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Information Content of IFRS versus Domestic Accounting Standards: Evidence from Finland

In this study, we examine the impact of mandatory adoption of International Financial Reporting Standards (IFRS) on the accounting quality of listed Finnish companies. Our objective is to investigate how the 2005 switchover to IFRS has quantitatively impacted on the timeliness properties of earnings, information content of book values of assets and liabilities, and earnings' ability to predict future cash flows. Our inferences are based on a sample of 94 Finnish firms that provided IFRS reconciliation adjustments for the fiscal year 2004. This allows us to collect a comprehensive data set and compare financial statements prepared under Finnish Accounting Standards (FAS) with financial statements prepared under IFRS. As a result, each firm is its own control and the fiscal year is the same for both sets of figures. In addition, in the wake of the mandatory IFRS adoption we survey 20 financial analysts and examine their use of IFRS-based information for financial statement analysis. The role of the institutional environment in the empirical results and hence for inferences is also considered. This study is potentially relevant to current policy and academic debates on the topic.

The International Accounting Standards Board's (IASB) stated goal is to achieve "harmonization" and "convergence" of accounting rules. To examine whether mandatory IFRS adoption leads to higher accounting quality in Finland we first describe the major differences between IFRS and FAS at the standard level. Our review is consistent with FAS emphasizing historical cost values (in contrast to fair values) and being less rigorous than IFRS. We document that IFRS, on average, increases earnings, decreases equity, and increases liabilities. Then we use financial analysts as a proxy for sophisticated users of financial information. The survey evidence suggests that analysts use a wide range of IFRS disclosures, such as cash flow statements and segment reporting, in their financial statement analysis. We then empirically investigate three basic sets of analyses to compare whether IFRS financial reporting is superior to FAS. Our market-based tests indicate that accounting numbers measured under IFRS have no more information content than accounting numbers measured under FAS. Specifically, earnings under IFRS are no more timely with respect to news (either bad news or good news) than are earnings under FAS. Furthermore, book values of assets and liabilities have no greater ability to reflect the market value of equity under IFRS than under FAS. These results are surprising given the fair value orientation of IFRS and given that IFRS promotes "fair" presentation of assets and liabilities. In contrast to market-based tests, additional analyses reveal that earnings under IFRS provide marginally greater information content than earnings under FAS for predicting future cash flows. Specifically, IAS 2 (*Inventories*), IAS 17 (*Leases*), and IAS 19 (*Employment Benefits*) earnings adjustments are positively associated with future cash flows. Evidence from the pre-IFRS and post-IFRS periods also suggest that IFRS accounting amounts are not higher of quality than accounting amounts based on FAS. Overall, we are unable to find systematic evidence that IFRS results in improved accounting quality for mandatory adopters. ■