As panel A shows, there is sizable variation in the length of pre-2007 reconciliations with the first percentile being only one page long and the 99<sup>th</sup> percentile being 44 pages. The mean of 15.25 is higher than the median of 13 suggesting that some firms provided considerably longer reconciliations. Firm Factor has a mean of 0.456, and a standard deviation of 0.512, and 47% of the sample firms are from common-law jurisdictions.

Panel B of table 3 shows that the number of pages in the reconciliation footnote is positively correlated with Firm Factor, with Pearson (Spearman) correlation coefficient of 0.36 (0.41), significant at 1% . However, legal origin is not significantly related to either number of

pages or reporting incentives, suggesting that legal origin may reflect different reporting incentives than firm-specific measures.

[Insert Table 3 about Here]

#### **IV. Changes in Earnings Informativeness**

We hypothesize a change in the information content of earnings subsequent to the relaxation of the reconciliation requirement as a function of firms' reporting incentives. We measure information content using four proxies commonly used in the literature: value relevance, mean- and median-adjusted abnormal volume, and abnormal return variance. We measure value relevance as the  $R^2$  from the following regression:

$$Ret_{it} = \alpha + \beta_1 NI_{it} + \varepsilon_{it}, \quad (1)$$

where  $Ret$  is the buy and hold return on firm  $i$  over fiscal year  $t$ , and  $NI$  is net income divided by average total assets.

We measure abnormal returns and abnormal volume consistent with Landsman and Maydew (2002) over three days centered on the earnings announcement date as the event window and 247 days ending at the event window as the estimation period. Specifically, we measure abnormal return variance (AVAR) as the sum over the event window of the ratio of squared market model residuals to the variance of the market model residuals. We calculate median adjusted abnormal volume (AMDVOL) as the ratio of the deviation of daily shares traded over the event window from the median value of daily shares traded over the estimation period to total shares outstanding. To standardize the measure of abnormal volume, we divide this ratio by the ratio of standard deviation of daily shares traded over the estimation window to total shares outstanding. We use the same method to calculate mean adjusted abnormal volume (AMNVOL), except we use mean turnover during the estimation period rather than median turnover.

We evaluate the impact of the rule change on earnings informativeness using a difference-in-differences approach, which uses each firm as its own control by computing the change for each firm from before to after the regulatory change, and then comparing the change in earnings informativeness for the IFRS firms to the change in informativeness for the control firms. We test the significance of the change in value relevance and the difference-in-differences in value relevance using a bootstrap procedure. Similar to Barth et al. (2012) we bootstrap the distribution to test for significance in the difference within each group over the two periods as well as the difference-in-differences between the two groups over the two periods.<sup>11</sup> We test the difference-in-differences for mean and median adjusted abnormal volume and abnormal return variance using a design including control variables similar to Kim et al. (2011). The regression model is:

$$\begin{aligned} \text{Info\_Content} = & \alpha + \beta_1 \text{IFRS} + \beta_2 \text{StrongIncentiveIFRS} + \beta_3 \text{Time} \\ & + \beta_4 \text{Time} \times \text{IFRS} + \beta_5 \text{Time} \times \text{StrongIncentiveIFRS} + \beta_6 \text{UnexpectedEarnings} \\ & + \beta_7 \text{Exchange} + \beta_8 \text{LnAssets}_{t-1} + \beta_9 \text{LnRetVolatility}_{t-1} + \varepsilon, \end{aligned} \quad (2)$$

where:

Info_Content	Three measures of information content, mean-adjusted abnormal volume, median-adjusted abnormal volume, and abnormal return variance
IFRS	An indicator taking the value of 1 if the firm does not provide a reconciliation in 2007, and zero otherwise.
StrongIncentiveIFRS	An indicator taking the value of 1 if the firm is classified as having strong reporting incentives, with firms classified separately based on each proxy for reporting incentives.
Time	An indicator variable taking a value of 1 if the year is 2007 or 2008, and zero otherwise.
UnexpectedEarnings	Absolute value of the change in earnings from the prior year.
Exchange	An indicator variable equal to 1 if the firms is cross listed on NASDAQ in year t and zero otherwise.
LnAssets <sub>t-1</sub>	The natural logarithm of total assets in millions of US\$ at the end of year t-1.
LnRetVolatility <sub>t-1</sub>	The natural logarithm of the standard deviation of stock returns in year t-1.

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<sup>11</sup> Bootstrapping requires us to make no assumptions regarding the distribution of the variables. Our inferences rely only on the fact that with 1,000 random partitions of the sample we rarely see a change greater than the difference that resulted from partitioning the sample based on the reporting incentives proxies. A detailed description of the bootstrap procedures is included in tables 3 and 4.

If earnings information content for IFRS firms with weak reporting incentives changed relative to the change in information content for the control firms we expect a significant coefficient  $\beta_4$ . If the change in information content for firms with strong reporting incentives is different than the change for firms with weaker reporting incentives we expect a significant coefficient  $\beta_5$ . To test for a significant difference between the strong reporting incentives group and the control group, we use an F-test to test whether  $\beta_4 + \beta_5$  is different than zero. We also expect larger firms and firms with larger unexpected earnings to have more informative financial statements. We include country and 2-digit SIC code indicator variables to control for economy and industry effects.<sup>12</sup>

Panel A of table 4 shows the change in value relevance from before to after the regulatory change separately for the control group and each of the subsamples based on reporting incentives. We observe no significant change in value relevance for the control group or the firms with weaker reporting incentives. However, we find a significant increase in value relevance following the regulation change for firms classified as having stronger reporting incentives based on two of the three proxies, Page Numbers and Common Law.<sup>13</sup>

Panel B of table 4 shows the differences-in-differences in value relevance for the three subsamples (control, stronger and weaker reporting incentive firms) from before to after the regulatory change based on each of the three incentive proxies. We find a significantly larger increase in value relevance for the firms with stronger reporting incentives based on number of pages compared with both the control group and the weaker reporting incentives firms. Value

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<sup>12</sup> To verify that our sample is comparable to those from prior studies we first test for a significant difference-in-difference between the control group and the IFRS firms before partitioning the IFRS firms based on reporting incentives. We find only weak evidence of an increase in abnormal volume for the IFRS firms relative to the control group, and that result is entirely driven by a decrease in abnormal volume for the control group.

<sup>13</sup> We also tested value relevance separately for good- and bad-news years. The results are quite similar but a little stronger for the good-news years.

relevance also increased for the common law firms relative to the control group, but there is no difference in the change in value relevance between the code-law and control groups. The sign of the change in value relevance for the stronger reporting incentives firms based on Firm Factor is consistent with expectations but the estimate is not significant. Overall, the results are consistent with both country-level and firm-level reporting incentives influencing the change in value relevance following the regulatory change.

[Insert Table 4 about Here]

Table 5, panel A presents the univariate changes in mean abnormal volume and abnormal return variance for the control group as well as for the stronger and weaker reporting incentives partitions of the test group. Both mean and median abnormal trading volume decreased from before to after the regulatory change (significant at .01) for the control firms. In contrast, trading volume increased for the firms with stronger reporting incentives (based on Page Numbers and Common Law), and the increase is marginally significant. The increase in trading volume is statistically insignificant based on Firm Factor. The changes in abnormal trading volume and abnormal return variance from before to after the regulatory change are not significant for the firms with weaker reporting incentives.

[Insert Table 5 about Here]

We report the results of the difference-in-differences multivariate analyses for abnormal trading volume and returns variance in Table 5, Panels B, C, and D. Panels B and C show that trading volume increased at both the mean and the median for the firms with weaker reporting incentives relative to the control group (significant at 10%) based on Page Numbers, but the increase is not significant based on Firm Factor or Common Law. However, trading volume increased significantly more for the firms with stronger reporting incentives relative to the firms

with weaker reporting incentives based on all three proxies for strength of reporting incentives. In addition, abnormal trading volume increased significantly more at both the mean and median for the firms with stronger reporting incentives relative to the control group, based on all three proxies. We find no significant difference-in-differences between any of our comparison groups for abnormal returns variance (panel D).

Overall, our results suggest that it is important to examine the changes in information content of earnings separately for firms with stronger incentives to provide informative reconciliations before the rule change in 2007, relative to firms which provided reconciliations merely to meet SEC requirements. Consistent with our hypothesis, we find that relaxing the reconciliation requirement led firms with stronger disclosure incentives, as measured by the length of their reconciliation prior to the rule change, firm characteristics, and the common-versus code-law distinction, to provide more informative earnings, and did not decrease earnings information content for firms with weaker disclosure incentives.

## **V. Extensions and Diagnostics**

### **5.1. Changes in Informativeness and Earnings Attributes**

#### **5.1.a. Measures of Earnings Attributes**

Earnings information content is a function of the underlying earnings attributes because the properties of earnings impact the ability of shareholders to estimate the future cash flows of the firm (Francis, LaFond, Olsson, and Schipper, 2004; Barton et al., 2010). Therefore, we examined whether there was a corresponding change in the earnings attributes for the firms with changes in earnings information content. Consistent with prior literature, we investigate the following six earnings attributes: Conservatism, Timeliness, Persistence, Predictability, Smoothness, and Nearness to Cash. Following Basu (1997) and others, we measure Conservatism as the

asymmetric timeliness coefficient,  $\beta_3$ , from the regression of net income on proxies for good and bad news:

$$NI_{i,t} = \beta_0 + \beta_1 Ret_{i,t} + \beta_2 Neg_{i,t} + \beta_3 Ret_{i,t} * Neg_{i,t} + \varepsilon_i, \quad (3)$$

where NI is net income divided by average total assets, Ret is the unadjusted buy and hold return for firm  $i$  in year  $t$ , and Neg is an indicator variable equal to 1 if  $Ret < 0$  and 0 otherwise. Larger values of Conservatism indicate that net income captures bad news regarding the firm in a more timely manner.

Following Ball et al. (2000) and Barton et al. (2010), we measure Timeliness using the adjusted  $R^2$  from regression (3). Larger values of this measure reflect more timely information. In contrast to conservatism, which focuses on the speed with which bad news is recognized in the accounting system, timeliness measures the ability of the accounting system to reflect both good and bad news quickly. The timely reflection of economic events affecting the firm increases the relevance of accounting information, since information received after a decision is made is by definition not relevant. Further, Francis et al. (2004) argue that timeliness also increases the reliability of information.

We follow Gordon et al. (2010) in measuring net income's Persistence using the relation between current and prior year net income:

$$NI_{i,t} = \varphi_0 + \varphi_1 NI_{i,t-1} + \varepsilon_{i,t}, \quad (4)$$

where NI is net income of firm  $i$  in year  $t$  divided by average total assets. Larger values of  $\varphi_1$  indicate more persistent net income, while values close to 0 reflect transitory performance.

Consistent with Barton et al. (2010), we measure the Predictability of net income as the adjusted  $R^2$  for the model in equation (4). Larger values of Predictability imply more predictable net income.

Following Leuz, Nanda, and Wysocki (2003) and Gordon et al. (2010) we measure Smoothness using the ratio of the standard deviation of net income to the standard deviation of cash flows from operations, both scaled by average total assets. For ease of interpretation we multiply the result by negative 1, so that increases in Smoothness reflect decreases in the variation of net income compared to operating cash flows (i.e., “smoother” net income).

Finally, consistent with Barton et al. (2010), we measure Nearness to Cash as the slope coefficient,  $\beta_1$ , in the regression:

$$OCF_{i,t} = \beta_0 + \beta_1 NI_{i,t} + \varepsilon_{i,t} \quad (5)$$

where OCF is cash flow from operations divided by average total assets, and NI is net income divided by average total assets.

#### **5.1.b. Changes in Earnings Attributes**

To test whether the changes in earnings information content were associated with changes in earnings attributes, we examine the changes in the six earnings attributes for samples partitioned on one of the measures of reporting incentives, the number of pages in the reconciliations. Table 6 shows the results for the earnings attributes of the two subsamples.<sup>14</sup> We find that earnings for the firms with stronger reporting incentives increased in Timeliness (significant at 1%) and Conservatism (significant at 5%) between the pre- and post- periods. Persistence, Predictability, and Smoothness of earnings for the firms with stronger reporting incentive decreased in the post-period, with the decreases significant at 5% or better. In contrast, five of the six earnings attributes for the firms with weaker reporting incentives (Timeliness, Conservatism, Persistence, Smoothness, and Predictability) show no significant change after the elimination of the

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<sup>14</sup> We again test for significance in the differences and the difference-in-differences for the changes in attributes using the bootstrap procedure used to test for significance in the value relevance.

reconciliation requirement. Only Nearness to Cash increased significantly for the firms with weaker reporting incentives in the post-period.

The difference-in-differences in earnings attributes between firms with stronger versus weaker reporting incentive from before to after the regulatory change is significant at 5% or better for Timeliness, Smoothness and Nearness to Cash. Further, the difference-in-differences between the stronger incentive firms and the control firms is significant at 1% for two of the six attributes (Timeliness and Persistence) and at 10% for Predictability. In contrast, the difference-in-differences between the weaker reporting incentive firms and the control group is significant only for Nearness to Cash, at 10% or better. In sum, consistent with the changes in earnings informativeness we find significant changes in earnings attributes from the pre- to the post-period only for the firms with stronger reporting incentives,

[Insert Table 6 about Here]

## **5.2. Sensitivity Analyses**

In Table 7 we present descriptive statistics for the firms with stronger versus weaker reporting incentives based on one proxy for strength of reporting incentives, the number of pages in the 2005 and 2006 reconciliation. The results indicate that the firms with stronger reporting incentives are larger and experience substantially less earnings and return volatility than the firms with weaker reporting incentives. In addition, they are more likely to have filed their 2005 and 2006 20-F's using Item 18 (which requires greater disclosure than the Item 17 alternative).

To test the sensitivity of our results, we repeated the analysis using alternative specifications.<sup>15</sup> First, we eliminated the 2007 observations and used 2008 and 2009 as the post-

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<sup>15</sup> In addition, we replicated the primary analysis and each of the analyses discussed in this section using a balanced sample which included only those firms present both before and after the regulatory change. The results for each of the balanced analyses are similar to their unbalanced counterpart though generally weaker, probably because we lost

regulatory period. This alternative allows for the possibility that the rule change may have led to only a short-term change, or that the rule change came too late in the year for firms to adapt their decisions. The results (untabulated) support our primary analysis.

We also test the sensitivity of our earnings attributes results to controlling for country and industry fixed effects. We regress net income, operating cash flows, and annual return on country and industry indicator variables and use the residuals from these regressions as inputs to measure earnings attributes and value relevance. Untabulated results of this specification are generally consistent with our analysis but weaker.

Finally, since we find no evidence that relaxing the reconciliation requirement resulted in firms abusing the increased discretion, we examined other measures of firms' earnings management behavior. To impact earnings management, the change in regulation would need to change earnings management incentives.<sup>16</sup> In this scenario, we see no evidence of a change in the benefits of earnings management. However, the removal of the reconciliation requirement could reduce the costs of earnings management by making it harder to detect. Therefore, we expected *ex ante* that there might be an increase in the level of earnings management for firms with weaker reporting incentives.

We performed this additional analysis using five earnings management measures taken from Barth et al. (2008): the variability of the change in net income, the ratio of the variability in the change in net income to the variability of the change in operating cash flows, the Spearman correlation between accruals and cash flows, the probability of large negative earnings, and the

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23% of the sample in each case. This has a particularly large impact on the measurement and significance testing of the attributes between the firms with stronger versus weaker reporting incentives, which are relatively small before balancing.

<sup>16</sup> Consistent with prior literature, our proxies for earnings management focus on earnings smoothness and the probability of particular earnings outcomes (i.e., small profits and large losses). These measures represent an independent set of attributes from our primary measures (though the smoothness measure is related to our measure of smoothness). They do not attempt to measure accounting's relationship with itself, stock returns, or cash flows over time, all of which likely impact or reflect earnings information content.

probability of small positive earnings.<sup>17</sup> Consistent with our main results we find no significant evidence that any group of firms increased its earnings management activities. Also consistent with our earlier analysis we find a decrease in smoothness (variability of net income divided by variability of operating cash flows) for the firms with stronger reporting incentives but no significant change in any other measure of earnings management for that group. From an earnings management perspective we therefore infer that the change in regulation may have had a small beneficial impact for firms with strong reporting incentives, but had no unintended negative consequences for firms with relatively weaker reporting incentives.

## **VI. Summary and Conclusions**

In this paper, we evaluate the impact of the SEC's removal of the requirement for non-U.S. firms using IFRS as issued by the IASB to prepare reconciliations of net income and stockholders' equity to U.S. GAAP. We argue that this rule change relaxed constraints on management to make choices within reporting GAAP more closely aligned with U.S. GAAP in order to minimize the number and magnitude of reconciling items. As a result, managers may be able to make accounting choices that maximize the amount of information that accounting numbers convey to investors. Alternatively, relaxing the reconciliation requirement may give managers greater freedom to use the flexibility in IFRS to manage earnings. Consequently, we expect that the information content of reported earnings will change, *conditional* on the reporting incentives of the firms. We expect that firms with stronger reporting incentives are likely to see

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<sup>17</sup> Each of these metrics is measured as in Barth et al. (2008). Specifically, we regress the underlying measure (change in net income, change in operating cash flows, accruals, and cash flows) on a series of control variables and use the residuals from the regression to measure to calculate the variability of net income and operating cash flows and correlation of accruals and cash flows. We vary slightly from their specification by excluding the cross-listing variable since that would apply to all of our firms, and the variable measuring the extent to which the firm is closely held because that would cause a substantial reduction in sample size.

an increase in earnings informativeness at the earnings announcement date as relaxing the constraint allows managers to make choices to increase the information content of the reported numbers. In contrast, firms with weaker reporting incentives are more likely to abuse the increased discretion and we will see a decline in the information content of their earnings.

For a sample of 520 non-U.S. firms that were listed on U.S. exchanges as of April 1, 2009, we collected from 2005-2008 SEC Forms 20-F the GAAP used by each firm in each year and, for firms not using U.S. GAAP, whether the firm provided a reconciliation to U.S. GAAP. We found that during this time period the number of firms using IFRS as issued by the IASB more than doubled with 62 firms switching to IFRS between 2005 and 2008, including 23 firms that switched from U.S. GAAP to IFRS. We found no firms that switched from IFRS to another GAAP and no firms that voluntarily reconciled from IFRS to U.S. GAAP.

We then divided the sample firms into two groups: a test sample of firms that used IFRS and did not provide reconciliation to U.S. GAAP in 2007, and a control sample of firms unaffected by this change, that either used U.S. GAAP or continued to provide reconciliation to U.S. GAAP in 2007. Next, we partitioned the IFRS firms that ceased providing reconciliations based on proxies for the strength of their reporting incentives. The proxies are (i) the length of the reconciliation footnote(s) prior to the rule change; (ii) the first principal component from a factor analysis of firm characteristics; and (iii) whether the firm is domiciled in a common-law or a code-law country. We labelled the two groups (i) firms with stronger reporting incentives (with values of the proxy at or above the median) and (ii) firms with weaker reporting incentives. We investigated changes in earnings informativeness for IFRS firms relative to changes in earnings informativeness for U.S. GAAP firms and reconciling firms. We use value relevance, mean- and median-adjusted abnormal volume, and abnormal return variance as proxies for earnings

informativeness. Consistent with prior literature, we find no evidence that the unpartitioned sample of IFRS firms experienced changes in information content relative to non-IFRS firms.

However, when we partition the IFRS firms based on proxies for the strength of their reporting incentives we find a significant increase in value relevance, and a significant difference-in-difference between the IFRS firms with stronger reporting incentives and the control group for two of the three proxies for reporting incentives, Page Numbers and Common Law. Further we find significant increases for mean and median abnormal trading volume for the firms with stronger reporting incentives based on both Page Numbers and Common Law, and significantly positive differences-in-differences for this group compared to both the IFRS firms with weaker reporting incentives and the control group for all three proxies for the strength of reporting incentives.

To examine whether this change in earnings information content is associated with a change in earnings attributes, we measured six earnings attributes for each group separately (Timeliness, Conservatism, Persistence, Predictability, Smoothness, and Nearness to Cash) in the two-year periods before and after the reconciliation requirement was eliminated, using Page Numbers as a proxy for the strength of reporting incentives. We found significant changes in five of the six earnings attributes for the firms with stronger reporting incentives. Timeliness and Conservatism increased, and Persistence, Predictability, and Smoothness decreased. In contrast, for the firms with weaker reporting incentive we found a significant increase only in Nearness to Cash. The difference-in-differences between these two groups is statistically significant for three of the six attributes. We found no significant differences from before to after the regulatory change for the control group except in Smoothness, and the difference-in-differences between the IFRS firms with stronger reporting incentive and the control group is significantly positive for Timeliness

and significantly negative for Persistence and Predictability. The difference-in-differences between the IFRS firms with weaker reporting incentives versus the control group is significant (and positive) only for Nearness to Cash.

Our results provide insight into the substitutability and comparability of IFRS and U.S. GAAP, and the interaction between reporting incentives and accounting rules. In addition, our results add to the substantial literature regarding the information content of SEC Form 20-F reconciliations using data that were not previously available. Specifically, we are able to investigate how non-U.S. firms choose to report absent a reconciliation requirement and find that the removal of the reconciliation requirement allows firms with stronger reporting incentives to choose among the IFRS allowable alternatives different methods, judgments, and estimates which are reflected in increased information content of their earnings. On the other hand, we find no deterioration in earnings information content or earnings attributes for firms more likely to be opportunistic about the relaxation of the reconciliation requirements.

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**Table 1: Firms in original sample that switch GAAP in 2006, 2007, and 2008**

Prior GAAP	New GAAP	GAAP Change Frequency			Total
		2006	2007	2008	
U.S. GAAP	IFRS	4	13	6	23
EU IFRS	IFRS	1	19	1	21
Australian IFRS	IFRS		6		6
Israeli GAAP	IFRS		1	4	5
Honk Kong FRS	IFRS		2	2	4
UK GAAP	IFRS		1		1
New Zealand IFRS	IFRS		1		1
Brazilian GAAP	IFRS			1	1
Canadian GAAP	U.S. GAAP	1	2	1	4
Israeli GAAP	U.S. GAAP		2	1	3
U.S. GAAP	ROC GAAP			1	1
Subtotals:	To IFRS	5	43	14	62
	To U.S. GAAP	1	4	2	7
	To Domestic	0	0	1	1
<b>Total</b>		<b>7</b>	<b>47</b>	<b>17</b>	<b>70</b>

This table includes the number of companies in the original sample that switch from one set of accounting standards to another in 2006, 2007 and 2008, and the type of accounting standards that these companies use before and after the switch. Our original sample consists of all non-U.S. firms listed on NYSE or NASDAQ as of March 31, 2009. We remove from the samples firms from countries designated as tax havens by the OECD, ETFs, firms that listed after the change in regulation, firms that failed to file a 20-F during the 2005-2008 time period, and two Japanese firms who file their annual reports using Japanese GAAP without a reconciliation to U.S. GAAP under a long-standing exemption. The remaining sample consists of 520 firms, covering the years 2005-2008. We adjust the fiscal years to designate 2007 as the first year that the firm could file their 20-F with the SEC using IFRS without reconciliation to U.S. GAAP. The regulatory change was effective for fiscal years ending after November 15, 2007. Therefore, fiscal years ending between November 16, 2007 and November 15, 2008 are designated as 2007 fiscal years. The other fiscal years are adjusted according to the same criteria.

**Table 2: Sample selection and description**

**Panel A: Sample selection procedure**

	<b>Firm-Years</b>	<b>Firms</b>
<b>Original Sample</b>	<b>2,080</b>	<b>520</b>
Selection Criteria:		
Missing Compustat Data	(154)	(5)
Missing CRSP Data	(120)	(20)
Firms with negative OCF and exceeding in absolute value 100% of average assets	(13)	(0)
Years in Which the Firm Changed GAAP	<u>(66)</u>	<u>(0)</u>
Total Firm-Years (Firms) Removed From Sample	(353)	(25)
<b>Final Sample</b>	<b>1,727</b>	<b>495</b>

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**Table 2 (continues from previous page)**

**Panel B: Descriptive statistics for firms and firm-years in final sample**

Country	Firms	Firm-Years	Mean Total Assets	Mean Net Income	Mean Shareholders' Equity	Mean OCF	Mean Annual Return
Argentina	13	47	3,744	197	1,290	562	-3.87%
Australia	12	34	35,558	1,989	5,662	1,708	7.16%
Belgium	1	4	12,698	536	5,038	1,230	-0.15%
Brazil	13	41	22,774	2,571	10,041	3,790	25.89%
Canada	120	441	31,573	525	3,697	982	-2.68%
Chile	12	46	9,088	236	1,577	530	10.70%
China	34	91	23,727	1,847	11,509	3,781	13.97%
Colombia	1	1	22,087	5,274	15,700	5,348	-21.22%
Denmark	2	7	5,750	982	3,637	1,162	27.02%
Finland	1	4	41,563	6,509	19,652	6,694	17.02%
France	11	43	131,297	2,863	22,979	7,880	-0.05%
Germany	9	31	420,744	2,706	29,110	6,141	7.52%
Greece	10	32	14,948	338	2,089	625	15.50%
Hong Kong	8	29	1,053	17.3	373	105	8.86%
Hungary	1	4	5,951	402	3,119	1,099	-1.59%
India	14	47	12,276	267	1,898	318	7.67%
Indonesia	2	8	6,058	636	2,341	1,619	10.64%
Ireland	11	37	54,703	557	3,419	1,234	-12.89%
Israel	62	226	668	29.0	350	61	-8.48%
Italy	5	18	42,533	2,647	15,923	6,049	-6.53%
Japan	22	83	185,660	1,502	25,597	4,166	1.34%
Luxembourg	5	16	25,047	2,155	11,196	3,010	28.16%
Marshall Islands	12	36	2,157	33.1	642	138	-4.70%
Mexico	16	57	8,295	703	3,267	1,207	6.27%
Netherlands	11	38	236,553	3,554	19,986	5,924	7.26%
New Zealand	1	3	5,267	869	1,835	1,219	0.60%
Norway	1	3	58,766	5,755	22,121	10,932	9.45%
Panama	2	7	3,030	97.1	560	115	5.03%
Papua New Guinea	1	4	2,121	37.2	1,671	95	32.59%
Peru	2	8	8,709	281	1,368	565	37.16%
Philippines	1	4	5,403	783	2,235	1,500	30.36%
Portugal	1	3	19166	909	2645	2188	-2.95%
Russia	5	20	6,178	682	2,791	1,408	53.27%
Singapore	5	20	3,897	-288	1,626	301	5.13%
South Africa	7	22	7,314	422	3,381	709	14.41%
South Korea	10	38	84,388	1,403	13,958	-147	4.82%
Spain	5	12	423,957	7,406	33,491	3,327	7.87%
Switzerland	10	40	308,394	1,595	14,409	1,588	12.61%
Taiwan	6	23	10,150	1,024	7,104	2,438	3.98%
Turkey	1	3	6,981	1,366	4,678	1,658	25.41%
United Kingdom	29	96	300,436	2,715	21,301	6,122	-0.97%
<b>Total</b>	<b>495</b>	<b>1,727</b>	<b>68,150</b>	<b>1,054</b>	<b>7,766</b>	<b>1,959</b>	<b>2.79%</b>

(continues on next page)

**Table 2 (continues from previous page)**

Panel A of the table shows information on the sample selection criteria, and their effect on the sample size. Screens are presented in the order in which they are applied to the data. The 70 firm-years with GAAP changes shown in Table 1 were removed because the calculation of the earnings attributes are likely to be inconsistent for these firms based solely on the change of GAAP, even in the absence of a change in reporting choices. This applies particularly to measurements of persistence and predictability, calculated using a regression which includes current- and prior-year Net Income. Four firm-years with GAAP changes were removed from the sample by the prior screens.

Panel B shows descriptive statistics for the sample of 1,727 firm-year observations, consisting of 495 firms and covering the years 2005-2008, including number of firms and observations from each country, and the mean values of their Total Assets, Net Income, Shareholders' Equity, Cash Flow from Operations (OCF), and Annual Returns, respectively. All values shown are in millions, except Annual Returns. The table also includes the weighted average values of Total Assets, Net Income, Shareholders' Equity, OCF, and Annual Returns for the whole sample.

**Table 3: Comparison between alternative measures of strength of reporting incentives for IFRS firms**

**Panel A: Alternative measures – descriptive statistics**

<b>Measure</b>	<b>Page Numbers</b>	<b>Firm Factor</b>	<b>Common Law</b>
<b>Mean</b>	15.253	0.456	0.465
<b>Median</b>	13.000	0.571	0
<b>SD</b>	10.168	0.512	0.501
<b>1<sup>st</sup> Percentile</b>	1.000	-0.984	0
<b>99<sup>th</sup> Percentile</b>	44.000	1.162	1

**Panel B: Alternative measures – Pearson and Spearman correlations**

	<b>Page Numbers</b>	<b>Firm Factor</b>	<b>Common Law</b>
<b>Page Numbers</b>		0.364***	-0.132
<b>Firm Factor</b>	0.414***		-0.042
<b>Common Law</b>	0.069	0.020	

The table presents descriptive statistics on measures of reporting incentives for years prior to the regulatory change for firms that used IFRS and did not provide a reconciliation in 2007 and 2008 (n=154). Panel A includes means, medians, standard deviations, and values for the first and ninety-ninth percentile for three measures of reporting incentives. In it, Page Numbers is a count of the number of pages in the reconciliation footnote, averaged over 2005 and 2006. Firm Factor is the first principal component from a factor analysis of: the natural log of the market value of equity, total liabilities divided by total assets, return on assets, the book-to-market ratio, percentage of closely held shares, and foreign sales over total sales. The measure is adopted from Daske et al., 2011. Common Law is an indicator variable taking the value of one if the firm is domiciled in a common-law country and a value of zero if the firm is domiciled in a code-law country. Panel B shows the Pearson (Spearman) correlations of the proxies for strength of reporting incentives above (below) the diagonal.

\*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively.

**Table 4: Changes in value relevance around earnings announcement date – IFRS firms partitioned on strength of reporting incentives**

**Panel A: Changes in value relevance**

	Control	Post – Pre N=731/660	0.035 <i>0.688</i>
Reporting Incentives Group	Page Numbers	Strong [Post-Pre] N=62/79	0.226*** <i>0.010</i>
		Weak [Post-Pre] N=66/73	0.012 <i>0.702</i>
	Firm Factor	Strong [Post-Pre] N=52/58	0.122 <i>0.261</i>
		Weak [Post-Pre] N=50/60	(0.003) <i>0.506</i>
	Common Law	Strong [Post-Pre] N=61/85	0.221*** <i>0.008</i>
		Weak [Post-Pre] N=90/100	0.056 <i>0.788</i>

**Table 4 (Continues from previous page)**

**Panel B: Differences-in-differences**

Reporting Incentives Group	Page Numbers	Strong v. Control	0.191** <i>0.032</i>
		Strong v. Weak	0.214* <i>0.066</i>
		Weak v. Control	(0.023) <i>0.782</i>
	Firm Factor	Strong v. Control	0.087 <i>0.366</i>
		Strong v. Weak	0.125 <i>0.377</i>
		Weak v. Control	(0.038) <i>0.632</i>
	Common Law	Strong v. Control	0.186** <i>0.042</i>
		Strong v. Weak	0.165 <i>0.160</i>
		Weak v. Control	0.021 <i>0.799</i>

This table presents measures of changes in the information content of reported earnings. In it, the control group is defined as firms that use either (i) U.S. GAAP or (ii) non-IFRS domestic GAAP and continued reconciling following the relaxation of the reconciliation requirement. The IFRS firms are partitioned based on three proxies for strength of reporting incentives defined in Table 3. Firms with an average number of pages at or above (below) the median are classified as having stronger (weaker) reporting incentives. Firms with a reporting incentives score based on the factor analysis adapted from Daske et al., 2011 at or above (below) the median are classified as having stronger (weaker) reporting incentives. Firms from common- (code-) law countries are classified as having stronger (weaker) reporting incentives. Panel A of the table shows the change in value relevance for the control group, and each of the stronger and weaker reporting incentives groups. Panel B provides the difference-in-differences for each comparison.

To test for significance we estimate changes in value relevance 1,000 times, randomly partitioning the firms into three groups. The three groups are created to be, in expectation, the same size as the stronger reporting incentives group, the weaker reporting incentives group, and the control group. All firms are assigned to random groups for their 2007 observation, and the remaining firm-year observations for that firm remain in the same group. Firm-years in these tests are based on actual years to control for changes across time that affect all firms. Significance tests for differences within the three groups from before to after the regulatory change are based on the frequency of finding a difference of greater magnitude in the bootstrapped distribution, using a two-tailed test. Significance tests for difference-in-differences are based on the frequency of finding a difference-in-differences greater than or equal to the tabulated difference in absolute value.

\*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% level, p-values are shown in italics.

**Table 5: Changes in abnormal volume and abnormal returns around earnings announcement date – IFRS firms partitioned on strength of reporting incentives**

**Panel A: Changes in means for AMDVOL, AMNVOL, and AVAR**

			<b>AMDVOL</b>	<b>AMNVOL</b>	<b>AVAR</b>
	Control	Post – Pre	(1.103)***	(1.059)***	(0.624)
Reporting Incentives Group	Page Numbers	Strong Post- Pre	2.177*	2.214*	2.896
		Weak Post-Pre	0.061	0.124	(0.657)
	Firm Factor	Strong Post- Pre	1.840	1.907	(1.370)
		Weak Post-Pre	(0.605)	(0.564)	(0.130)
	Common Law	Strong Post- Pre	2.344*	2.364*	0.035
		Weak Post-Pre	(0.216)	(0.162)	0.442

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**Table 5 (continued)**

**Panel B: Regression analysis of AMDVOL at earnings announcement dates before and after the elimination of the reconciliation requirement**

	Prediction	IFRS firms partitioned on:		
		Page Numbers	Firm Factor	Common Law
Intercept		(0.601) <i>0.704</i>	0.482 <i>0.759</i>	(0.528) <i>0.734</i>
IFRS Firm		(2.141)*** <i>0.000</i>	(2.004)*** <i>0.000</i>	(1.576)*** <i>0.006</i>
Strong Incentive IFRS		(0.336) <i>0.655</i>	(0.658) <i>0.519</i>	(1.196) <i>0.225</i>
Time		(1.252) <i>0.000</i>	(1.265)*** <i>0.000</i>	(1.280)*** <i>0.000</i>
Time x IFRS Firm		1.009* <i>0.059</i>	0.377 <i>0.499</i>	0.829 <i>0.119</i>
Time x Strong Incentive IFRS	+	2.414** <i>0.047</i>	2.917* <i>0.053</i>	2.584** <i>0.033</i>
Unexpected Earnings	+	0.199 <i>0.471</i>	0.515 <i>0.381</i>	0.212 <i>0.446</i>
Stock Exchange	+/-	0.442 <i>0.141</i>	0.377 <i>0.231</i>	0.476 <i>0.110</i>
Log (Total Assets <sub>t-1</sub> )	+	0.198*** <i>0.002</i>	0.202*** <i>0.002</i>	0.219*** <i>0.001</i>
Log (Return Volatility <sub>t-1</sub> )	+/-	(0.111) <i>0.650</i>	(0.072) <i>0.784</i>	(0.075) <i>0.749</i>
#Observations		1,671	1,600	1,727
R <sup>2</sup>		0.1697	0.1708	0.1696
Difference-in-differences between strong incentive and control groups ( $\beta_4 + \beta_5 = 0$ )	+	F = 6.32 p = 0.006	F = 3.60 p = 0.029	F = 6.73 p = 0.005

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**Table 5 (continued)**

**Panel C: Regression analysis of AMNVOL at earnings announcement dates before and after the elimination of the reconciliation requirement**

	Prediction	IFRS firms partitioned on:		
		Page Numbers	Firm Factor	Common Law
Intercept		(1.506) 0.355	(1.396) 0.387	(1.429) 0.373
IFRS Firm		(2.210)*** 0.000	(2.063)*** 0.000	(1.630)*** 0.004
Strong Incentive IFRS		(0.290) 0.699	(0.605) 0.554	(1.145) 0.245
Time		(1.214)*** 0.000	(1.228)*** 0.000	(1.241)*** 0.000
Time x IFRS Firm		1.023* 0.055	0.379 0.494	0.842 0.112
Time x Strong Incentive IFRS	+	2.400** 0.048	2.932* 0.052	2.543** 0.035
Unexpected Earnings	+	0.039 0.491	0.465 0.392	0.125 0.468
Stock Exchange	+/-	0.458 0.126	0.394 0.209	0.489* 0.099
Log (Total Assets <sub>t-1</sub> )	+	0.211*** 0.001	0.216*** 0.001	0.232*** 0.001
Log (Return Volatility <sub>t-1</sub> )	+/-	(0.119) 0.623	(0.077) 0.765	(0.082) 0.726
#Observations		1,671	1,600	1,727
R <sup>2</sup>		0.1715	0.1723	0.1710
Difference-in-differences between strong incentive and control groups ( $\beta_4 + \beta_5 = 0$ )	+	F = 6.31 p = 0.006	F = 3.62 p = 0.029	F = 6.62 p = 0.005

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**Table 5 (continued)**

**Panel D: Regression analysis of AVAR at earnings announcement dates before and after the elimination of the reconciliation requirement**

	Prediction	IFRS firms partitioned on:		
		Page Numbers	Firm Factor	Common Law
Intercept		(8.804)* 0.050	(8.970)* 0.055	(9.062)** 0.049
IFRS Firm		(5.467)*** 0.005	(5.776)*** 0.003	(2.324) 0.355
Strong Incentive IFRS		5.062* 0.070	2.137 0.374	(1.145) 0.769
Time		0.565 0.803	0.574 0.804	0.532 0.812
Time x IFRS Firm		(0.007) 0.997	0.873 0.657	1.157 0.706
Time x Strong Incentive IFRS	+	3.603 0.198	(2.442) 0.844	(0.709) 0.584
Unexpected Earnings	+	11.311 0.201	11.412 0.420	11.486 0.192
Stock Exchange	+/-	0.968 0.549	0.793 0.638	0.928 0.560
Log (Total Assets <sub>t-1</sub> )	+	0.288 0.168	0.331 0.255	0.449* 0.055
Log (Return Volatility <sub>t-1</sub> )	+/-	(2.600)** 0.019	(2.553)** 0.016	(2.516)** 0.016
#Observations		1,671	1,600	1,727
R <sup>2</sup>		0.0403	0.0366	0.0389
Difference-in-difference between strong incentive and control groups ( $\beta_4 + \beta_5 = 0$ )	+	F = 0.830 p = 0.181	F = 0.450 p = 0.250	F = 0.070 p = 0.398

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## Table 5 (continued)

This table presents measures of changes in abnormal volume and abnormal return variance around firms' earnings announcement dates before and after the elimination of the reconciliation requirement. Panel A of the table shows the change in the mean values of the median abnormal volume (AMDVOL), mean abnormal volume (AMNVOL), and abnormal return variance (AVAR) for the control group, and the IFRS firms partitioned on stronger versus weaker reporting incentives based on three proxies for strength of reporting incentives (defined in Table 3). We use t-tests to test for differences in means.

Panels B through D of the table test the difference-in-differences of means performed using a difference-in-differences estimate from the following regression:

$$Information\ Content_{i,t} = \alpha + \beta_1 IFRS\ Firm_{i,t} + \beta_2 StrongIncentiveIFRS + \beta_3 Time_{i,t} + \beta_4 IFRS \times Time_{i,t} + \beta_5 StrongIncentiveIFRS \times Time_{i,t} + \beta_6 Earnings\ Surprise + \beta_7 StockExchange + \beta_8 Log(ReturnVolatility_{t-1}) + \varepsilon_{i,t}$$

where IFRS Firm is an indicator variable equal to one if the observation is in the IFRS Firms group and zero otherwise. StrongIncentive is an indicator variable equal to one if the observation is a firm with stronger reporting incentives and zero otherwise, where strength of reporting incentives is measured by each of (1) page numbers in the 2005 and 2006 reconciliation footnote(s), (2) the first principal component from a factor analysis adapted from Daske et al., 2011, and (3) an indicator variable equal to one if the firm is domiciled in a common-law country, and zero otherwise. Time is an indicator variable equal to one if the firm-year observation is in 2007 or 2008 and zero otherwise. Unexpected earnings is equal to the absolute value of the change in earnings from the prior fiscal year. Stock Exchange is an indicator variable equal to one if the firm is listed on NYSE, and 0 if the firm is listed on NASDAQ. Log (Return Volatility<sub>t-1</sub>) is equal to the natural log of the firm-year observation's standard deviation of returns over the 247 day trading period beginning 248 days before the earnings announcement and ending 2 days before the earnings announcement. The regression includes country and 2-digit SIC code indicator variables. Robust standard errors are clustered by firm.

In all panels, p-values for difference and difference-in-differences are shown in italics. \*\*\*, \*\*, and \* denote significance at the 0.01, 0.05, and 0.1 levels, respectively. p-values are calculated using one-tailed tests for coefficients with a predicted sign, and two-tailed tests otherwise.

**Table 6: Earnings attributes of IFRS firms partitioned on strength of reporting incentives measured by page numbers**

	<b>Timeliness</b>	<b>Conservatism</b>	<b>Persistence</b>	<b>Predictability</b>	<b>Smoothness</b>	<b>Nearness to Cash</b>
<b>Strong Incentive IFRS Firms Pre (N=79)</b>	0.024	(0.044)	0.948	0.751	(0.768)	0.937
<b>Strong Incentive IFRS Firms Post (N=62)</b>	0.268	0.006	0.376	0.183	(1.270)	0.514
<b>Difference</b>	0.244*** 0.000	0.050** 0.036	(0.572)*** 0.006	(0.568)** 0.016	(0.502)*** 0.010	(0.423) 0.178
<b>Weak Incentive IFRS Firms Pre (N=75)</b>	0.149	0.577	0.855	0.642	(0.898)	0.909
<b>Weak Incentive IFRS Firms Post (N=70)</b>	0.020	0.097	0.731	0.559	(0.652)	1.224
<b>Difference</b>	(0.129) 0.556	(0.480) 0.458	(0.124) 0.448	(0.083) 0.954	0.246 0.508	0.315** 0.038
<b>Control Group Pre (N=671)</b>	0.172	0.524	0.673	0.587	(1.040)	0.761
<b>Control Group Post (N=743)</b>	0.124	0.202	0.779	0.528	(1.123)	0.632
<b>Difference</b>	(0.048) 0.674	(0.322) 0.816	0.106 0.226	(0.059) 0.590	(0.083)*** 0.000	(0.129) 0.792
<b><u>Difference- in-differences</u></b>						
<b>Strong v. Weak Incentive IFRS Firms</b>	0.373** 0.040	0.530 0.260	(0.448) 0.199	(0.485) 0.191	(0.748)** 0.043	(0.738)** 0.027
<b>Strong Incentive IFRS Firms v. Control</b>	0.292*** 0.003	0.372 0.265	(0.678)*** 0.008	(0.509)* 0.052	(0.419) 0.126	(0.294) 0.211
<b>Weak Incentive IFRS Firms v. Control</b>	(0.081) 0.618	(0.158) 0.683	(0.230) 0.380	(0.024) 0.940	0.329 0.224	0.444* 0.065

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## Table 6 (continues from previous page)

The IFRS subsamples are based on the average number of pages included in firm i's reconciliation footnote in 2005 and 2006. Firms with an average number of pages at or above (below) the median are classified as having stronger (weaker) reporting incentives. We removed 64 observations from this sample either because the sample firms used U.S. GAAP during 2005 and 2006, and therefore had no reconciliation information in those years, or because reconciliation information was not available for either 2005 or 2006.

To test for significance we estimate each attribute 1,000 times, randomly partitioning the firms into three groups. The three groups are created to be, in expectation, the same size as the firms with stronger reporting incentives, the firms with weaker reporting incentives, and the control group firms in our sample (i.e., in expectation, approximately 83% of the firms are assigned to one group (i.e., the control group), and just over 8% of the firms are assigned to both the second and third groups (i.e., the test groups). All firms are assigned to random groups for their 2007 observation, and the remaining firm-year observations for that firm remain in the same group. Firm-years in these tests are based on actual years to control for changes across time that affect all firms. Significance tests for differences within the IFRS firms and the control group from before to after the regulatory change are based on the frequency of finding a difference of greater magnitude using a two-tailed test. Significance tests are based on the frequency of finding a difference-in-differences greater than or equal to the tabulated difference in absolute value.

\*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% level, p-values are shown in italics.

**Table 7: Comparison between IFRS firms partitioned on strength of reporting incentives measured by page numbers**

**Panel A: General descriptive statistics comparing firms with stronger versus weaker reporting incentives**

	Assets	Net Income	Stockholders' Equity	OCF	Annual Return
<b>Strong Incentive Firms (N=80)</b>					
Mean	274,972	4,736	24,560	8,000	24.5%
Median	61,519	3,382	15,013	4,749	18.9%
Standard Deviation	491,428	5,037	24,578	13,920	30.6%
<b>Weak Incentive Firms (N=75)</b>					
Mean	26,991	1,822	13,565	3,955	31.3%
Median	6,706	400	2,418	984	21.7%
Standard Deviation	52,106	7,125	29,774	7,291	51.2%

**Panel B: Item 17 versus Item 18 Filers**

Strong Incentive Firms (N=80)		Weak Incentive Firms (N=75)		T-test for Significance of Difference
Item 17 Filers	Item 18 Filers	Item 17 Filers	Item 18 Filers	
N=3 (3.8%)	N=77 (96.2%)	N=10 (13.33%)	N=65 (86.67%)	2.1331** (p=0.035)

The table includes a comparison between IFRS firms partitioned on strength of reporting incentives based on number of pages in each firm's pre-2007 reconciliation footnote. Panel A shows general descriptive statistics. Panel B shows the number and proportion of Item 17 and Item 18 filers separately for the firms classified as having strong vs. weak reporting incentives. Items 17 and 18 are SEC Form 20-F designations that determine the level of disclosure, with Item 17 disclosure being strictly less than the disclosure required by Item 18.