International Journal of Business and Management; Vol. 11, No. 10; 2016
ISSN 1833-3850 E-ISSN 1833-8119
Published by Canadian Center of Science and Education

The Impact of Voluntary and Mandatory IAS/IFRS Adoption: A Review

Pietro Fera[1,2]

[1] Department of Economics, University of Naples II (S.U.N.), Capua, Italy

[2] Department of Economics, Management and Institutions (D.E.M.I.), University of Naples "Federico II", Naples, Italy

Correspondence: Pietro Fera, Department of Economics, University of Naples II (S.U.N.), Corso Gran Priorato di Malta, n. 1, Capua, Caserta, Italy. Tel: 39-338-504-9898. E-mail: fera.pietro@gmail.com

Received: July 22, 2016 Accepted: August 5, 2016 Online Published: September 20, 2016

doi:10.5539/ijbm.v11n10p69 URL: http://dx.doi.org/10.5539/ijbm.v11n10p69

Abstract

Several studies examined the capital market effects and the impact on accounting quality after the mandatory IAS/IFRS adoption. Two different approaches have been widely adopted: the pro-standard and the pro-incentive. According to the former, the IAS/IFRS standards have a positive impact as a result of their higher quality, compared to local GAAP. On the other hand, the pro-incentive approach emphasizes the importance of incentives, especially ones related to the institutional settings, and predicts greater effects in countries characterized by strong legal systems and effective enforcement mechanisms. The most recent empirical evidence seems to support the pro-incentive approach. This literature review underlines the evolution of this research stream, stressing the different used approaches, in order to explain their mixed results, and trying to explain the implied reasons why recent papers move to a different approach which seems to provide a finer and more dynamic interpretation of the pro-incentive hypothesis, weakening the presumed influence of the preexisting legal systems and underlining the role played by firms' incentives *per se* and by changes in enforcement mechanisms.

Keywords: international financial reporting standards (IAS/IFRS), pro-standard, pro-incentive, accounting quality, legal system, enforcement mechanisms

1. Introduction

Since 2005, IAS/IFRS have been being adopted by several countries all over the world as a mandatory regime. Such an event represents one of the most important milestones in accounting history. The declared goals of this new reporting system is to enhance financial statements comparability, improve corporate transparency, increase financial reporting quality, and thus provide greater benefits for investors (EC Regulation No. 1606/2002). Specifically, such aim can be pursued relying on a set of standards able to convey information which are likely to be more useful and therefore relevant, faithful, comparable, verifiable, timely, and understandable (IASB/IFRS Conceptual Framework for Financial Reporting). It follows that the basic assumption is that the IAS/IFRS reporting system is likely to consist of high quality standards. Supporting such thesis, some studies investigated this primary issue, comparing IAS/IFRS with sundry domestic standards. They find that the former have a higher quality and are more comprehensive than most local GAAP (Ding, Hope, Jeanjean, & Stolowy, 2007; Bae, Tan, & Welker, 2008).

Regardless of the aforementioned literature concerning the evidence on the intrinsic features of IAS/IFRS, several studies examined the relationships between this reporting system and a number of factors that should be theoretically affected by changing in this field. In particular, trusting the characteristics and the objectives of IAS/IFRS, one would expect that their adoption entails an improvement in reporting outcomes and other related issues such as: accounting quality and capital market effects.

Several prior researches focused on the subsequent effects of the voluntary IAS/IFRS adoption. Particularly, such literature highlights that voluntary IAS/IFRS adoption is associated with an increased accounting quality (Barth, Landsman, & Lang, 2008), lower costs of capital (Kim, Shi, & Zhou, 2010; Daske, Hail, Leuz, & Verdi, 2008), grater market liquidity and trading volume (Leuz & Verrecchia, 2000), higher earnings response coefficients

(Bartov, Goldberg, & Kim, 2005), less accounting flexibility and higher analyst forecast accuracy (Ashbaugh & Pincus, 2001; Ernstberger, Krotter, & Stadler, 2008; Hodgdon, Tondkar, Harless, & Adhikari, 2008; Bae et al., 2008), an increased investment flows thanks to the attraction of more foreign mutual funds (Covrig, DeFond, & Hung, 2007), and more favorable terms of loan contracts (Kim, Tsui, & Yi, 2011). Hence, aside from very few divergent findings (Note 1), evidence from these studies suggests that the voluntary IAS/IFRS adoption is able to improve corporate transparency and increase financial reporting quality, thus enhancing the value relevance of information and leading to capital market benefits (Note 2). However, this result has to be interpreted cautiously as it likely reflects self-selection biases, rather than IAS/IFRS reporting itself and so reflects firms' behaviors or many other independent factors (Daske et al., 2008).

After 2005, another important strand of economic literature has focused on the mandatory IAS/IFRS adoption effects. However, those who expected a replication of findings obtained in studies concerning the voluntary IAS/IFRS adoption have had to revise their expectations inasmuch empirical evidence is extremely mixed (Kim, Liu, & Zheng, 2012, p. 2062), especially in cross-country analysis which seem to be the core of this research stream.

The aim of this paper is to review this kind of studies, which analyze the impact of mandatory IAS/IFRS adoption, stressing the different approaches followed in order to explain their mixed results. To this end, I set up a review of studies which examine the impact of the mandatory IAS/IFRS adoption in a cross-country context.

Findings reveal, on average, a positive impact related to the mandatory adoption of IAS/IFRS and two different approaches followed in order to explain such effects: the pro-standard and the pro-incentive. The former assumes that IAS/IFRS are a set of higher quality standards compared to local GAAP, thus the detected positive impact on reporting quality can be considered as a natural result arising from their implementation. In support of such thesis, findings reveal, on average, that the larger is the gap between IAS/IFRS and domestic standards, the grater the effects are (Daske et al., 2008; Aharony, Barvin, & Falk, 2010; Li, 2010; Byard, Li, & Yu, 2011; DeFond, Hu, & Hung, 2011; Florou & Pope, 2012; Hong, Hung, & Lobo, 2014) (Note 3). Hence, one could infer that IAS/IFRS are the solely or the mainly responsible for the benefits in reporting practices. However, this results have to be warily interpreted because not all studies underline a positive relationship or the same degree of correlation between the mandatory IAS/IFRS adoption and the detected effects, rejecting the "one size fits all" assumption. Moreover, it is also essential to consider other factors which can influence the observed effects, such as the general economic trends or shocks and, above all, incentives, legal institutions, and enforcement mechanisms. In the wake of such hypothesis, the pro-incentive approach argues that incentives are the basis for a high quality reporting outcome regardless of the available set of standards.

The early prevailing idea was that incentives are themselves strongly influenced by the quality of legal systems and by the enforcement mechanisms. Supporting this thesis, early evidence highlights that the benefits of the mandatory IAS/IFRS adoption are greater in countries with strong legal system and enforcement. Nevertheless, the evolution of these factors and some critical issues concerning the models used to evaluate them seem to lead to a finer and more dynamic interpretation of the impact of the mandatory IAS/IFRS adoption, weakening the presumed influence of the preexisting legal systems and underlining the role played by firms' incentives *per se* and by changes in enforcement mechanisms.

Overall, this paper differs from prior similar ones for at least two reasons. First, without claiming to have reviewed every single paper on the topic, the period covered by this literature review is longer than previous studies (ten years from the mandatory IAS/IFRS adoption). Second, unlike prior literature reviews, this study also tries to provide a conceptual framework within which the reader can retrace the evolution of this research stream, pointing out the logics that have supposedly led to different findings and changes in the interpretation of evidence. Thus, it can also be useful for researchers to take stock of the situation and to try to understand which is the best way to follow in this research stream.

The remainder of the paper is organized as follows. In section II, there is a discuss of the literature related to the pro-standard and the pro-incentive approaches, both from a theoretical perspective and relating to their use in studies which analyze the impact of the mandatory IAS/IFRS adoption. Section III is dedicated both to the critics of some classical research design features and to the new approaches followed in these research stream. Finally, section IV consists of conclusions and final remarks.

2. Pro-Standard vs. Pro-Incentive

The IAS/IFRS adoption, both voluntary and mandatory, has always attracted considerable interest because of the capital market effects and the impact on accounting quality expected after their implementation. Many studies have attempted to analyze this topic, following two different approaches: the pro-standard and the pro-incentive.

Prior researches, necessarily focused on the voluntary IAS/IFRS adoption, were typically based on the pro-standard hypothesis, according to which accounting standards determine the reporting quality. Consequently, the adoption of a set of high quality standards, as IAS/IFRS are declared, should increase the financial reporting quality and should also generate positive capital market effects. Therefore, many studies examine the impact of the IAS/IFRS adoption *per se*, neglecting any other factor-such as incentives and institutional environments – that could have influenced the adoption effects (e.g., Ashbaugh, 2001; Ashbaugh & Pincus, 2001; Lang, Raedy, & Yetman, 2003; Leuz, Nanda, & Wysocki, 2003; Lang, Raedy, & Wilson, 2006).

In order to overcome such limitations Barth et al. (2008)-still following the pro-standard approach – include variables in their research designs to control for incentives and institutional contexts. Nevertheless, the authors declare that they cannot be sure that their findings are led by changes in the financial reporting system *per se* rather than by changes in firms' incentives and by the institutional environment, so indirectly confirming what has been suggested in other studies.

Indeed, many authors have argued that the mere adoption of a higher quality set of standards is not sufficient to improve the accounting quality unless firms' incentives, countries' enforcement mechanisms, and countries' and/or firms' governance mechanisms lead companies to communicate higher quality information (Ball, 2001; Ball, Robin, & Wu, 2003; Berkowitz, Pistor, & Richard, 2003; Durnev & Kim, 2005; Francis, Khurana, & Pereira, 2005; Hope, Jin, & Kang, 2006; Burgstahler, Hail, & Leuz, 2006; Doidge, Karolyi, & Stulz, 2004; Lel & Miller, 2008; Leuz, Lins, & Warnock, 2010). In particular, these studies are based on the pro-incentive approach according to which, as a consequence of the discretion allowed by the IAS/IFRS principle-based nature, reporting incentives-rather than the accounting standards *per se*-influence the financial reporting quality and the capital market effects. Moreover, this approach suggests that, since IAS/IFRS are also more equity-based than debt-oriented, the benefits from their adoption should be more prominent in equity-based contexts (such as the UK) than in debt-based ones (such as Germany).

Once the IAS/IFRS regime became mandatory in 2005, several studies had been examining a wide range of economic consequences and whether the financial reporting quality improves as a result of such an event. Specifically, researchers have mainly focused on cross-country analysis in order to better assess the possible differences which might have arisen among countries after the imposed switch to the IAS/IFRS rules. However, considering the assumptions of the pro-standard and the pro-incentive approaches which may lead to different explanation of the findings, in this first strand of research there is not a prevalent approach yet. Indeed, almost all studies provide a step-by-step analysis through which, after a general test, authors try to figure out the role played by firms' incentives and the role played by standards *per se*.

Looking to the first step of analysis, through which the whole of the cross-sectional studies tried to examine the general effects related to the mandatory IAS/IFRS adoption, I find an extremely mixed evidence, especially with regard to the results pertaining the accounting quality. In fact, some studies suggest that the mandatory IAS/IFRS adoption has led to a positive impact on reporting quality, while others provide evidence that such an event has had negative effects or no influence on accounting outcomes.

Specifically, Chen, Tang, Jiang, and Lin (2010) show that the mandatory IAS/IFRS adoption is associated with less earnings management, lower absolute discretionary accruals and higher accruals quality but, at the same time, they also show an increased earnings smoothing and a worsening in terms of timely loss recognition. By considering the last two proxies of accounting quality, Devalle, Onali, and Magarini (2010) obtain similar results, as well as Ahmed, Neel, and Wang (2013) who also find a significant increase in aggressive reporting of accruals. Thus, while Chen et al. (2010) are not able to clearly define the impact of the mandatory IAS/IFRS adoption, Devalle et al. (2010), and Ahmed et al. (2013) conclude that accounting quality decreased after such an event.

However, there are other studies which highlight a positive impact after the mandatory IAS/IFRS adoption. In particular, Aubert and Grudnitski (2011) find a greater timeliness of accounting information and (similarly to Chen et al., 2010) a higher quality of discretionary accruals, even if the results obtained are quite modest. Moreover, Horton, G. Serafeim, and I. Serafeim (2013) find a better forecast accuracy due to the improvement of the accounting quality. Finally, Kim et al. (2012), showing an increase in audit fees, argue that these ones grow up because of the higher complexity brought about by IAS/IFRS adoption, but decrease thanks to the improvement in financial reporting quality. Taken together, evidence from the last three studies suggest that the mandatory IAS/IFRS adoption has enhanced the accounting quality.

Therefore, as previously mentioned, there is not a common orientation regarding the effects of the mandatory IAS/IFRS adoption on the quality of the reporting outcomes.

As regards to the economic consequences due to the forced change in the accounting system, we noted a smaller

heterogeneity of results, which are more consistent with the hypothesis that supports a positive influence of the new reporting regime. These studies are mainly focused on capital market effects. In particular, Daske et al., (2008) find that, on average, market liquidity increases around the time of the mandatory IAS/IFRS adoption, but they document a decrease in firms' cost of capital and an increase in equity valuations only considering for the possibility that such effects occur prior to the official adoption date. These market benefits are also supported by Li (2010), who shows a significant reduction of the cost of equity, and by Armstrong, Barth, Jagolizer, and Riedl (2010), who observe a positive market reaction after the mandatory IAS/IFRS adoption. Moreover, the latter research highlights incremental benefits for firms with lower quality information and higher information asymmetry in the pre-adoption period, consistent with the expected improvement in the reporting quality. Other authors used market proxies in order to investigate their relationship with other factors influenced by changes in the reporting system. Specifically, Aharony et al. (2010) set up a model which include three accounting variables (goodwill, research and development expenses, and asset revaluation) in addition to the book value of equity and earnings, and they find an increased value relevance of the three accounting numbers for investors in equity securities. Florou and Pope (2012), analyzing the institutional investors' reaction, highlight a boost for institutional holdings and for the number of investors. Landsman, Maydew, and Thornock (2012) suggest that the information content of earnings announcements on abnormal return volatility and on abnormal trading volume increases in countries following the mandatory IAS/IFRS regime. In addition, Chen, Young, and Zhuang (2013) underline the positive effects detected with regard to the investment activity, while Hong (2013) find that the mandatory adopters' voting premiums statistically decrease subsequent to the mandatory IAS/IFRS adoption. Ramanna and Sletten (2014), in turn, by analyzing some market features, find that the perceived network benefits enhance the degree of the IAS/IFRS harmonization among countries and that smaller ones have a differentially higher response to these benefits. At last, Hong et al. (2014) observed a decrease in IPO (Initial Public Offering) under-pricing and an increase in the relative proceeds from foreign markets following the mandatory IAS/IFRS adoption.

Overall, the abovementioned studies suggest that the new mandatory reporting system have had positive capital market effects. However, this could not be considered as a certainty inasmuch some other findings reveal confused evidence or no impact after the mandatory IAS/IFRS adoption. Specifically, Devalle et al. (2010) analyze the influence of earnings on share price and the influence of book value of equity, and they provide mixed data about the increase in value relevance of reporting outcomes among their sample. The same goes for Aubert and Grudnitski (2011) who have mainly focused on determining the value relevance and timeliness of market-based earnings. Finally, Byard et al. (2011) find that the new set of international standards has lead to no statistically significant changes in analysts' forecast errors, forecast dispersion, or analyst following.

Therefore, although with a different degree compared to the influence on accounting quality, prior literature also provide a mixed evidence about the capital market effects following the mandatory IAS/IFRS adoption.

Such heterogeneity in the aforementioned findings does not seem to be very surprising. In fact, some authors have focused their studies on possible pre-existing differences among countries which could also influence the extent to which the mandatory IAS/IFRS adoption impacts on the accounting quality and on the capital market effects. First of all, Nobes (1998; 2006) identifies several cultural, market and institutional settings or incentives as the reasons that can lead to international heterogeneity in spite of the general mandatory IAS/IFRS adoption. Moreover, Soderstrom and Sun (2007) argue that cross-country differences, especially in accounting quality, are likely to remain even following the mandatory IAS/IFRS adoption because the reporting system outcomes are a function of the overall institutional settings, including the countries' legal and political systems.

Starting from these hypothesis and considering the mixed findings obtained examining the effects of the mandatory IAS/IFRS adoption, almost all the above studies (Note 4) set up a second step of the analysis in order to figure out the different impact that this event could have had among countries. To this end, authors try to investigate the role played by the accounting standards *per se* (pro-standard approach) and the influence of incentives and institutional environments (pro-incentive approach). In particular, the empirical evidence suggests that, consistent with the pro-incentive hypothesis, the capital market benefits and the effects on accounting quality, following the mandatory IAS/IFRS adoption, are larger in countries with strong legal systems and effective enforcement mechanisms. However, findings also supports the pro-standard hypothesis, since the influence of the changes in the financial reporting system is higher in countries in which the gap between IAS/IFRS and local standards were greater.

Thus, apart from very few studies which obtained opposite findings (Note 5) as a result of their general evidence, we notice that, on average, there is not a prevalent approach between the pro-standard and the pro-incentive. In particular, the empirical evidence suggests that both the standards *per se* and the incentives play a critical role

and that their interaction is able to generate even greater benefits.

3. A New Perspective

As a result of the first part of this literature review, it can be argued that the above mentioned studies are complementary with regard to the interpretation of the influence of accounting standards *per se*, incentives, and legal systems on the effects detected following the mandatory IAS/IFRS adoption. However, regardless of the pro-standard approach which has not been fully denied, the pro-incentive one has undergone a great evolution and seems to have recently gained a leading role in the research stream that I'm examining.

In particular, according to the basic hypothesis of the pro-incentive approach, the incentives themselves influence the financial reporting quality and the capital market effects but, at the same time, they are in turn influenced by many other factors among which the quality of the legal system and the effectiveness of the enforcement mechanisms seem to be the most important. For these reasons such elements are used to evaluate the power of the incentives in a country. Indeed, following the pro-incentive approach, the main findings show that the capital market benefits and the effects on accounting quality are greater in countries with strong legal systems and effective enforcement mechanisms. Nevertheless, the models used in order to evaluate such institutional features have been widely criticized because they seem to be outdated and/or tainted by some biases. Specifically, the most used frameworks are the ones provided by La Porta, Lopez, Shleifer, and Vishny (1998); La Porta, Lopez, and Shleifer, (2006); Djankov, La Porta, Lopez, and Shleifer (2008); and those of Kaufmann (starting from 2007).

The first two studies examine the legal rules concerning the protection of shareholders and creditors, the origin of such rules, and the effectiveness of their enforcement mechanisms among many contexts. In particular, findings show that the common-law countries generally have the higher quality of the legal system and the better enforcement mechanisms, the French-civil-law countries are the worst, and the German- and Scandinavian-civil-law ones are placed in the middle. However, several authors have criticized this approach, especially with regard to the anti-director index which is a proxy for the protection of shareholders and which is largely used in cross-country analysis in order to classify the countries in a sample. Specifically, the critics of such index arise from its *ad hoc* nature, from many other conceptual ambiguities and biases in the research designs, and from some outright mistakes in coding the index (Pagano & Volpin, 2005; Spamann, 2008).

Similar consideration may be also filed for the study of Djankov et al. (2008) that does not solve all the issues addressed, although it try to overcome them providing a revised anti-director index and a new proxy for the investor protection, such as the anti-self-dealing index (Siems, 2008).

Moreover, other authors – above all Coffee (2007) and Mahoney (2009) – argue that the aforementioned proxies are likely deficient because they measure the rules on the books and do not capture how the law is really used. More specifically, Coffee (2007) argues that, in order to better assess such legal and institutional features, one should rely on the inputs and on the outputs of the processes and that the evaluation of enforcement should include both public and private measures of this element.

The same also goes for the studies of Kaufmann (starting from 2007), that set up the worldwide governance indicators, relying on six broad dimensions of governance – the most used of which is the rule of law – evaluated mainly thanks to survey, commercial business information providers, non-governmental organizations and public sector organizations. Indeed, even this approach has been criticized because some authors suggest that the dominant measures of governance are problematic, suffering from perceptive biases, adverse selection in sampling, and conceptual noise with economic policy choices (e.g. Kurtz & Schrank, 2007). Moreover, Thomas (2010) argues that a key issue is to understand whether the indicators really measure what they purport to measure likely relying on wrong data, rather than poor data.

According to the critics, some authors have started to identify alternative methods for the evaluation of the quality of legal systems and enforcement mechanisms. In particular, Jackson (2007) seems to be one of the first to attempt to estimate the enforcement mechanisms quality relying on inputs and outputs of such a process across countries. Likewise, Jackson, and Roe (2009) measure the public enforcement powers through proxies which consider the real resources available to regulators.

However, despite of the alternative methods, Holthausen (2009) already argued that even if the evidence concerning the relationship between enforcement and accounting standards is provocative, it is not so strong and compelling. Moreover, he wondered whether authors have used appropriate measures of enforcement in the international accounting literature. Indeed, if the proxies used to evaluate the enforcement or the legal environment are noisy, then it might be well find that the empirical evidence obtained is noisy too.

Even if the reasons are not officially due to what has been argued before, recent studies, focused on the pro-incentive approach, have forsaken the classical research designs. Specifically, they are no longer based on the presumed influence of the preexisting legal systems' features, but they stress the role played by firms' incentives *per se* and by changes in enforcement mechanisms.

In particular, Daske, Hail, Leuz, and Verdi (2013), by analyzing the effects on liquidity and on cost of capital around the mandatory IAS/IFRS adoption and according to the assumption of the pro-incentive approach, recognize that firms have considerable discretion in the implementation of the new standards. Indeed, some firms could make very few changes in accounting practices and adopt IAS/IFRS more in name, while for others the switch to the new reporting system could be lead by the willingness to enhance their commitment to transparency. For these reasons, they classify the IAS/IFRS adopters into "label" and "serious" and analyze whether the capital-market effects are different across the two sub-sample. Unsurprisingly, the evidence shows that a "serious" adoption is associated with an increase in liquidity and a decline in cost of capital, whereas a "label" adoption is not. However, the key issue is that, when authors explore the relationship between firm-level incentives and country-level institutional factors, they do not observe any clustering of serious and label adopters in certain countries sampled relying on the above criticized models. Thus, unlike what might have been expected, even firms in countries with weak legal institutions could seek to commit to more transparency and obtain benefits following the mandatory IAS/IFRS adoption. Therefore, regardless of the pre-existing legal systems' features, the firms' incentives *per se* play a key role in explaining the mixed evidence highlighted after the implementation of the new reporting regime.

Another study which seems to deny the models used in prior literature is the one of Christensen, Hail, and Leuz (2013) that aims to identify the sources of the observed capital-market effects after the mandatory IAS/IFRS adoption. Specifically, they find that such an event have had little impact and that the expected effects are concentrated in the European Union (EU) and limited to five EU countries that made substantive changes in reporting enforcement. According to their findings, there is little evidence about capital market benefits following the mandatory IAS/IFRS adoption without substantive enforcement changes, even when a country have a strong legal systems. Moreover, the authors show that even firms located in countries that experience enforcement changes but did not concurrently switch to IAS/IFRS experience similar capital market benefits. Therefore, Christensen et al. (2013) suggest that changes in reporting enforcement-or (unobserved) factors associated with these changes-play a critical role for the effects that follow the mandatory IAS/IFRS adoption, and that the change in accounting standards *per se* seems to have had little influence, indirectly denying the pro-standard approach. However, with regard to the latter issue, it is necessary to mention Barth and Israeli (2013) that analyze the findings obtained by Christensen et al. (2013). In particular, they argue that the evidence in Christensen et al. (2013) suggests that both the changes in enforcement and the mandatory IAS/IFRS adoption lead to capital market benefits. In fact, by examining the statistical analysis provided by Christensen et al. (2013). Barth and Israeli (2013) suggest that the greatest benefits are obtained when the mandatory switch to the IAS/IFRS reporting system is combined with changes in enforcement. Thus, they conclude that is inaccurate asserting that enforcement conveys capital market benefits but the IAS/IFRS reporting regime does not or that the latter matters but enforcement does not, because both are necessary to confer capital market benefits.

Overall, evidence from the aforementioned studies consider the evolution of the key institutional factors and some critical issues of models used to evaluate them. In this way, they seem to lead to a finer and more dynamic interpretation of the impact of the mandatory IAS/IFRS adoption, weakening the presumed influence of the preexisting legal systems and underlining the role played by firms' incentives *per se* and by changes in enforcement mechanisms. However, even if the pro-standard approach seems to be shelved, empirical evidence continues to highlight the albeit slight explanatory power of the standards *per se*.

4. Conclusions and Remarks

This paper provide a review of studies focused on the effects that follow the mandatory IAS/IFRS adoption in a cross-country context. Prior literature highlights extremely mixed findings about the accounting quality and the capital market effects. Such heterogeneity has been supported relying on two different approaches – the pro-standard and the pro-incentive-which have been considered as complementary. Indeed, it has been argued that the benefits of the mandatory IAS/IFRS adoption are higher in countries in which the gap between IAS/IFRS and local standards were greater (pro-standard) and are larger in countries with strong legal system and enforcement (pro-incentive).

However, the evolution of these factors, some critical issues concerning the models used to evaluate them, and the need to identify the main responsible of the observed heterogeneity, seem to lead to a finer and more dynamic

interpretation of the impact of the mandatory IAS/IFRS adoption, weakening the presumed influence of the preexisting legal systems and underlining the role played by firms' incentives *per se* and by changes in enforcement mechanisms, although not completely denying the pro-standard approach.

For these reasons, I believe that it could be interesting if future researchers will try to systematically overcome the biases stemming from the most used preexisting models (as discussed in Section 3), in order to better understand the pro-standard approach and do not indirectly analyze this topic, as for example in Barth and Israeli (2013).

Moreover, I think that a key issue is represented by macroeconomics trends that can affect the research findings, especially for those studies that analyze the economic consequences of the IAS/IFRS adoption. Therefore, I encourage researchers to develop models which are able to take into account this aspect.

Finally, it is a common ground to be focused on large companies in this research stream. However, such an approach may suffer from a systematic bias, especially with regard to studies focused on the capital-market effects that follow the mandatory IAS/IFRS adoption. Therefore, I suggest to evaluate if the same findings are obtained by analyzing smaller firms after the IAS/IFRS adoption.

Acknowledgments

I would like to thank Nicola Moscariello, Ettore Cinque, the Editor, and the anonymous reviewers for their comments and suggestions.

References

Aharony, J., Barniv, R., & Falk, H. (2010). The impact of mandatory IFRS adoption on equity valuation of accounting numbers for security investors in the EU. *European Accounting Review*, *19*(3), 535-578. http://dx.doi.org/10.1080/09638180.2010.506285

Ahmed, A. S., Neel, M., & Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. *Contemporary Accounting Research*, *30*(4), 1344-1372. http://dx.doi.org/10.1111/j.1911-3846.2012.01193.x

Armstrong, C. S., Barth, M. E., Jagolinzer, A. D., & Riedl, E. J. (2010). Market reaction to the adoption of IFRS in Europe. *The Accounting Review*, *85*(1), 31-61. http://dx.doi.org/10.2308/accr.2010.85.1.31

Ashbaugh, H. (2001). Non-US firms' accounting standard choices. *Journal of Accounting and Public Policy*, *20*(2), 129-153. http://dx.doi.org/10.1016/S0278-4254(01)00025-4

Ashbaugh, H., & Pincus, M. (2001). Domestic accounting standards, international accounting standards, and the predictability of earnings. *Journal of Accounting Research*, *39*(3), 417-434. http://dx.doi.org/10.1111/1475-679X.00020

Aubert, F., & Grudnitski, G. (2011). The impact and importance of mandatory adoption of International Financial Reporting Standards in Europe. *Journal of International Financial Management & Accounting*, *22*(1), 1-26. http://dx.doi.org/10.1111/j.1467-646X.2010.01043.x

Bae, K. H., Tan, H., & Welker, M. (2008). International GAAP differences: The impact on foreign analysts. *The Accounting Review*, *83*(3), 593-628. http://dx.doi.org/10.2308/accr.2008.83.3.593

Ball, R. (2001). Infrastructure requirements for an economically efficient system of public financial reporting and disclosure. *Brookings-Wharton Papers on Financial Services*, (1), 127-169. http://dx.doi.org/10.1353/pfs.2001.0002

Ball, R., Robin, A., & Wu, J. S. (2003). Incentives versus standards: Properties of accounting income in four East Asian countries. *Journal of Accounting and Economics*, *36*(1), 235-270. http://dx.doi.org/10.1016/j.jacceco.2003.10.003

Barth, M. E., & Israeli, D. (2013). Disentangling mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics*, *56*(2), 178-188. http://dx.doi.org/10.1016/j.jacceco.2013.11.002

Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International accounting standards and accounting quality. *Journal of Accounting Research*, *46*(3), 467-498. http://dx.doi.org/10.1111/j.1475-679X.2008.00287.x

Bartov, E., Goldberg, S. R., & Kim, M. (2005). Comparative value relevance among German, US, and international accounting standards: A German stock market perspective. *Journal of Accounting, Auditing & Finance*, *20*(2), 95-119.

Berkowitz, D., Pistor, K., & Richard, J. F. (2003). Economic development, legality, and the transplant effect. *European Economic Review*, *47*(1), 165-195. http://dx.doi.org/10.1016/S0014-2921(01)00196-9

Burgstahler, D. C., Hail, L., & Leuz, C. (2006). The importance of reporting incentives: Earnings management in European private and public firms. *The Accounting Review*, *81*(5), 983-1016. http://dx.doi.org/10.2308/accr.2006.81.5.983

Byard, D., Li, Y., & Yu, Y. (2011). The effect of mandatory IFRS adoption on financial analysts' information environment. *Journal of Accounting Research*, *49*(1), 69-96. http://dx.doi.org/10.1111/j.1475-679X.2010.00390.x

Chen, C., Young, D., & Zhuang, Z. (2013). Externalities of mandatory IFRS adoption: Evidence from cross-border spillover effects of financial information on investment efficiency. *The Accounting Review*, *88*(3), 881-914. http://dx.doi.org/10.2308/accr-50384

Chen, H., Tang, Q., Jiang, Y., & Lin, Z. (2010). The role of international financial reporting standards in accounting quality: Evidence from the European Union. *Journal of International Financial Management & Accounting*, *21*(3), 220-278. http://dx.doi.org/10.1111/j.1467-646X.2010.01041.x

Christensen, H. B., Hail, L., & Leuz, C. (2013). Mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics*, *56*(2), 147-177. http://dx.doi.org/10.1016/j.jacceco.2013.10.007

Coffee, J. C. (2007). Law and the market: The impact of enforcement. *University of Pennsylvania Law Review*, *156*(2), 229-311. http://dx.doi.org/10.2139/ssrn.967482

Covrig, V. M., Defond, M. L., & Hung, M. (2007). Home bias, foreign mutual fund holdings, and the voluntary adoption of international accounting standards. *Journal of Accounting Research*, *45*(1), 41-70. http://dx.doi.org/10.1111/j.1475-679X.2007.00226.x

Cuijpers, R., & Buijink, W. (2005). Voluntary adoption of non-local GAAP in the European Union: A study of determinants and consequences. *European Accounting Review*, *14*(3), 487-524. http://dx.doi.org/10.1080/0963818042000337132

DeFond, M., Hu, X., Hung, M., & Li, S. (2011). The impact of mandatory IFRS adoption on foreign mutual fund ownership: The role of comparability. *Journal of Accounting and Economics*, *51*(3), 240-258. http://dx.doi.org/10.1016/j.jacceco.2011.02.001

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008). Mandatory IFRS reporting around the world: Early evidence on the economic consequences. *Journal of Accounting Research*, *46*(5), 1085-1142. http://dx.doi.org/10.1111/j.1475-679x.2008.00306.x

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2013). Adopting a label: Heterogeneity in the economic consequences around IAS/IFRS adoptions. *Journal of Accounting Research*, *51*(3), 495-547. http://dx.doi.org/10.1111/1475-679X.12005

Devalle, A., Onali, E., & Magarini, R. (2010). Assessing the value relevance of accounting data after the introduction of IFRS in Europe. *Journal of International Financial Management & Accounting*, *21*(2), 85-119. http://dx.doi.org/10.1111/j.1467-646X.2010.01037.x

Ding, Y., Hope, O. K., Jeanjean, T., & Stolowy, H. (2007). Differences between domestic accounting standards and IAS: Measurement, determinants and implications. *Journal of Accounting and Public Policy*, *26*(1), 1-38. http://dx.doi.org/10.1016/j.jaccpubpol.2006.11.001

Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2008). The law and economics of self-dealing. *Journal of Financial Economics*, *88*(3), 430-465. http://dx.doi.org/10.1016/j.jfineco.2007.02.007

Doidge, C., Karolyi, G. A., & Stulz, R. M. (2004). Why are foreign firms listed in the US worth more? *Journal of Financial Economics*, *71*(2), 205-238. http://dx.doi.org/10.1016/S0304-405X(03)00183-1

Durnev, A., & Kim, E. (2005). To steal or not to steal: Firm attributes, legal environment, and valuation. *The Journal of Finance*, *60*(3), 1461-1493. http://dx.doi.org/10.1111/j.1540-6261.2005.00767.x

EC Regulation No 1606/2002 of the European Parliament and of the Council of 19 july 2002 on the application of international accounting standards. *Official Journal of the European Communities*.

Ernstberger, J., Krotter, S., & Stadler, C. (2008). Analysts' forecast accuracy in Germany: The effect of different accounting principles and changes of accounting principles. *BuR-Business Research*, *1*(1), 26-53. http://dx.doi.org/10.1007/BF03342701

Florou, A., & Pope, P. F. (2012). Mandatory IFRS adoption and institutional investment decisions. *The Accounting Review*, *87*(6), 1993-2025. http://dx.doi.org/10.2308/accr-50225

Francis, J. R., Khurana, I. K., & Pereira, R. (2005). Disclosure incentives and effects on cost of capital around the world. *The Accounting Review*, *80*(4), 1125-1162. http://dx.doi.org/10.2308/accr.2005.80.4.1125

Hodgdon, C., Tondkar, R. H., Harless, D. W., & Adhikari, A. (2008). Compliance with IFRS disclosure requirements and individual analysts' forecast errors. *Journal of International Accounting, Auditing and Taxation*, *17*(1), 1-13. http://dx.doi.org/10.1016/j.intaccaudtax.2008.01.002

Holthausen, R. W. (2009). Accounting standards, financial reporting outcomes, and enforcement. *Journal of Accounting Research*, *47*(2), 447-458. http://dx.doi.org/10.1111/j.1475-679X.2009.00330.x

Hong, H. A. (2013). Does mandatory adoption of international financial reporting standards decrease the voting premium for dual-class shares? *The Accounting Review*, *88*(4), 1289-1325. http://dx.doi.org/10.2308/accr-50442

Hong, H. A., Hung, M., & Lobo, G. J. (2014). The impact of mandatory IFRS adoption on IPOs in global capital markets. *The Accounting Review*, *89*(4), 1365-1397. http://dx.doi.org/10.2308/accr-50720

Hope, O. K., Jin, J., & Kang, T. (2006). Empirical evidence on jurisdictions that adopt IFRS. *Journal of International Accounting Research*, *5*(2), 1-20. http://dx.doi.org/10.2308/jiar.2006.5.2.1

Horton, J., Serafeim, G., & Serafeim, I. (2013). Does mandatory IFRS adoption improve the information environment? *Contemporary Accounting Research*, *30*(1), 388-423. http://dx.doi.org/10.1111/j.1911-3846.2012.01159.x

International Accounting Standards Board (IASB). *Conceptual Framework for Financial Reporting*. London: IASB Publications Department.

Jackson, H. E. (2007). Variation in the intensity of financial regulation: Preliminary evidence and potential implications. *Yale Journal on Regulation*, *24*, 253. http://dx.doi.org/10.1016/j.jfineco.2008.08.006

Jackson, H. E., & Roe, M. J. (2009). Public and private enforcement of securities laws: Resource-based evidence. *Journal of Financial Economics*, *93*(2), 207-238.

Kaufmann, D. (2007). *Governance matters VI: Aggregate and individual governance indicators, 1996-2006 (Vol. 4280).* World Bank Publications.

Kim, J. B., Liu, X., & Zheng, L. (2012). The impact of mandatory IFRS adoption on audit fees: Theory and evidence. *The Accounting Review*, *87*(6), 2061-2094. http://dx.doi.org/10.2308/accr-50223

Kim, J. B., Shi, H., & Zhou, J. (2014). International Financial Reporting Standards, institutional infrastructures, and implied cost of equity capital around the world. *Review of Quantitative Finance and Accounting*, *42*(3), 469-507. http://dx.doi.org/10.1007/s11156-013-0350-3

Kim, J. B., Tsui, J., & Yi, C. (2011). The voluntary adoption of international accounting standards and loan contracting around the world. *Review of Accounting Studies*, *16*(4), 779-811. http://dx.doi.org/10.1007/s11142-011-9148-5

Kurtz, M. J., & Schrank, A. (2007). Growth and governance: Models, measures, and mechanisms. *Journal of Politics*, *69*(2), 538-554. http://dx.doi.org/10.1111/j.1468-2508.2007.00549.x

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2006). What works in securities laws? *The Journal of Finance*, *61*(1), 1-32. http://dx.doi.org/10.1111/j.1540-6261.2006.00828.x

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Law and finance. *Journal of Political Economy*, *106*(6), 1113-1155. http://dx.doi.org/10.1086/250042

Landsman, W. R., Maydew, E. L., & Thornock, J. R. (2012). The information content of annual earnings announcements and mandatory adoption of IFRS. *Journal of Accounting and Economics*, *53*(1), 34-54. http://dx.doi.org/10.1016/j.jacceco.2011.04.002

Lang, M., Raedy, J. S., & Wilson, W. (2006). Earnings management and cross listing: Are reconciled earnings comparable to US earnings? *Journal of Accounting and Economics*, *42*(1), 255-283. http://dx.doi.org/10.1016/j.jacceco.2006.04.005

Lang, M., Raedy, J. S., & Yetman, M. H. (2003). How representative are firms that are cross-listed in the United States? An analysis of accounting quality. *Journal of Accounting Research*, *41*(2), 363-386. http://dx.doi.org/10.1111/1475-679X.00108

Lel, U., & Miller, D. P. (2008). International Cross-Listing, Firm Performance, and Top Management Turnover: A Test of the Bonding Hypothesis. *The Journal of Finance*, *63*(4), 1897-1937. http://dx.doi.org/10.1111/j.1540-6261.2008.01377.x

Leuz, C., & Verrecchia, R. E. (2000). The economic consequences of increased disclosure (digest summary). *Journal of Accounting Research*, *38*(Supplement), 91-124. http://dx.doi.org/10.2307/2672910

Leuz, C., Lins, K. V., & Warnock, F. E. (2010). Do foreigners invest less in poorly governed firms? *Review of Financial Studies*, *23*(3), 3245-3285. http://dx.doi.org/10.1093/rfs/hhn089.ra

Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics*, *69*(3), 505-527. http://dx.doi.org/10.1016/S0304-405X(03)00121-1

Li, S. (2010). Does mandatory adoption of International Financial Reporting Standards in the European Union reduce the cost of equity capital? *The Accounting Review*, *85*(2), 607-636. http://dx.doi.org/10.2308/accr.2010.85.2.607

Mahoney, P. G. (2009). The development of securities law in the United States. *Journal of Accounting Research*, *47*(2), 325-347. http://dx.doi.org/10.1111/j.1475-679X.2009.00326.x

Nobes, C. (1998). Towards a general model of the reasons for international differences in financial reporting. *Abacus*, *34*(2), 162-187. http://dx.doi.org/10.1111/1467-6281.00028

Nobes, C. (2006). The survival of international differences under IFRS: Towards a research agenda. *Accounting and Business Research*, *36*(3), 233-245. http://dx.doi.org/10.1080/00014788.2006.9730023

Pagano, M., & Volpin, P. F. (2005). The political economy of corporate governance. *The American Economic Review*, *95*(4), 1005-1030. http://dx.doi.org/10.1257/0002828054825646

Ramanna, K., & Sletten, E. (2014). Network effects in countries' adoption of IFRS. *The Accounting Review*, *89*(4), 1517-1543. http://dx.doi.org/10.2308/accr-50717

Siems, M. M. (2008). What does not work in comparing securities laws: A critique on La Porta et al.'s methodology. In O. Alvarez Macotela, R. H. Robles Peiro, & G. Salazar Torres (Eds.), *Derecho bursátil contemporáneo* (pp. 329-343). Temas Selectos, Mexico, Editorial Porrúa.

Soderstrom, N. S., & Sun, K. J. (2007). IFRS adoption and accounting quality: A review. *European Accounting Review*, *16*(4), 675-702. http://dx.doi.org/10.1080/09638180701706732

Spamann, H. (2008). "Law and Finance" Revisited. *Harvard Law School John M. Olin Center Discussion Paper*, (12). http://dx.doi.org/10.2139/ssrn.1095526

Thomas, M. A. (2010). What do the worldwide governance indicators measure? The *European Journal of Development Research*, *22*(1), 31-54. http://dx.doi.org/10.1057/ejdr.2009.32

Van Tendeloo, B., & Vanstraelen, A. (2005). Earnings management under German GAAP versus IFRS. *European Accounting Review*, *14*(1), 155-180. http://dx.doi.org/10.1080/0963818042000338988

Notes

Note 1. Van Tendeloo and Vanstraelen (2005) find that IAS firms have more discretionary accruals and a lower correlation between accruals and cash flows. Cuijpers and Buijink (2005) suggest that analysts need time to understand financial statements under the new standards. They find that recent adopters have higher forecast dispersion and lower analyst following than early adopters.

Note 2. One could certainly find other studies concerning the effect of the voluntary IAS/IFRS adoption, but this is not the aim of this paper and the mentioned literature is a mere means which help to reveal the prevailing trend.

Note 3. Even if there are few other studies that do not fully confirm such results (e.g. Chen et al., 2010), this definitely seems to be the prevailing trend.

Note 4. Reserches by Devalle et al. (2010), Aubert and Grudnitski (2011), and Horton et al. (2013), do not provide this kind of analysis.

Note 5. Chen et al. (2010) argue that the magnitude of the IAS/IFRS impact do not depend on the quality of the legal system or on the differences between the international standards and local GAAP. While, Ahmed et al. (2013)

suggest that the negative effects highlighted in their studies are larger in countries with strong legal systems and effective enforcement mechanisms.

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (http://creativecommons.org/licenses/by/4.0/).