Deviations from the Mandatory Adoption of IFRS in the European Union: Implementation, Enforcement, Incentives, and Compliance

by

Grace Pownall*

and

Maria Wieczynska**

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*Corresponding author, Professor of Accounting, Goizueta Business School, Emory University, 1300 Clifton Road NE, Atlanta, GA 30322; telephone 404-727-0775; email grace.pownall@emory.edu.
**PhD Candidate, Goizueta Business School, Emory University; telephone 404-550-1229; email maria.wieczynska@emory.edu.

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Abstract

In this paper, we evaluate the common assertion that EU firms began using IFRS by 2005 when the EU formally adopted IFRS. We find that although the incidence of firms using local (or some other) GAAP has declined between 2005 and 2009, it is still nontrivial. For instance, by 2009 the incidence of non-IFRS financial statements was still in excess of 17% (42% of which were fully consolidated). We estimate a model of the non-adoption of IFRS as a function of proxies for EU-wide and country-specific implementation of the IFRS regulation, country-specific enforcement mechanisms, and firm-specific reporting incentives. We find that being traded in EU-regulated markets, preparing fully consolidated financial statements, and having a more diversified corporate structure are positively associated with the likelihood of using IFRS, and using US GAAP in the preceding year is significantly negatively associated with adopting IFRS. We find little evidence that country-specific enforcement is associated with IFRS adoption during our time period. Finally, we find that several reporting incentives proxies are associated with adopting IFRS, such as being large and closely-held with wider analyst following. We interpret our results to mean that many EU firms do not use IFRS; that firms exploited definitions, exemptions, and deferrals in the regulation to avoid adopting IFRS; and that firms responded to their reporting incentives in making the decision to adopt IFRS.

Key Words: EU, IFRS, enforcement, reporting incentives.

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I. Introduction

It is commonly asserted that the European Union (EU) mandated adoption of IFRS in 2005.[1] However, not all EU firms were required to adopt IFRS in 2005, and in fact many firms availed themselves of exemptions, deferrals, and lack of monitoring and enforcement to continue reporting in domestic (or other) GAAP as recently as 2009. For instance, among firms from Portugal, Belgium, France, and the Netherlands listed on Euronext, Pownall, Vulcheva, and Wang (2012) found that adoption of IFRS as of December 31, 2009 ranged from 72% (for the Euronext firms without the special designation of being listed on the named segments) to 96% (for the firms listed on the higher-quality named segments of the exchange).

In addition, some EU countries required firms to use IFRS for both consolidated and single entity financial statements, but other EU countries allowed domestic GAAP for single entity financial statements. Firms from other EU countries were permitted rather than required to use IFRS from 2005. See table 1 for a summary of country-specific IFRS adoption options.

In this paper, we first document the incidence of non-adoption of IFRS in the EU in 2005 when the regulation came into effect, in 2007 when most exemptions and deferrals from IFRS adoption expired, and in 2009. We find that in 2005, 2,580 EU firms (35%) had not adopted IFRS. Of the non-adopters, nearly 60% of the noncompliant financial statements were fully consolidated. In 2007 the percentage of non-adopters had fallen to 20%, of which 616 (42% of the local GAAP users) presented consolidated financial statements. By 2009, the percentage of non-adopters was 17.8%, of which 42% presented consolidated financial statements. We conclude that although the incidence of EU firms using something other than IFRS has fallen since the EU's "mandatory" adoption of IFRS, it is still nontrivial.

[1] See, for instance, Ramanna (2011), p. 9

Next, we compare the IFRS adopters to the non-adopters, and find significant differences between the two groups of firms. For instance, adopters were more profitable, growing more rapidly, had more analyst following, were more likely to use a Big Four auditor, were more widely held, and had more stock market liquidity and lower bid-ask spreads than non-adopters. In the case of many of these measures, we can reject the null that the mean and median for non-adopters were the same as the mean and median for all EU firms. In addition, we find some evidence in 2007 and 2009 that adopters' net income was higher quality than non-adopters'.

Next, we test whether common proxies for EU-wide and country-specific implementation features, country-specific enforcement, and firm-specific reporting incentives can explain why EU firms failed to adopt IFRS. In other words, we ask whether firms chose to combine their reporting incentives, flexibility in the rules, and/or weak enforcement to continue using domestic GAAP or other non-IFRS reporting standards. We find that most of our proxies for features of the regulation's implementation are significant in the predicted direction in 2005, meaning that being traded in EU-regulated markets, preparing consolidated financial statements, and having a more diversified corporate structure are positively associated with the likelihood of using IFRS when it was initially required. Using US GAAP in the preceding year is significantly negatively associated with adopting IFRS at the implementation of the regulation. We find that being traded in EU- regulated markets has little or no association with using IFRS in 2007 and 2009, perhaps because firms traded on the Alternative Investment Market (AIM) were required by the London Stock Exchange (LSE) to use IFRS beginning in 2007.[2] The other implementation variables retain their 2005 association with using IFRS in 2007 and 2009.

We find little evidence that cross-country enforcement conditions or mechanisms were associated with IFRS adoption during our time period. This may be because countries that have traditionally been strong enforcers of securities regulation were both more likely to adopt specific IFRS

[2] The AIM is not an EU-regulated market. See discussion in section 2, and Gerakos, Lang, and Maffet (2011).

enforcement mechanisms, and expected to be stronger enforcers of rigorous application of IFRS, creating both greater likelihood of enforcement and higher costs associated with adoption (see Christensen, Hail, and Leuz 2011). Firms in these environments may have adopted strategies to avoid adopting IFRS other than disregard for the regulation, such as delisting, avoiding consolidation, or moving to a non-EU country (see Vulcheva 2012 and Brüggemann, Hitz, and Selhorn 2011).

Finally, our proxies for firm-specific reporting incentives are mostly significant in the predicted direction. We find that being large and closely-held with wider analyst following was associated with adopting IFRS, both when the regulation was initially imposed (2005) and in subsequent years (2007 and 2009), and being listed in the US is significantly associated with not adopting IFRS in all three subsamples. Leverage is significantly associated with using IFRS in 2009, but not in 2005 and 2007.

We interpret our results to mean that many EU firms do not use IFRS; that firms exploited definitions, exemptions, and deferrals in the regulation to avoid adopting IFRS; and that firms responded to their reporting incentives in making the decision to adopt IFRS. We believe our results are important for investors and researchers making assumptions about European firms' choice of GAAP, to EU regulators in evaluating the efficacy of the mandatory imposition of IFRS, and to the US standard-setting community as we consider whether and how to adopt IFRS in the US.

This paper is organized as follows: section two describes the EU adoption of IFRS, including regulation, monitoring, and enforcement, reviews the literature, and develops hypotheses. Section three describes the initial sample of EU publicly traded firms and their use of IFRS vs. some other GAAP. Section four presents data, empirical design, comparison of adopters and non-adopters, and results of hypothesis tests. Section five reports on diagnostics and extensions, and section six provides a summary and conclusions.

2. The EU Adoption of IFRS and Hypothesis Development

2.1. Mandatory IFRS Regulation in the EU

Regulation No. 1606/2002, Article 4, requires that consolidated financial statements of firms with equity securities traded in EU-regulated markets be prepared in accordance with IFRS starting in 2005 (OJ, 2002).[3] There are two parts to this requirement. The first part specifically requires consolidated financial statements to be prepared using IFRS, while exempting firms with only individual financial reports from the IFRS requirement. The second part mandates IFRS for firms listed on EU-regulated markets, exempting firms trading on markets not regulated by the EU and over-the-counter from the IFRS reporting requirement.

Paragraph 17 explicitly allows firms trading only debt securities and firms listed outside the EU and already using "internationally accepted standards" to defer IFRS adoption until 2007 (OJ, 2002).Many firms took advantage of these deferrals. In addition, the LSE requires firms listed on AIM, which is not included in the "EU-regulated" market definition, to use IFRS starting in 2007.

However, there was considerable heterogeneity across countries in the implementation of the IFRS mandate. Article 5 of Regulation No. 1606/2002 gives EU member countries options to mandate IFRS for individual annual financial reports and for non-listed firms. According to the EC's reports on the use of IFRS adoption options by firms from the EU, many countries used the options to defer IFRS adoption for certain types of firms. Many countries allowed voluntary IFRS adoption prior to 2005 and/or required non-listed firms and firms with unconsolidated statements to adopt IFRS in 2005 (OJ, 2010, 2008, and 2005). Table 1 summarizes the country-specific implementation of the regulation, and shows considerable diversity in the extent to which IFRS adoption was effectively mandatory.

[3] The regulation requires the financial statements for fiscal years beginning January 1, 2005 be prepared in accordance with IFRS. Thus, throughout the paper, when we refer to year 2005 we mean the fiscal year starting on or after January 1, 2005 and ending before December 31, 2006. The same treatment applies to other sample years. Furthermore, when a firm changes its reporting date and two reports are issued in a fiscal year, we retain only the first report and drop the second report from our analyses.

[Insert Table 1 About Here]

The Seventh Council Directive (OJ, 2009) specifies requirements the EU member countries should impose on firms operating within their borders. Article 1 mandates EU members to require all companies with majority rights in other firms to prepare consolidated financial statements.[4] The regulation further specifies that the consolidation requirement applies to all publicly traded firms domiciled in the EU. The EC's report on implementation of the Seventh Directive suggests that the requirements of the Directive, with respect to preparation of the consolidated financial statements had been fulfilled by the EU member countries at the time of the report (COM, 2000). Figure 1 provides a timeline of the major events and regulations related to the EU adoption of IFRS.

[Insert Figure 1 About Here]

2.2. Accounting Research on Mandatory IFRS adoption.

Many papers do not make a distinction between IFRS and non-IFRS users in the mandatory-IFRS period. For example, Cascino and Gassen (2010, addressing the comparability of accounting information) and Landsman, Maydew, and Thornock (2012, addressing the information content of earnings announcements) define IFRS adopters as firms domiciled in countries which mandated IFRS in 2005. Chen, Tang, Jiang, and Lin (2010, examining accounting quality) and Callao and Jarne (2010, examining earnings management) do not distinguish between firms using IFRS and local reporting standards post-2005. These papers split their samples into pre-IFRS and IFRS periods based on the year of the financial report. In Chen et al. (2010) [Callao and Jarne (2010)] observations from 2000-2004 [2003-2004] are considered pre-IFRS firm-years, while 2005-2007 [2005-2006] are defined as IFRS observations. None of these papers reports examining financial reporting standards in use, and none of them mentions non-compliance with the IFRS mandate.

[4] The Seventh Council Directive (OJ, 2009) specifically limits its requirements to subsidiaries which significantly or materially affect the parent company's financial statements.

Other papers focus on samples including only mandatory IFRS firms. For example, DeFond, Hu, Hung, and Li (2011, examining mutual fund ownership) analyze only those firms which specifically stated that they were using local GAAP in 2003-04 and IFRS in 2006-07. Similarly, Lang, Maffett, and Owens (2010, addressing the comparability of accounting numbers) define mandatory adopters as the firms using local GAAP in 2001-04 and IFRS in 2005-08. Byard, Li, and Yu (2011, examining analyst forecast accuracy) select sample firms based on the condition that they use local financial reporting standards in 2003-04 and IFRS in 2005-06, while the control sample includes only voluntary IFRS adopters. In the studies cited in this paragraph, the sample selection criteria assure exclusion of possible IFRS non-adopters in the post-2005 period but do not address how representative of the population of EU firms their samples are.

Brüggemann et al. (2011) include in their review paper a table which compares sample sizes of a few mandatory IFRS studies. The firms examined in these studies are all firms with equity traded in the EU, required to prepare their consolidated financial statements in IFRS. As a benchmark, the original Committee of European Securities Regulators (2007, CESR) study included more than five thousand firms, while Daske, Hail, Leuz, and Verdi (2008) use only two thousand firms, DeFond et al. (2011) use 1,618 firms, Horton, Serafeim, and Serafeim (2010) use 1,898 firms, and Landsman et al. (2011) use 1,465 firms (Brüggemann et al., 2011).[5] Such relatively small samples may not be representative of the EU population.

Other mandatory IFRS studies exclude firms for which IFRS adoption could be deferred and firms which were exempt from IFRS reporting. Armstrong, Barth, Jagolinzer, and Riedl (2010) examine the market reaction to IFRS regulation, and list exemptions and deferrals from IFRS reporting in the EU, such as the exemption for firms trading only debt securities and firms which have already been using internationally accepted accounting standards. However, the authors are silent on the issue of adoption

[5] Horton et al. (2010) use a sample of IBES covered firms, which is further decreased due to data availability requirements.

or non-adoption after 2005 because their study period ended before 2005. Christensen, Lee, and Walker (2008, addressing accounting quality) and Atwood, Drake, Myers, and Myers (2011, addressing the forecasting ability of financial numbers) exclude from their samples firm-years without fully consolidated financial statements, but do not indicate whether there are any non-IFRS and non-US GAAP users in their mandatory IFRS samples.

Only a few papers mention firms using local reporting standards after 2005 in the EU. For example, Jeanjean and Stolowy (2008, addressing earnings management) provide a table with fiscal year ends for first-time IFRS adopters from France and the UK, and note that IFRS adoption in 2005 "corresponds to the first application in most of the firms studied" (Jeanjean and Stolowy, 2008, p.486). Based on their small sample of adopters, we assume that the first-time adoptions of IFRS are somewhat dispersed through time, but the search for reasons for non-adoption in 2005 is not the subject of that study. Aharony, Barniv, and Falk (2010, examining equity valuation) exclude firms using Datastream's "Domestic Adjusted" reporting standards after 2005 from their sample, but they do not report how many such firms were in the initial sample or the reasons for non-adoption of IFRS. Li (2010, analyzing cost of capital) defines mandatory adopters as firms using non-IFRS reporting standards prior to 2005 and not exempt from IFRS until 2007, but does not report how many firms are excluded due to the non-exemption selection criterion.

Another paper referring to IFRS non-adopters is Daske et al. (2008), addressing cost of capital and liquidity using a sample of mandatory adopters with 12/31/05 fiscal year ends. Table 1A of Daske et al. (2008) provides a breakdown of their initial sample by country and IFRS adoption status (early voluntary, late voluntary or first-time mandatory), but the sum of early, late, and mandatory adopter firm-years is not the number of unique firms for some of the EU countries (e.g. France, the UK, Sweden,

Spain). The paper is silent as to whether the non-IFRS firms prepare unconsolidated financial statements or are not traded in EU-regulated markets.

Finally, Yu (2010) examines mutual fund holdings in a subsample of firms using local GAAP after 2005. She explains the existence of non-IFRS users post-2005 with the IFRS exemptions and deferrals. Table 1 in Yu (2010) shows that IFRS adoption for the EU countries ranges from 24% (the UK) to 96.9% (Greece) in 2005. In 2007 the IFRS adoption ranges from 52% (France) to 100% (Finland, Greece). However, because the sample in Yu (2010) does not cover the period after 2007, the use of IFRS by the sample firms in subsequent years is an empirical question. The IFRS deferrals for firms with only debt traded, firms using US GAAP, and firms traded on the AIM require these firms to use IFRS starting in 2007.

Few papers acknowledge that some EU firms avoided adopting IFRS subsequent to the 2005 mandate, but Brüggemann et al. (2011) in a review of the IFRS avoidance literature point out the lack of evidence on strategies firms used to avoid IFRS reporting. Among the strategies suggested in the paper are: delisting from EU-regulated markets, preparing unconsolidated financial reports, and moving to a non-EU country. Vulcheva (2012) empirically addresses strategies to avoid adoption by examining costs associated with IFRS adoption and provides evidence of firms delisting to avoid IFRS reporting.

2.3. Hypotheses Development

Our empirical design seeks to address the following research questions:

RQ1: Did all or most EU firms adopt IFRS in 2005 as commonly assumed? What was the rate of noncompliance, defined as using accounting rules other than IFRS as promulgated by the IASB or IFRS as adopted by the EU?

RQ2: Why did local GAAP users fail to comply with the requirement to adopt IFRS? Was it associated with:

(a) implementation issues, such as non-consolidation and country-specific or EU-wide exemptions, deferrals, and firm characteristic requirements;

(b) weak enforcement; and/or

(c) weak reporting incentives?

We test the first research question by looking at the incidence of EU firms using reporting standards other than IFRS, and the second as statistical tests on coefficients from a model of the firm-specific non-adoption of IFRS as a function of implementation, enforcement, and incentive proxies. We test the hypotheses at three points in time: in 2005, when the IFRS requirement came into force; in 2007, when the exemptions and deferrals expired; and in 2009.

Our first hypothesis assesses the common assertion that European Union firms began (were) using IFRS in 2005 (2007, 2009):

H_{01}: EU firms were using either full IFRS or EU IFRS in 2005 (2007, 2009).

To test the first part of our second research question we draw on details from the EU-wide and country-specific implementation of mandatory IFRS adoption. As discussed previously, Regulation EC 1606/2002 requires the use of IFRS for consolidated financial statements, but grants exemptions or deferrals from IFRS for firms with only debt securities traded, firms using US GAAP, and firms traded on stock exchanges not regulated by the EU.[6] In addition to EU-wide exemptions and deferrals, EU countries were given the right to choose between different IFRS adoption options, as summarized in table 1. Several countries allowed early adoption of IFRS, some chose to extend the IFRS mandate to individual financial statements and non-listed firms, and some chose to require all financial and

[6] The exemption deferring IFRS adoption until 2007 for firms trading only debt securities in the EU regulated markets applied to 397 observations in the full sample in 2005. However, we did not include this variable in our analysis due to missing financial data for these firms. We defined debt-traders as firms with positive long term debt and either missing or zero common shares outstanding. In 2005, we have 189 debt-only firm-year observations using IFRS, 203 using other reporting standards (four using USGAAP) and 198 using local reporting standards. Of these, 289 prepared fully consolidated financial statements (177 of these using IFRS and 108 using local GAAP). In 2007, when this exemption expired, we have 79 out of 107 firms with fully consolidated financial statements and non-missing data using IFRS and 27 continuing to use local reporting standards.

insurance companies to prepare financial statements using IFRS, regardless of their listing or consolidation status.[7] However, not all countries chose more stringent approaches to the regulation. Many countries elected to defer application of IFRS for certain types of companies, and countries which joined the EU in 2007 were not required to start using IFRS until January 1, 2007. Our second hypothesis examines the effects of this implementation structure on IFRS adoption:

H_{02}: EU firms were more likely to use IFRS in 2005 (2007, 2009) if they were not eligible for exemption or deferral, if they were from countries which allowed IFRS prior to 2005, and if they prepared consolidated financial statements; and less likely to use IFRS if they previously used US GAAP.

Next, we focus on country-specific differences in monitoring and enforcement, the subject of the second part of our second research question. Many researchers have found significant differences in the outcomes of accounting regulation associated with enforcement in individual countries. For example, Christensen et al. (2011) show that firms experience more positive market effects (lower cost of capital and higher liquidity) after implementing new regulations in countries with stronger enforcement than in countries with weak enforcement.

We examine whether firms from countries with weak enforcement are more likely to continue using local accounting standards than firms from strong enforcement countries using four proxies: securities laws enforcement (Jackson and Roe, 2009); the ability of the government to implement regulations (Kaufmann, Kraay, and Mastruzzi 2009; Christensen et al. 2011); IFRS-specific enforcement mechanisms; and the feasibility of local short-selling. According to the CESR (2007) report, only 11 of

[7] For example, Estonia, Italy, Latvia, Lithuania, Poland, and Slovenia specifically require all banks and financial institutions to use IFRS. Finland requires all insurance firms to prepare their consolidated reports in IFRS. Many other countries permit (rather than require) IFRS for consolidated reports, or for all reports of firms listed on regulated exchanges, or for reports of financial and insurance companies (COM, 2008).

25 EU members had fully developed IFRS enforcement mechanisms in place in 2006.[8] We include the feasibility of short-selling as a proxy for the local capital market's ability to monitor and enforce financial reporting and corporate governance norms, leading to our third hypothesis:

H_{03}: EU firms were more likely to use IFRS in 2005 (2007, 2009) if they were from a country with more stringent enforcement of securities laws, with IFRS-specific enforcement, and in which short-selling was feasible.

Another factor which may affect IFRS adoption is the strength of firm-specific reporting incentives, the subject of the third part of our second research question. Following Daske, Hail, Leuz, and Verdi (2012) among others, our proxies for reporting incentives are: ownership concentration, firms' reliance on debt vs. equity, analyst following, size, profitability, and exchange listing. First, firms with dispersed ownership may be more likely to use IFRS due to shareholder demands. In the voluntary IFRS adoption setting, Gassen and Sellhorn (2006) show that firms with more dispersed ownership were more likely to adopt IFRS. Second, IFRS adoption may be influenced by the extent to which a firm is funded by debt vs. equity. Christensen, Lee, and Walker (2007, 2008) find that firms with higher reliance on long-term debt are less likely to voluntarily switch to IFRS. Third, public interest in a firm, represented by size, profitability, listing on many exchanges, listing in the US, and high analyst following may be associated with higher likelihood of IFRS adoption. Another reporting incentive that may affect compliance with IFRS is the nature of the reporting standards previously used by the EU firms. For instance, firms using US GAAP were not required to start using IFRS until 2007. In addition, according to the GAAP Convergence 2002 report, 47% of the EU countries in 2002 had tax-driven financial reporting practices (BDO et al., 2003). In countries where financial reporting is closely aligned

[8] In countries with poor IFRS enforcement, auditors may perform the role of accounting rules enforcers. The role of big auditors as accounting quality enforcers has been recognized in the accounting literature. DeAngelo (1981) suggests that big auditors provide higher quality auditing services than non-big auditors. Furthermore, Dopuch and Simunic (1980) suggest that big audit firms do not provide low quality services because they have to protect their reputations. Assuming that the reputation-concerned auditors would not provide services to firms not-compliant with existing accounting regulations, we may find that firms using big auditors during the mandatory-IFRS period are less likely to report using domestic financial reporting standards. We include this variable in our diagnostic tests in section 5.3.

with tax reporting, firms may be more likely to continue using domestic standards. Finally, if domestic accounting standards are similar to IFRS, firms may easily switch to IFRS reporting. To test the association between these reporting incentives and compliance with mandatory IFRS adoption in the EU, our fourth hypothesis is:

H_{04}: EU firms were more likely to use IFRS in 2005 (2007, 2009) if they had higher reporting incentives: that is, if they were larger, more profitable, more widely followed by analysts, less leveraged, more widely held, listed on many exchanges, and listed in the US; and if their domestic GAAP was more similar to IFRS or more loosely aligned with tax accounting.

3. Initial Sample of Publicly Traded EU Firms and IFRS Adoption Status

Table 2 provides a description of our initial sample of publicly traded EU firms, which was selected according to the following criteria: firms that (a) were included in Thomson ONE Worldscope; (b) were domiciled in the EU; (c) were publicly traded; and (d) had nonzero total assets in at least one of the years 2005-2010. Panel A shows that there are 8,481 firms from 25 countries in our initial sample, because we do not have data from Estonian (joined the EU in 2004) and Romanian firms (joined the EU in 2007). There is considerable diversity in the percentage of the sample contributed by each country, with the UK contributing over one third of the sample but less than 1% contributed by each of the Czech Republic, Hungary, Lithuania, Luxembourg, Latvia, Malta, Portugal, Slovakia, and Slovenia.

[Insert Table 2 About Here]

Panel B describes the data by consolidation status (unconsolidated, partially consolidated, fully consolidated, and "unknown") and by accounting standards (local GAAP, US GAAP, IFRS, and

"other").[9] The first two blocks describe the data from 2002 and 2004 (prior to the EU's adoption of IFRS), and the other blocks summarize the data from 2005 (the year customarily denoted as the adoption year), 2007 (the year most exemptions and deferrals expired), and 2009 (the most current year for which we had complete data in March 2011). In 2002, only 413 EU firms (of a total of 5,263) used IFRS, of which 392 presented consolidated financial statements. In 2005, 4,779 used IFRS, of which 4,459 presented consolidated reports, while 2,580 EU firms used local GAAP, including 1,500 with consolidated reports. In 2007, 1,465 EU firms still used local reporting standards, including 616 that presented consolidated reports; and in 2009, 1,198 EU firms still used local GAAP, including 508 that presented consolidated financial statements.

Panel C further breaks down these data by country, and shows substantial use of local GAAP for consolidated financial statements in 2009 for Germany (104 firms), Denmark (83 firms), France (96 firms), the UK (79 firms), Poland (31 firms) and Sweden (75 firms). On the other hand, no firms in our sample were using local GAAP for consolidated financial reporting in Bulgaria, Cyprus, the Czech Republic, Finland, Greece, or Lithuania. These data address our first research question on the rates of noncompliance with the EU's mandatory IFRS adoption, and suggest that although noncompliance declined from 2005 through 2009, it is still nontrivial.

4. Data, Empirical Design, and Results

4.1 Sample Selection and Data

Our initial sample is all European Union Thomson One Worldscope firms with nonzero, non-missing total asset values at any one fiscal year end during the period from January 1, 2005 to December

[9] We are aware of the limitations of the Worldscope database for accounting standards in use (Daske et al., 2012). However, our data collection examining possible data errors suggests that the noise in the data is random. We conjecture that any miscoding by Worldscope works against our hypotheses. See Section 5.1 for the details of our extensive data verification procedures.

31, 2010 (N= 8,481).[10] We code each firm-year observation as local GAAP, US GAAP, IFRS, or "other". Our sample from the "mandatory" IFRS period covers fiscal year ends from December 31, 2005 to the last fiscal year end date available in Worldscope as of March 2011. We remove firms from seven countries for which we are missing enforcement and similarity of reporting standards data.[11]

We create three subsamples: (a) fiscal year ends between 12/31/05 and 12/30/06 (the 2005 sample); (b) fiscal year ends between 12/31/07 and 12/30/08 (the 2007 sample); and (c) fiscal year ends between 12/31/09 and 12/30/10 (the 2009 sample). We have 7,036 (7,015; 6,230) firms in the 2005 (2007; 2009) subsample.[12] We exclude firm-years with missing accounting standards, consolidation, and industry codes in Worldscope, and firms with missing data for the regression variables. See table 3 for the effects of these selection filters.

[Insert Table 3 About Here]

4.2 Empirical Design

To test our hypotheses, we estimate the following logit regression model:

$$\Pr(\text{NoIFRS})_{i,2005} = \alpha + \beta_1 \text{EUReg}_i + \beta_2 \text{Fin}_i + \beta_3 \text{USGAAP}_i + \beta_4 \text{Permit\_Pre}_j + \beta_5 \text{Fcons}_i + \beta_6 \text{Diverse}_i$$
$$+ \delta_1 \text{RegQ}_j + \delta_2 \text{IFRS\_Enf}_j + \delta_3 \text{J\&R\_Enf}_j + \delta_4 \text{SSf}_j$$
$$+ \phi_1 \text{Lev}_i + \phi_2 \text{Close}_i + \phi_3 \text{TA}_i + \phi_4 \text{ROA}_i + \phi_5 \text{USList}_i + \phi_6 \#\text{Ex}_i + \phi_7 \text{AF}_i + \phi_8 \text{SIM}_j + \phi_9 \text{Tax}_j$$
$$+ \text{Industry Fixed Effects} + \varepsilon_i$$

where i indexes firms and j indexes countries. We estimate the model on 2005 data to test the extent to which our three categories of variables are associated with deviations from mandatory IFRS adoption as of the date it was commonly assumed to have occurred. We also estimate the model on 2007 data, after most or all of the exemptions and deferrals had expired to perform more powerful tests on the structural,

[10] We selected firms this way to assure that our 2005, 2007 and 2009 subsamples have the maximum possible number of observations.
[11] These countries are Bulgaria, Cyprus, Latvia, Lithuania, Malta, Slovakia, and Slovenia. See section 5.1 for a diagnostic in which J&R_Enf and SIM are excluded and these seven countries are included in our tests.
[12] See section 5.1 for a diagnostic replication using a sample of firms that are present in all three years.

enforcement, and reporting incentive variables. Finally, we re-estimate the model on 2009 data to assess the extent to which firms have followed a long-term strategy of non-adoption. All estimations use industry fixed effects based on GIC data and all standard errors are clustered by country.

The dependent variable NoIFRS is an indicator that takes the value of 1 if firm i did not adopt IFRS in 2005 (2007, 2009).[13] Our models include independent variables (summarized on table 4 panel A) taken from, among others, Christensen et al. (2011), Ashbaugh (2001), Cuijpers and Buijink (2005), Gassen and Sellhorn (2006), Bae, Tan, and Welker (2008), and Jackson and Roe (2009):

[Insert Table 4 About Here]

Proxies for country-specific or EU-wide implementation mechanisms:[14]

$EUReg_i$ = 1 if firm i is listed on an exchange regulated by the EU;

Fin_i = 1 if firm i is in financial services or insurance (General Industry Classification 4, 5, or 6);[15]

$USGAAP_i$ = 1 if firm i uses US GAAP in its 2004 (2006, 2008) financial statements;[16]

$Permit\_Pre_j$ = 1 if firm i's country j permitted IFRS prior to 2005 and zero otherwise;

$Fcons_i$ = 1 if firm i labels its 2005 (2007, 2009) financial statements as "fully consolidated";

$Diverse_i$ = number of SIC codes for firm i from Worldscope;

Proxies for enforcement:[17]

[13] NoIFRS takes the value of one if the Accounting Standards Followed code (ASF) from Worldscope is not 2 (International Standards), 6 (International Standards with some EUI guidelines), or 23 (IFRS). We classified firms which prepared partially consolidated financial statements (from the Worldscope code Accounting Method for Long Term Investment Greater than 50%) as non-IFRS regardless of their ASF because IFRS (IAS 27 paragraph 9) requires all subsidiaries to be consolidated, including foreign and domestic subsidiaries, and those with dissimilar activities. Our initial sample had 33 partially consolidated financial statements, in fiscal years 2005-2010. The 2005 sample (2007 sample, 2009 sample) originally contained six (six, four) observations which had Worldscope codes for both partial consolidation and IFRS, and in all cases the subsidiaries excluded from the consolidation were foreign or in the insurance and financial services industry. In the final samples, these 16 firms-years are classified as NoIFRS. See section 5.1 for a diagnostic analysis including the partially consolidated firm-years with IFRS ASF as IFRS adopters.

[14] See section 5.2 for diagnostics on implementation specifications.

[15] General Industry Classification (GIC) has six values, including 01 industrial, 02 utility, 03 transportation, 04 bank/savings and loan, 05 insurance, and 06 other financial. All GIC 4, 5, and 6 firms have nonzero FIN values in our regressions. Even though not all countries required financial services and insurance firms to use IFRS for parent only statements, we assume that EU financial firms have incentives to follow the same GAAP as their competitors. See section 5.2 for a diagnostic using nonzero FIN values only for financial firms in countries that specifically required them to use IFRS for parent only statements.

[16] We lag the use of US GAAP to capture the effect of using US GAAP prior to the choice of whether to adopt IFRS. There are 142 firms using US GAAP in 2004 and only 67 in 2005.

[17] See section 5.3 for diagnostics on enforcement specifications.

$RegQ_j$ = the regulatory quality variable for firm i's country j from Kaufmann et al. (2009) and Christensen et al. (2011);[18]

$IFRS\_Enf_j$ = 1 if firm i's country j established a specific agency for enforcement of IFRS;

$J\&R\_Enf_j$ = a proxy for resources invested in securities regulation enforcement by firm i's country j, from Jackson and Roe (2009);[19]

SSf_j = feasibility of short-selling as reported in Charoenrook and Daouk (2005);

Proxies for reporting incentives:[20]

Lev_i = long-term debt divided by the sum of firm i's long-term debt and market value of equity in year t, from Worldscope (following Christensen et al. 2007, 2008);[21]

$Close_i$ = percentage of shares held by insiders in firm i;

TA_i = natural log of total assets from firm i's 2005 (2007, 2009) financial statements;

ROA_i = return on assets from Worldscope;

$USList_i$ = 1 if firm i was listed on NYSE, NASDAQ or AMEX;[22]

$\#Ex_i$ = number of exchanges on which firm i's equity is listed, from Worldscope;

AF_i = log of the number of one-year-ahead EPS forecasts in fiscal year 2005 (2007, 2009) for firm i, or zero if we were unable to match the firm-year to the IBES summary file;

SIM_j= a variable which captures the similarity of local GAAP to IFRS in firm i's country j, based on Bae et al. 2008; and

Tax_j = 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having national accounting regimes that are tax-driven in 2002.[23]

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[18] Christensen, Hail, and Leuz (2011) explain this variable as "an index capturing the ability of the government to formulate and implement sound policies and regulations, taken from Kaufmann et al. (2009) and measured in the year 2003. High values indicate higher regulatory quality." (p. 43). We use Kaufmann et al. (2009) data for 2005-2008, but because those data do not include a value for 2009, we use the 2008 value in our 2009 subsample.

[19] The variable is the natural log of the securities enforcement agency's budget per billion of GDP (USD), from Jackson and Roe (2009).

[20] See section 5.4 for diagnostics on reporting incentives specifications.

[21] We use this formulation of leverage to capture the extent (or intensity) of long-term debt funding relative to equity financing.

[22] Only 44 of our 2005 sample firms were listed on the US exchanges.

Table 4, panels B and C describe the sample and data used in the regression analyses. Sample characteristics in panel B and correlations in panel C are based on the 2005 (2007, 2009) firm-years used to calculate the logistic regression coefficients. From panel B, most of the variables included in the logit model are quite stable across the three annual subsamples. Panel C presents Spearman (lower diagonal) and Pearson (upper diagonal) correlations, and shows that most of the regression variables are significantly associated with the non-adoption of IFRS.

4.3. Comparison of Adopters and Non-Adopters

Table 5 presents a comparison of the IFRS adopters relative to the non-adopters in 2005, 2007, and 2009. Panel A compares three common earnings quality measures, smoothness, nearness to cash, and the correlation between accruals and operating cashflows. The differences between the smoothness measures for adopters and non-adopters are not significant (based on a bootstrapped empirical distribution). Adopters' net income is significantly less strongly related to operating cashflows than that of non-adopters in 2005, but significantly nearer to cash in 2007 and 2009. In addition, the correlation between adopters' accruals and operating cashflows is more negative than that of non-adopters in 2005, but significantly less negative in 2007 and 2009. These results are consistent with more earnings management by adopters in 2005 (either intentionally or as a consequence of the adoption of IFRS), and less earnings management by adopters subsequently.

[Insert Table 5 About Here]

Panel B compares the distributions of a number of other characteristics between adopters and non-adopters and between each group and EU firms on average, including return on assets, analyst following, sales growth, market to book ratio, leverage, the percentage of trading days with zero returns, annual average bid-ask spread, the standard deviation of daily stock returns, the percentage of closely-

[23] Tax = 1 for Austria, Belgium, Bulgaria, the Czech Republic, Finland, France, Germany, Ireland, Italy, Netherlands, Romania, Spain, and United Kingdom.

held shares, and the use of a Big Four auditor. All of these measures differ significantly between adopters and non-adopters at the median, and eight of the ten differ significantly at the mean as well. On average, IFRS adopters are more profitable, followed by more analysts, with slower sales growth and lower market to book ratios, less highly leveraged, more liquid, with lower bid-ask spreads, less volatile stock returns, more widely held equity, and more likely to use a Big Four auditor than are non-adopters. In most cases we can reject that the non-adopters' characteristics are the same as EU firms' on average, from which we conclude that pooling the non-adopters with the adopters in samples of EU firms introduces noise in most empirical estimations.

4.4. Hypothesis Test Results and Discussion

In the third section of this paper we provided evidence that not all EU firms complied with IFRS starting in 2005 and continuing through 2009, thus rejecting Hypothesis 1. In this section we use multivariate analysis to determine why. In panel A of table 6 we present coefficients from the logistic regressions estimated using the three subsamples, including industry and country fixed effects, and in all regressions standard errors are clustered by country.

[Insert Table 6 About Here]

First, we examine whether proxies for EU-wide and country-specific implementation features affect IFRS adoption rates, and find that the regulatory exemptions from IFRS are only partially responsible for IFRS non-adoption. One such exemption was granted to firms not listed on EU-regulated stock exchanges. The coefficient on EUReg is negative and significant only in the 2005 subsample, suggesting that firms from regulated EU markets were only initially more likely to use IFRS than firms listed on non-EU-regulated markets. We attribute the lack of significance for EUReg in 2007 and 2009 to an increase in the use of IFRS by firms from non-EU regulated markets, such as the AIM.

Although many EU members required all financial and insurance firms to use IFRS, the coefficient on Fin is not significant in any subsample. Another deferral was available to firms using US GAAP. The use of US GAAP in the preceding year has a positive and significant coefficient in 2005, 2007, and 2009, i.e. even after the deferral expired. Firms with only debt traded in EU-regulated markets were also given a deferral until 2007. We did not include an indicator for these firms in our regression analysis due to missing financial data. However, there were initially 397 debt-trading firms using IFRS and 203 firms using local reporting standards in our 2005 sample. The exemption from IFRS for firms trading only debt expired in 2007, but we find that only 79 out of 107 firms with non-missing standards and debt-trading data, and full consolidation, used IFRS in 2007. In 2009, 26% of debt-trading firms with consolidated financial reports were still not using IFRS.[24]

Also included in the implementation proxies are permission for early IFRS adoption and additional IFRS requirements. We find that the country-level permission (Permit_Pre) is not associated with the non-adoption of IFRS in the mandatory period. However, it is significantly negatively correlated with the enforcement proxies (Spearman Correlations: -0.27 with IFRS_Enf, not correlated with RegQ, and -0.45 with J&R_Enf in the 2005 subsample), consistent with the idea that permitting early IFRS adoption can be interpreted as leniency of a country's capital market with respect to accounting standardization.[25] Finally, full consolidation is negatively associated with IFRS non-compliance (significant at .01 in all subsamples), meaning that firms preparing consolidated financial statements are more likely to use IFRS. Similarly, our proxy for complexity of corporate structure (Diverse) and therefore the appropriateness of consolidation is negatively related to IFRS non-adoption (significant at .01 in all subsamples). We conclude that firms with consolidated financial reports in the

[24] Data based on the full sample, i.e. including countries with missing SIM and J&R_Enf data.
[25] The coefficient on Permit_Pre when we do not include industry fixed effects and do not cluster by country becomes negative and significant in 2005 and 2007 and loses significance in 2009. See section 5.1 for additional analyses excluding voluntary IFRS adopters from the samples.

mandatory IFRS period are more likely to use IFRS, even though table 2 reported significant numbers of consolidated financial statements prepared using local reporting standards in all three years.

Next, we examine whether enforcement of securities laws affects the likelihood of IFRS adoption. Among the enforcement variables we consider, only the coefficient on the Jackson and Roe (2009) measure is significantly negative, and it is significant only in 2007 and 2009. When we exclude industry and do not cluster standard errors by country, the J&R_Enf coefficient is negative and significant in all subsamples. Our proxy for the ability of a government to enforce rules (RegQ) is not related to the use of IFRS among our sample firms. The presence of a specific IFRS enforcement agency is positively related to IFRS non-adoption in 2007 and 2009, suggesting that it is not enforcement agencies but the resources devoted to enforcement that matter for compliance with IFRS: better funding of enforcement activities is consistent with better oversight and higher rates of IFRS adoption. The feasibility of short-selling is positively related to non-adoption in 2005 and 2007, which is not consistent with short-selling being the mechanism by which local capital markets monitor and enforce financial reporting norms.

Among our proxies for firm-specific reporting incentives, we find that larger firms and firms with higher analyst following are more likely to use IFRS, and firms listed on multiple exchanges are more likely to use IFRS in 2007 and 2009. However, more profitable firms (measured with respect to reported net income) are less likely to use IFRS in 2007 and 2009, perhaps because they are less likely to be scrutinized than are less profitable firms. Overall, we conclude that firms subject to more public attention are more likely to use IFRS.

Cross-listing in the US is positively associated with IFRS non-adoption in 2005, perhaps because of US cross-listed firms' incentives to use US GAAP (the correlation between use of US GAAP and USList is significant and ranges from 25% in 2005 to 57% in 2009). Lack of significance for this

variable in 2007 may be explained by the expiration of the US GAAP exemption in 2007 and by the US permitting IFRS without reconciliation in cross-listed firms' financial reports in 2009.[26] In addition, a larger percentage of closely held shares and leverage are associated with higher probability of using IFRS in 2007 and 2009.[27] Based on these results, we conjecture that the more a firm relies on institutional sources of funding, the more likely it is to use IFRS.

The two variables we use to describe domestic reporting standards, similarity between local reporting standards and IFRS (SIM) and tax-driven financial reporting (TAX) are negatively related to the probability of IFRS adoption in 2007. However, SIM is also significantly positively associated with probability of using non-IFRS reporting standards in 2005. These results suggest that firms using reporting standards similar to IFRS delay first-time IFRS adoption, and that eventually these firms are more likely to switch to IFRS.

5. Supplemental Analyses

5.1. Sample Selection and Definition Diagnostics

Verifying WorldScope Data Classifications. Daske et al. (2012), appendix A, reports error rates in Worldscope designations of IAS and IFRS voluntary adoptions between 1990 and 2005 of 25% of all IFRS voluntary adopters. To assess the effects on our data of errors in designation of consolidation status and accounting principle choice, we verified the Worldscope data for a random 10% of firms from each country for fiscal year end 2009 against each firm's 2009 annual report from ThomsonOne Company Filings or if not available from ThomsonOne from the firm's website. We checked both English and foreign language versions of these reports. In less than 1% of the 686 observations we

[26] See Jiang, Petroni, and Wang (2011) and Hansen, Pownall, Prakash, and Vulcheva (2011) for description and analysis of the US SEC lifting the requirement to reconcile IFRS net income and shareholders' equity to US GAAP.

[27] The definition of "Closely Held Shares" as given by Worldscope encompasses shares held by company officers, shares held by individuals with more than 5% ownership, shares held by pension funds, banks, trusts etc. Here, we interpret Close as a proxy for dispersion of ownership. In other words, higher values of Close are proxies for more concentrated ownership.

verified, Worldscope listed the firm as noncompliant (not using IFRS for consolidated reports), but the firms' annual reports showed that they actually complied. In 1.9% of the observations verified, Worldscope listed the firm as compliant (using IFRS for consolidated reports) but the firm's annual report showed that it was actually not compliant. These errors included 1% (seven observations) that Worldscope coded unconsolidated when they were actually consolidated and not using IFRS, and <1% (six observations) that Worldscope coded IFRS when they were actually not IFRS. We recoded the data to correct these errors, and generated identical inferences with the corrected data as are reported in table 5. Our conclusion is that in contrast to the substantial error rates reported by Daske et al. (2012) for voluntary adopters between 1990 and 2005, our data verification suggests that Worldscope has substantially increased its accuracy as the number of firms using IFRS skyrocketed in 2005 and as of 2009 the data is quite accurate.

Sample definitions. US GAAP and IFRS are both high quality reporting standards, and the EU allowed firms using US GAAP to defer their adoption of IFRS until 2007. To reflect that US GAAP may not be viewed the same way as EU members' local standards, we excluded the US GAAP users from our analysis. Untabulated results do not differ from the table 6 results, although as expected when we exclude US GAAP users, the coefficient on prior year's use of US GAAP becomes insignificant, and cross listing in the US in 2005 ceases to be a significant determinant of non-IFRS reporting.

UK firms make up one-third of our sample. To determine the sensitivity of our results to the British firms, we exclude British firms from the regressions and find that the coefficient on AF in the 2005 subsample is insignificant, but the coefficient on FIN becomes positive and significant in the 2005 subsample. When we conduct our analysis on the sample of UK firms only, the FIN variable is significant and negative in the 2005 subsample, consistent with UK financial services firms being required to use IFRS.

About 15% of the IFRS users in the 2005 sample are firms that adopted IFRS voluntarily prior to 2005. To assess the sensitivity of our results to voluntary IFRS adoption, we repeated the analysis excluding these firms. The coefficient on USGAAP is insignificant in the 2005 subsample, and #EX and SIM are insignificant in 2007. Excluding voluntary IFRS adopters does not affect any other results. When we include an indicator variable for IFRS adoption before 2005, the coefficient associated with this variable is negative and significant at .01 in all subsamples; other results are not affected.

The 2005, 2007 and 2009 subsamples all include some firms which are new issuers and firms which were going out of business. As a sensitivity test of our results we re-estimate the main logistic equation on a constant sample. Our new samples include only firms with all necessary data in all three subsamples, leaving 3,146 firm-years per sample. Some of the re-estimated coefficients differ from the main regression: EUReg is negative and significant in 2007; Fin is positive in 2007 and 2009; Diverse is insignificant in all subsamples; IFRS_Enf, SIM, and Tax are insignificant in 2007.

We also investigated newly listed and delisted firms. We expect that newly listed firms are more likely to accept the status quo and use IFRS, and that they are likely to face more stringent oversight. On the other hand, we expect that some firms facing high costs of noncompliance are more likely to delist to avoid adopting IFRS. We use the date Worldscope added the firms as a proxy for its IPO date (field #11516), and we use the year in which no financial report is available for that and the subsequent year as a proxy for its delisting year.

In our sample of firms in 2005 that present fully consolidated financial statements, we find 95 IPOs using local GAAP, five using US GAAP, and 126 using IFRS. In the 2007 (2009) initial sample presenting fully consolidated financial statements, 82 (61) IPOs used local GAAP, five (five) used US GAAP, and 325 (211) used IFRS. The percentage of IPOs in the initial sample with fully consolidated financial statements using local GAAP in each of the three years is 42% (2005), 20% (2007), and 22%

(2009). The percentages using local GAAP are very similar in the final regression samples. As a benchmark, the percentage in the sample presenting consolidated financial statements and using local GAAP (from table 2 panel C) are 25% (2005), 10% (2007), and 9% (2009). We conclude that IPOs are no more likely than seasoned firms to use IFRS.

Turning to firms classified as delisted according to our proxy and presenting fully consolidated financial statements prior to delisting, in 2005 there were 90 firms using local GAAP, one using US GAAP, and 150 using IFRS. In 2007, there were 21 using local GAAP, three using US GAAP, and 304 using IFRS. We are unable to classify firms as delisted in 2009 because we do not have data for the subsequent year. The percentage of delisted firms presenting consolidated reports using local GAAP is 37% (2005) and 6% (2007). Relative to the full sample benchmarks of 25% and 10%, we conclude the percentage of delisted firms using local GAAP in 2005 was higher than the percentage of firms in the full sample using local GAAP (37% vs. 25%), but this difference had gone away by 2007. This evidence is consistent with Vulcheva's (2012) finding that delisting was a choice made by some EU firms when IFRS was made mandatory.

Keep partially consolidated financial reports as IFRS reports.

For our main analysis we define our dependent variable, NoIFRS =0 if a firm uses IAS or IFRS in its' financial statements in a given year, one otherwise. Most importantly, because IFRS specifically does not allow partial consolidation, for firms which prepared partially consolidated financial statements and had IFRS as their reporting standards (six cases in 2005, six cases in 2007, and four cases in 2009) we replaced their accounting standards with non-IFRS. When we use the original IFRS adoption data, our results are unchanged.

Exclusion of SIM and ENF variables to include all EU countries.

We applied our analysis to the full sample of the EU countries for which we were able to get all necessary data. As a robustness check, we exclude SIM and J&R_Enf because these variables are missing for Bulgaria, Cyprus, Latvia, Lithuania, Malta, Slovakia, and Slovenia. The results of estimating equation 1 on the sample including the additional seven countries, reported in table 6, are only slightly different than the results reported in table 5. In addition to prior results we get positive and significant coefficients on *EUReg* in 2007 and 2009. This result in consistent with our earlier speculation that more firms not listed on EU regulated markets are using IFRS in later periods. In addition to the above results, IFRS_Enf is not significant and SSf becomes significant in 2009.

[Insert Table 6 About Here]

5.2. Implementation Proxy Diagnostics

Further specification of implementation variables.

To further examine requirements of the IFRS regulation we include an interaction variable between EUReg and FCons. The variable is an indicator variable for firms listed on EU regulated markets and preparing consolidated financial statements. When we include this variable in the main regression, it is insignificant in 2005 and 2007, and positive and significant in 2009. Furthermore, EUReg loses significance in 2005. This suggests that the full consolidation is among the most important drivers of IFRS compliance in the mandatory IFRS period.

When we limit our analysis to only fully consolidated financial reports most of our results remain unchanged. The few exceptions are: RegQ is negative and significant in 2007; SSf is positive and significant in 2009; IFRS_Enf is positive and significant in 2005. We also re-estimate our primary equation on a sample of firms listed on EU regulated exchanges and preparing fully consolidated financial statements. Our inferences with respect to the remaining variables are consistent with the full sample inferences.

5.3. Enforcement Proxy Diagnostics

Auditors as accounting regulation enforcers. Auditors may act as accounting rule enforcers in countries with poor IFRS enforcement (DeAngelo,1981; Dopuch and Simunic, 1980). We assume global audit firms would not risk their reputations by certifying statements that are not compliant with current accounting rules. As a diagnostic, we control for auditor type in our logistic analysis. Our results do not change when we include an indicator variable for the Big Four audit firms: Deloitte, KPMG, PWC, and Ernst & Young. The coefficient associated with the indicator variable is negative and significant in all subsamples. This suggests that having a big auditor increases the likelihood of IFRS adoption.

Effect of Corruption control. We also examined the association between non-adoption of IFRS and corruption in the EU countries. We use a Corruption Control variable from Kaufmann et al. (2009). As in the case of RegQ, we use the value from 2008 in our 2009 subsample analysis. Results indicate that control of corruption is not associated with the likelihood of using non-IFRS standards.

Short-selling feasibility. In our main analysis we use *SSf*, short selling feasibility variable. As a diagnostic, we redefined *SSf* to equal one when either short selling or put options trading is feasible, since both short-selling and put options are mechanisms by which negative information can be impounded in stock prices. Data on feasibility of both short-selling and put options trading is from Charoenrook and Daouk (2005), based on surveys of 111 capital markets and derivatives exchanges during 2002. Most of our prior inferences do not change, but this alternative specification of *SSf* is insignificant in all subsamples.

We used two other proxies for the feasibility of short-selling: float, measured as the average daily trading volume as a percentage of shares outstanding; and zero_trade, defined as the number of trading days in each year that firm i's equity securities were not traded. Both of these measures are proxies for liquidity, and should be positively related to short-selling because they are associated with

the ease with which a short-seller can borrow securities to sell them short. The results of including them in the logit regressions are quite similar to the results for SSf in the main analyses. Zero_trade is always positive and significant, and float is positive and significant in 2007 and 2009.

Further Investigation of Enforcement Mechanisms. Summary statistics in table 2 establish that many EU firms did not adopt IFRS in 2005, and our regression analyses attempt to establish why they did not. In particular, our implementation and enforcement variables attempt to explain why firms were not forced to comply with mandatory IFRS reporting. We tested the extent to which features of the EU-wide and country-specific implementation did not require some firms to adopt IFRS, and found that this is part of the answer. We also tested whether the expiration of the exemptions and deferrals lead to more complete adoption of IFRS by the EU firms, and found that a very inadequate answer (see results on Fin and USGAAP on table 5, panel A). The third explanation we tested was whether firms were able to stay outside of the EU regulatory powers, and found that it is a partial explanation in the year IFRS were first mandated by the EU but that it does not explain continued non-adoption in 2007 and 2009.

Our proxies for enforcement do not offer a compelling explanation for firms' failure to comply, as even in strong enforcement countries like the UK there is substantial incidence of firms presenting fully consolidated financial statements using local or US GAAP, even in 2009 (see table 2 panel C). To investigate the failure of enforcement to produce more complete compliance with IFRS, we focus on the expected penalties for non-compliance and the enforcement measures available to the EU and its member countries. We examined excerpts of enforcement actions periodically published by ESMA. There have been ten such excerpts published so far, each with at least ten enforcement cases reviewed, but none of the cases involved non-adoption of IFRS. We also searched for evidence of penalties for noncompliance with IFRS, starting with a preliminary search on websites of national authorities responsible for enforcement in EU member countries. We found penalties for two Polish firms failing to

comply with IFRS: MNI SA in 2005 and ATM SA in 2006 an (KNF, 2011). The firms had to pay 30,000 and 100,000 zloty (about USD 10,000 and 30,000), respectively. Relative to the total assets of MNI SA (126 million dollars in 2005), and the total assets of ATM SA (58 million dollars in 2006), these penalties are quite small (data available in WorldScope).

In addition, we examined regulations concerning enforcement of IFRS and the EU reports on enforcement of IFRS in the EU countries. We found that EU sanctions for securities law violations are limited. Article 41 of Directive 2004/39/EC (on sanctions and penalties for EU regulated firms) states that a firm may be sanctioned "unless such a step would be likely to cause significant damage to the investors' interests or the orderly functioning of the market" (OJ, 2004, p. 29). This suggests that in some cases penalties may be reduced because of potential adverse effects on investors.

Next, we searched through EU reports on enforcement of securities laws. The 2009 report shows that 45% of the EU countries had fully developed enforcement authorities. Six percent had no enforcement authorities in place and the rest of the EU countries had partially developed enforcement mechanisms (CESR, 2009). Given low probability of enforcement and low penalties for noncompliance, firms with little to gain from the adoption of IFRS may rationally chose not to incur the costs of converting from local (or US) GAAP to IFRS.

5.4. Reporting Incentives Proxy Diagnostics

Alternative specification of reporting incentive variables.

We examined whether our results are sensitive to replacing *ROA* with Altman's Z-score. Both variables capture a firm's profitability, but the Z-score also captures the probability of default. When we include Z-score in our regression, it is positively related to non-adoption in 2007 and 2009 (higher Z-scores imply less risk of default). Like our earlier results on ROA, this suggests that more profitable firms were less likely to adopt IFRS, perhaps they were subject to less scrutiny. Furthermore, Fin

becomes negative and significant in 2005 and 2007, which suggests that when we control for a firm's profitability and solvency, financial and insurance companies are more likely to adopt IFRS.

5.5. Relative Explanatory Power of Implementation, Enforcement, and Reporting Incentives Proxies.

Table 7 reports re-estimations of our logit regression for the 2005 data in pieces, to evaluate the relative strength of the implementation, enforcement, and reporting incentives variables, and to assess the sensitivity of our results to the correlation structure among the three sets of explanatory variables. All columns in table 7 include industry and country fixed effects. Column 1 repeats the table 5 results for 2005 as a benchmark; column 2 reports the results of regressing the NoIFRS variable on only a constant and industry fixed effects; column 3 reports on regressions of NoIFRS on the implementation variables; column 4 uses only the enforcement variables; column 5 uses only reporting incentives proxies; and the remaining three columns report on regressions excluding one set of independent variables at a time. Standard errors in all regressions are clustered by country. Results of estimating these diagnostic regressions on the 2007 and 2009 data (untabulated) support similar conclusions.

[Insert Table 7 About Here]

When only the enforcement variables are included RegQ and IFRS_Enf are significant at .10 or better, but the signs are not robust to including the implementation or incentives proxies. In addition, the pseudo R^2 for the enforcement proxies alone (.06) is only slightly larger than the pseudo R^2 from simply including the fixed effects (.02). The pseudo R^2s from including either the implementation proxies (.26) or the reporting incentives proxies (.35) are materially larger than the pseudo R^2 from including only the enforcement proxies, and the pseudo R^2 from including the implementation and reporting incentives proxies are indistinguishable from the pseudo R^2 from the full model.

Finally, we use an alternate EUReg specification to determine the effects of designating those firms traded on exchanges regulated by the EU as EU-regulated, as opposed to designating only firms traded on EU-regulated sections of exchanges as EU-regulated. This re-specification relies on the distinction between firms traded on EU regulated markets and firms whose shares are specifically designated as regulated by the EU, which is not a perfect subset. ESMA provides a list of *exchanges* which are regulated by the EU and a list of *firms* which are regulated by the EU. We match the ISIN numbers of the listed firms' shares with ISIN numbers of shares of firms in our sample.[29]

Most of the European exchanges have created separate market segments for regulated firms (required to abide by the EU requirements) and unregulated firms (required to abide by the exchange's rules but not required to follow EU requirements). Currently, financial databases providing exchange listing data do not differentiate between firms listed on the two types of market segments. Therefore, when we designated all firms listed on EU-regulated exchanges as regulated firms we included firms listed on unregulated segments. The alternative specification of EUReg allows us to capture only the firms which are listed on regulated segments, thus minimizing classification errors. The results of this diagnostic are reported on table 8.

[Insert Table 8 About Here]

The results reported on table 8 are very similar to the results reported on table 5. When we use the EUReg variable based on regulated share status, our inferences change to some extent. The main differences between the table 8 and table 5 results are that the more precise definition of EUReg

[29] The list is available since June 2007 (our fiscal year 2006). We match the lists for fiscal 2006 with our sample year 2005 assuming that not that many firms changed their regulated status between these years. We are able to match 5303 shares, which we define as regulated in their respective fiscal year samples. We were not able to find 3571 ISIN numbers from ESMA in our dataset and 3049 of the codes in our dataset were not found in ESMA- we define these as not-EU regulated. As another compelling evidence for IFRS non-adoption we find that within our share-year specific list of the EU regulated firms 3.70% (2.38%, 2.41%) of firms regulated in 2005 (2007, 2009) are not using IFRS in their consolidated financial reports.

generates significant coefficients in 2005, 2007, and 2009 (as opposed to only 2005 in table 5), and the pseudo R^2s reported on table 8 are 20% higher than the pseudo R^2s reported on table 5. We conclude that detailed specification of the IFRS regulation requirements and exemptions explains a significant part of the IFRS non-compliance phenomenon.

6. Conclusions and Discussion

In this paper, we evaluated the common assertion that EU firms adopted IFRS in 2005 when the EU formally adopted IFRS for firms traded in EU regulated capital markets. We find that although the incidence of firms using local (or some other) GAAP has declined between 2005 and 2009, it is still nontrivial. Specifically, in 2005 about 35% of all EU firms were still using local GAAP, and by 2009 the incidence of non-IFRS use was still in excess of 16%. We estimate a model of the non-adoption of IFRS as a function of proxies for the EU-wide and country-specific implementation of the IFRS regulation, country-specific enforcement mechanisms, and firm-specific reporting incentives. We estimate the model for data from 2005 (when the IFRS regulation went into force), 2007 (when most exemptions and deferrals expired), and 2009. We find that the coefficients on most of our proxies for features of the regulation's implementation are significant in the predicted direction in 2005, meaning that being traded in EU-regulated markets, preparing fully consolidated financial statements, and having a more diversified corporate structure are positively associated with the likelihood of using IFRS when it was initially required, and using US GAAP in the preceding year was significantly negatively associated with adopting IFRS at the implementation of the regulation. Being traded in EU-regulated markets has little or no association with using IFRS in 2007 and 2009, perhaps because the AIM firms were required by the LSE to use IFRS beginning in 2007. The other implementation variables retain their 2005 association with using IFRS in 2007 and 2009.

We find little evidence that cross-country enforcement conditions or mechanisms are associated with IFRS adoption during our time period. This may be because countries that have traditionally been strong enforcers of securities regulation were both more likely to adopt specific IFRS enforcement mechanisms, and expected to be stronger enforcers of rigorous application of IFRS, creating both greater likelihood of enforcement and higher costs associated with adoption (see Christensen et al. 2011). Firms in these environments may have adopted strategies to avoid adopting IFRS other than disregard for the new regulation, such as delisting from EU regulated markets, avoiding consolidation, or moving to a domicile outside the EU (see Vulcheva 2012 and Brüggemann et al. 2011).

Finally, we find that being large and closely-held with wider analyst following is associated with adopting IFRS, both when the regulation was initially imposed (2005) and in subsequent years (2007 and 2009). In addition, being listed in the US is significantly associated with not adopting IFRS in all three years. Leverage is significantly associated with using IFRS in 2007 and 2009, but not in 2005.

We interpret our results to mean that many EU firms do not use IFRS; that firms exploited definitions, exemptions, and deferrals in the regulation to avoid adopting IFRS; and that firms responded to their reporting incentives in making the decision to adopt IFRS. We believe our results are important for investors and researchers making assumptions about European firms' choice of GAAP, to EU regulators in evaluating the efficacy of the mandatory imposition of IFRS, and to the US standard-setting community as we consider whether and how to adopt IFRS in the US.

Our results suggest that the samples used in research on mandatory IFRS adoption frequently are not representative of the populations they purport to represent, and therefore cannot support unconditional inferences about the reporting behavior of EU firms in general. The straightforward examples of this issue are the research papers which define all EU countries or all firms listed in the EU countries as mandatory IFRS adopters. As we have shown here, IFRS adoption is mandatory only for

specific groups of firms and these groups are not the same across countries. Even when IFRS adoption is mandatory, EU firms do not comply with the rule in a nontrivial percentage of cases.

As a solution, we suggest that researchers take account of the details of regulations mandating IFRS across jurisdictions around the world, and condition their inferences accordingly (COM 2005, 2008, 2010). We conclude that firms combine flexibility in the rules with the probability of enforcement to respond to their reporting incentives in making financial reporting choices.

Future research might profitably expand on two additional features of our sample and data. First, our sample contains 164 firms that changed reporting standards from IFRS to some other GAAP, and those firms' annual reports might be examined to determine the reason for the change. Further empirical analysis of those observations in the framework of our main analyses may yield additional insights into factors associated with non-adoption of IFRS. Second, a subset of our sample presented fully consolidated 2009 annual reports using non-IFRS reporting standards even though each firm is an EU-regulated share. For this subset of firms, a search for enforcement actions taken by the securities regulators or the firm's auditors may contribute to our understanding of the constraints on firms' choices of accounting standards.

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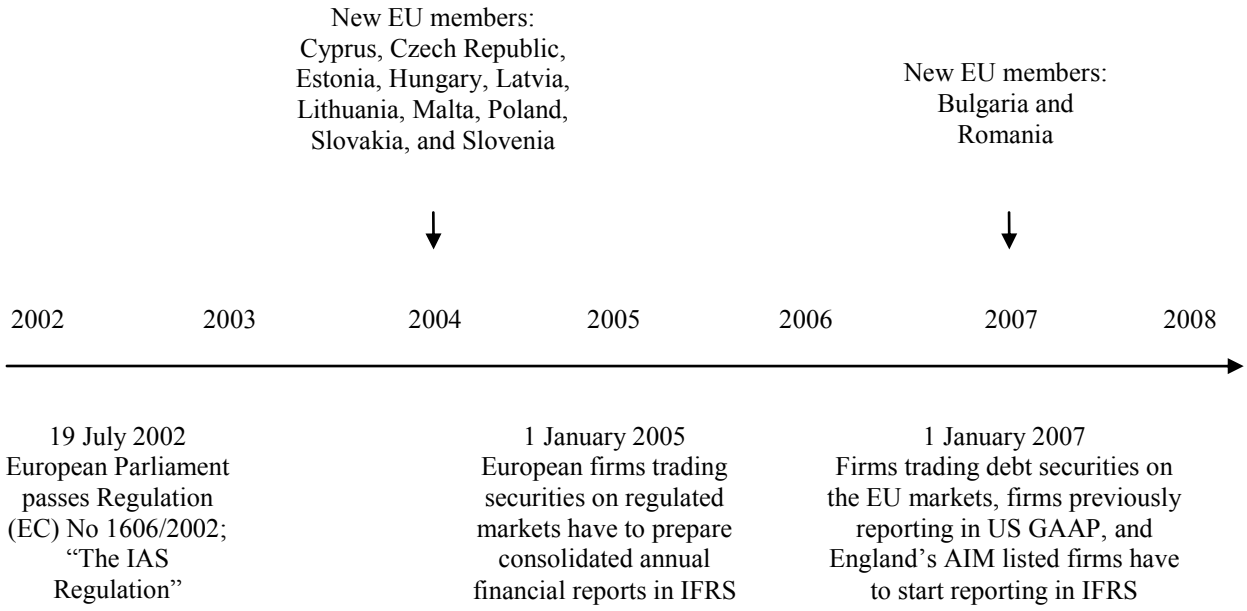
Figure 1: Timeline of Major Events Related to the EU Adoption of IFRS



Source: COM (2008)

Table 1: Mandatory IFRS adoption options by country, post 2005*

Country	Publicly traded companies		Non-publicly traded companies		Adoption deferral**		Early adoption
	Consolidated	Single entity	Consolidated	Single entity	Debt	Intern	
Austria	R	N	P	N	Y	Y	Y, consolidated reports since 1998
Belgium	R	N	R for credit institutions, P for others	N	Y	Y	Y, consolidated
Bulgaria	R (EU member since 2007)	R (EU member since 2007)	P for SME's, R for others (EU member since 2007)	P for SME's, R for others (EU member since 2007)	No	No	Y, mandatory for listed companies, banks, insurance, and investment firms wince 2003, voluntary for others since 2003
Cyprus	R	R	R	R	No	No	Required for all companies since 1981
Czech Republic	R	R	P	N	No	No	Yes, for all companies
Germany	R	N	P	N	Y	Y	Yes, for consolidated listed since 1998 and for cons. Unlisted since 2003
Denmark	R	Pre 2009: P for all. Post 2009: P for financial companies, R for others	P	P	No for financial, Y for others	No	No for financial companies, Yes for others starting in 2004
Spain	R	N	P	N	No for banking companies, Y for others	No	No
Finland	R	N for insurance, P for others	P	N for insurance, P for others	Y	No	No for insurance. Others: Y, since 2003 for listed cons, since 2004 for others
France	R	N	P	N	Y	-	No
United Kingdom	R	P	P	P	No	No	No
Greece	R	R	P	P	No	No	Yes, since 2004 and only for companies audited by certified auditors
Hungary	R	N	P	N	Y	No	No
Ireland	R	P	P	P	Y	No	No
Italy	R	N for insurance companies, R for others	R for financial and insurance companies, P for others	R for financial companies, N for insurance, and P for others	No	No	No
Lithuania	R	R	R for banks and financial, N for insurance and P for others	R for banks and financial, N for insurance and P for others	No	No	Y for banks and financial institutions since 1997
Luxembourg	R	P	P	P	Y	Y	Individual basis
Latvia	R	R for banks, insurance, and financial, P for others	R for banks, insurance, and financial, P for others	R for banks, insurance, and financial, N for others	No	No	Yes, R for banks, insurance and other financial and P for others before 2005
Malta	R	R	R	R	No	No	Yes, for all companies
Netherlands	R	P	P	P	No	No	No
Poland	R	N for banks, P for others	R for banks, P for companies applying for regulated listing and IFRS firm's subsidiaries, N for others	P for companies applying for regulated listing and IFRS firm's subsidiaries, N for others	Y	No	No
Portugal	R	N for banks, P for others	P	P for IFRS firm's subsidiaries, N for others	No	No	Individual basis
Slovakia	R	N	R	N	No	No	No
Slovenia	R	R for banks and insurance companies, P for others	R for banks and insurance companies, P for others	R for banks and insurance companies, P for others	Y	No	No
Sweden	R	N	P	N	Y	No	No

*Sources: COM, 2008; COM 2008 A; COM, 2010 (2008, 2005) ; Abbreviations: R-required, P-permitted, N- not allowed, Y- option used, No- option not used
**_Debt_ refers to deferral for companies trading only debt securities in the EU regulated markets. _Intern_ refers to the deferral available to firms trading in international securities markets and using international accepted accounting standards. Both deferral options expire in 2007.

Table 2: Initial Sample of Publicly Traded EU Firms

Panel A. Country Shares of Initial Sample

Country	# of firms	%
Austria	109	1.29
Belgium	174	2.05
Bulgaria	236	2.78
Cyprus	126	1.49
Czech Republic	29	0.34
Germany	1,018	12.00
Denmark	414	4.88
Spain	183	2.16
Finland	142	1.67
France	897	10.58
United Kingdom	2,883	33.99
Greece	339	4.00
Hungary	45	0.53
Ireland	93	1.10
Italy	333	3.93
Lithuania	38	0.45
Luxembourg	64	0.75
Latvia	31	0.37
Malta	14	0.17
Netherlands	214	2.52
Poland	409	4.82
Portugal	66	0.78
Slovakia	28	0.33
Slovenia	44	0.52
Sweden	552	6.51
Total	8,481	

The sample firms have been selected based on advanced search criteria in Thomson One Worldscope database. Selection criteria limit sample to the public firms which originated in the European Union countries. The last selection criterion included only the companies with the value of total assets higher than zero in at least one of the years 2005-2010.

Panel B: Frequency of Accounting Standard Choice by Consolidation type

Sample	Consol. / Standards	Sin	PCons	FCons	Unknown	Total
	Other	3	0	9	0	12
	Local	573	6	3,792	297	4,668
2002	US GAAP	1	1	168	0	170
	IFRS	16	0	392	5	413
	Total	593	7	4,361	302	5,263
	Other	2	0	8	3	13
	Local	676	4	4,206	376	5,262
2004	US GAAP	1	0	141	0	142
	IFRS	38	0	866	11	915
	Total	717	4	5,221	390	6,332
	Other	3	0	6	2	11
	Local	656	6	1,500	418	2,580
2005	US GAAP	1	0	65	1	67
	IFRS	288	0	4,459	32	4,779
	Total	948	6	6,030	453	7,437
	Other	2	0	6	0	8
	Local	501	6	616	342	1,465
2007	US GAAP	1	0	60	2	63
	IFRS	337	0	5,547	64	5,948
	Total	841	6	6,229	408	7,484
	Other	2	0	4	0	6
	Local	421	4	508	265	1,198
2009	US GAAP	0	0	58	1	59
	IFRS	281	0	5,124	49	5,454
	Total	704	4	5,694	315	6,717

FCons- Full consolidation as provided by Worldscope; PCons-partially consolidated; Sin- single entity basis accounts; We determine whether financial statements are consolidated or separate based on the Worldscope field for Accounting Method for Long Term Investment Greater than 50% (Field # 07531). For example, year 2005 contains all firms-year observations with fiscal year end 12/31/2005 to 12/30/2006. Local stands for local reporting standards, US GAAP and IFRS are the respective reporting standards' sets.

Panel C: Frequency of Accounting Standard Choice by Consolidation and Country-Year

		Accounting Standards						Consolidation Level*						FCons & Local GAAP		
			2005			2009			2005			2009				
Country	Firms	Local	US	IFRS	Local	US	IFRS	Sin	PCons	FCons	Sin	PCons	FCons	2005	2007	2009
Austria	109	15	0	91	6	0	84	12	0	94	5	0	85	3	3	2
Belgium	174	31	1	126	17	0	122	13	0	137	5	0	131	13	12	10
Bulgaria	236	1	0	199	0	0	236	129	0	71	147	0	89	1	0	0
Cyprus	126	0	0	120	0	0	124	7	0	113	7	0	117	0	0	0
Czech Rep.	29	3	0	26	0	0	18	5	0	23	1	0	16	3	2	0
Germany	1,018	286	14	641	214	4	596	170	0	765	116	0	694	123	117	104
Denmark	414	222	0	142	222	0	169	118	1	245	157	0	232	120	116	83
Spain	183	26	1	146	16	1	139	28	0	144	13	0	143	6	4	5
Finland	142	3	0	135	0	0	128	0	0	138	0	0	128	3	1	0
France	897	262	4	563	174	3	545	104	1	693	56	1	641	128	128	96
UK	2,883	1,378	10	1,023	316	15	1,593	119	1	1,945	49	1	1,634	949	94	79
Greece	339	1	10	306	1	13	278	37	0	280	20	0	271	0	0	0
Hungary	45	5	0	30	8	0	33	5	0	30	4	0	36	2	3	3
Ireland	93	32	1	52	1	2	61	4	0	80	2	0	63	27	4	1
Italy	333	27	3	279	4	2	280	27	2	281	14	2	271	10	2	2
Lithuania	38	1	0	28	0	0	37	3	0	26	0	0	37	1	1	0
Luxembourg	64	8	6	45	2	3	47	8	0	51	5	0	47	3	2	1
Latvia	31	22	0	7	16	0	15	22	0	7	19	0	12	4	2	2
Malta	14	1	0	11	1	0	12	0	0	13	0	0	13	1	1	1
Netherlands	214	24	17	158	12	16	135	2	0	179	1	0	155	6	5	4
Poland	409	113	0	210	73	0	314	87	1	212	50	0	314	23	27	31
Portugal	66	10	0	51	5	0	50	7	0	54	4	0	51	4	3	3
Slovakia	28	5	0	14	11	0	10	3	0	14	6	0	13	2	5	4
Slovenia	44	7	0	17	8	0	33	4	0	18	7	0	34	3	3	2
Sweden	552	97	0	359	91	0	395	34	0	418	16	0	468	65	81	75
TOTAL	8,481	2,580	67	4,779	1,198	59	5,454	948	6	6,031	704	4	5,695	1,500	616	508

FCons- Full consolidation as provided by Worldscope; PCons-partially consolidated; Sin- single entity basis accounts; We determine whether financial statements are consolidated or separate based on the Worldscope field for Accounting Method for Long Term Investment Greater than 50% (Field # 07531). See Table 4 and Appendix 1 for more detail on how we specify the consolidation status. Frequencies provided in this table are based on the whole sample, before elimination of companies with missing data. Each year contains all observations for which fiscal period starts within that year. For example, year 2005 contains all firms-year observations with fiscal year end 12/31/2005 to 12/30/2006.

Table 3: Sample Selection

Full Sample:	= 8,481 firms
- 7 countries with missing data	= 7,964 firms
2005 sample	
Firm-year observations	= 7,036
-missing Accounting Standards Followed	- 33
-missing consolidation data	- 449
-missing GIC	- 1,036
	= 5,518
-missing regression variables	- 1,620
2005 logistic regression sample	**= 3,898**
2007 sample	
Firm-year observations	= 7,015
-missing Accounting Standards Followed	- 32
-missing consolidation data	- 406
-missing GIC	- 1,028
	= 5,549
-missing regression variables	- 662
2007 logistic regression sample	**= 4,887**
2009 sample	
Firm-year observations	= 6,230
-missing Accounting Standards Followed	- 16
-missing consolidation data	- 313
-missing GIC	- 865
	= 5,036
-missing regression variables	- 334
2009 logistic regression sample	**= 4,702**

Table 4: Data Description

Panel A: Variable Definitions

Variable Name	Suppressed Subscripts	Variable Description	Source
NoIFRS	*i, t*	Variable is a proxy for using non-IFRS standards in the period of mandatory IFRS. NoIFRS = 0 if a firm uses IAS or IFRS in its' financial statements in a given year, and =1 otherwise. We code reporting standards as IAS/IFRS if Worldscope code for Accounting Standards Followed (ASF) (item #07536) is 2-International Standards, 6-International Standards with some EU guidelines and 23-IFRS. Variable is set to missing if ASF is missing for that firm-year. Furthermore, for firm-years with partially consolidated financial statements and IFRS as their ASF (33 cases in fiscal years 2005-2010), we have replaced ASF with non-IFRS. IFRS specifically does not allow partial consolidation.	Worldscope
EUReg	*i, t*	Variable represents firm's listing on a stock market regulated by the EU. EUReg= 1 if the Thomson ONE variable "Primary Exchange", defined as the stock exchange where the primary issue of the firm is traded, can be found on the list of the EU regulated markets . The list of regulated stock markets is provided by the EU in the Official Journal of the European Union, and it is published at least once a year. Another list is provided jointly by the European Securities and Markets Authority (ESMA), and the Committee of European Securities Regulators (CESR) in the form of MiFID (*Markets in Financial Instruments Directive)* database. The variable is set to zero for all other exchange codes.	Thomson One, OJ (2009, 2007, 2005), ESMA, and CESR
Fin	*i*	Variable is an indicator variable for financial services and insurance firms. Fin = 1 Worldscope General Industry Classification (item # 06010) has a value of 4- Bank/Savings & Loan, 5- Insurance, or 6- Other Financial, and zero otherwise.	Worldscope
USGAAP	*i, t*	USGAAP is an indicator variable for firms which used the US reporting standards in a prior year. USGAAP= 1 if Worldscope field for prior-year ASF contains the following values: 3- U.S. Standards (GAAP), 20- US GAAP reclassified from local standards. Variable equals zero for all other values of prior-year ASF and is missing for missing prior-year ASF.	Worldscope
Permit-Pre	*j*	Variable equals 1 if a country where firm is domiciled allowed adoption of IFRS prior to 2005. The values for the variable are coded based on the following documents: *Use of options of the IAS Regulation by Member States* by the European Commission (EC 2010, 2008, 2005), and the *Report of the Commission to the Council and the European Parliament on the Operation of Regulation (EC) No 1606/2002 on the application of international accounting standards* (COM, 2008). Variable was used in Cuijpers and Buijink (2005).	EC 2010, 2008, 2005, and COM, 2008
FCons	*i, t*	We determine whether financial statements are consolidated or separate based on the Worldscope field for Accounting Method for Long Term Investment Greater than 50% (from now on: Investment) (Field # 07531). We code financial statements as fully consolidated if the Investment field has one of the following values: *1-All subsidiaries consolidated, 8-Consolidated for significant subsidiaries others on equity basis, 10- Consolidated for significant subsidiaries others on cost basis, 17-Consolidated for significant subsidiaries others on equity basis or proportional consolidation*. We have 5, 793 fully-consolidated and 786 individual/separate firm-year financial reports in fiscal year 2005.	Worldscope
Diverse	*i*	The value of the variable is the number of SIC codes for a given firm. The variable is a count of separate codes in the SICCode data item in Worldscope, which is composed of eight fields # 07021 through 07028.	Worldscope

RegQ	*j*	The regulatory quality variable from Kaufmann et al. (2009). Christensen, Hail, and Leuz (2011) explain this regulatory quality variable as "an index capturing the ability of the government to formulate and implement sound policies and regulations"(Christensen et al., p. 43). We collect values of RegQ from Kaufmann et al. (2009) for each country-year in our sample. Since the values of this variable are not available for 2009 and 2010 we use the values from 2008 for these years.	Christensen, Hail, and Leuz (2011); Kaufmann et al., 2009
IFRS_Enf	*j*	Variable is an indicator variable for presence of specific IFRS enforcement institution in a given country. We code the variable as 1 for countries which according to the CESR's Review of Implementation and Enforcement of IFRS in the EU (CESR, 2007) established full enforcement of IFRS prior to 2007.	CESR, 2007
J&R_Enf	*j*	J&R_Enf variable is a proxy for resources invested in enforcement of securities laws in a given country. We define it as the natural logarithm of the enforcement agency's budget per billion of GDP (USD). The variable is based on Jackson and Roe (2009).	Jackson and Roe, 2009
Lev	*i, t*	Leverage variable is defined as the ratio of long-term debt (item # 03251) to the sum of long-term debt and market capitalization (item # 08001).	Worldscope
Close	*i, t*	Percentage of shares held by insiders. The variable is calculated as the ratio of Closely Held Shares (item # 05475) to Common Shares Outstanding (item # 05301). In cases where the number of shares held by insiders is not provided by Worldscope, we assume that it is zero. In cases where the ratio is higher than one, we assume that there was an error in the Worldscope data and we drop these observations from our analysis. This results in dropping 220 (138; 68) firm-year observations from the fiscal 2005 (2007; 2009) sample.	Worldscope
TA	*i, t*	TA is a proxy for firm size. TA is calculated as the natural logarithm of total assets (USD) reported by a firm *i* (item # 02999)	Worldscope
ROA	*i, t*	Return on assets is a proxy for firm profitability. The value of ROA comes from Worldscope database (Field # 08326)	Worldscope
USList	*i*	US listing indicator variable takes on a value of 1 if a firm was listed on a US stock exchange. This variable has been used in Ashbaugh (2001).The US exchanges include: NYSE, NASDAQ, and American Stock Exchange. The variable is based on exchange listing provided by Worldscope in Stock Exchange(s) Listed field (#05427) and in Thomson One Primary Exchange field.	Worldscope, Thomson One
#EX	*i*	Number of exchanges on which firm *i*'s stock is traded. Variable equals the number of separate exchange codes from the Stock Exchange(s) Listed (item # 05427) from Worldscope. Variable is based on Gassen and Sellhorn (2006).	Worldscope
SSf	*j*	Data on feasibility of short-selling as reported in Charoenrook and Daouk (2005). The data come from surveys of 111 capital markets and derivatives exchanges during 2002.	Charoenrook and Daouk (2005)
AF	*i, t*	Analyst following. The variable is a natural logarithm of the highest number of one-year ahead EPS forecasts outstanding in any of the 12 months preceding fiscal year end for firm *i* in year *t*. The data is obtained from IBES summary file.	I/B/E/S History Summary File
SIM	*j*	Variable is a proxy for similarity between local reporting standards and IFRS. It is taken from Bae et al. (2008) who sum the differences between specific accounting standards. To create our variable we define it as negative of the natural logarithm of the Bae et al. (2008) measure. As a result, higher values of SIM mean that local reporting standards are more similar to IFRS.	Bae et al., 2008
Tax	*j*	Variable equals 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having tax-driven nature of the National Accounting Regime in 2002. These countries include: Austria, Belgium, Bulgaria, the Czech Republic, Finland, France, Germany, Ireland, Italy, Netherlands, Romania, Spain, and United Kingdom.	BDO et al., 2003
Industry F.E.	*i*	Six indicator variables gic01-gic06. Where gicN equals 1 if firm *i* has an N GIC industry code; ic01 (industrial) firms are included in the regression intercepts.	Worldscope
Country Clustering	*j*	Standard errors in all regression analyses are clustered by country. There are eighteen countries in the main analyses and twenty-five countries in one of the robustness analyses (excluding SIM and J&R_Enf). Inferences are not affected when we use country fixed effects instead of clustering by country.	

Panel B: Data Description

Fiscal Year	2005			2007			2009		
Variable	μ	med	σ	μ	med	σ	μ	med	σ
NoIFRS	.22	0	.41	.17	0	.38	.16	0	.37
EUReg	.85	1	.35	.89	1	.32	.96	1	.20
Fin	.18	0	.38	.17	0	.38	.17	0	.37
USGAAP	.03	0	.17	.01	0	.09	.01	0	.09
Permit_Pre	.39	0	.49	.39	0	.49	.39	0	.49
FCons	.90	1	.30	.90	1	.30	.91	1	.28
Diverse	3.33	3	2.03	3.05	3	1.98	3.07	3	1.99
RegQ	1.37	1.42	.33	1.44	1.5	.37	1.43	1.46	.35
IFRS_Enf	.61	1	.49	.60	1	.49	.58	1	.49
J&R_Enf	10.51	10.27	.73	10.48	10.27	.71	10.46	10.27	.71
SSf	.82	1	.39	.82	1	.38	.80	1	.40
Lev	.42	.41	.27	.39	.37	.26	.45	.45	.28
Close	28.42	19.12	29.76	28.18	17.55	30.53	30.28	22.63	31.04
TA	5.22	4.89	2.50	5.35	5.11	2.50	5.24	5.03	2.57
ROA	2.37	4.54	26.51	.28	4.78	48.54	-2.29	2.28	54.87
USList	.01	0	.08	.01	0	.08	.01	0	.09
#EX	1.29	1	.80	1.23	1	.71	1.23	1	.72
AF	.75	0	1.05	.75	0	1.05	.80	0	1.08
SIM	-1.97	-2.40	1.01	-1.97	-2.40	1.00	-2.02	-2.40	.96
TAX	.69	1	.46	.65	1	.48	.65	1	.48
N	3898			4887			4702		

The table presents descriptive characteristics of firms whose fiscal years begin in 2005 (2007, 2009). To calculate sample characteristics we included only the data which is used in the logistic regressions. Variables included in the table: NoIFRS=1 if firm i did not adopt IFRS in 2005 (2007, 2009); *Proxies for country-specific or EU-wide implementation mechanisms*: EUReg = 1 if firm i is listed on an exchange regulated by the EU; Fin = 1 if firm i is in financial services or insurance; USGAAP = 1 if firm i uses US GAAP in its 2004 (2006, 2008) financial statements; Permit_Pre = 1 if firm i's country permitted IFRS prior to 2005 and zero otherwise; *Proxies for single legal entity structure*: FCons = 1 if firm i labels its 2005 (2007, 2009) financial statements as "fully consolidated"; Diverse = number of SIC codes for firm i from Worldscope (a proxy for complexity and therefore the potential for consolidation); *Proxies for enforcement*: RegQ = the regulatory quality variable from Christensen, Hail, and Leuz (2011); IFRS_Enf = 1 if firm i's country established a specific agency for enforcement of IFRS; J&R_Enf = a proxy for resources invested in securities regulation enforcement from Jackson and Roe (2009); SSf= feasibility of short-selling as reported in Charoenrook and Daouk (2005); *Proxies for reporting incentives*: Lev = long-term debt divided by the sum of long-term debt and market capital for firm i in year t, from Worldscope; Close = percentage of shares held by insiders based on Closely Held Shares provided by Worldscope; TA = natural log of total assets from firm i's 2005 (2007, 2009) financial statements (a proxy for size); ROA= Return on assets; USList = 1 if firm i was listed on NYSE, NASDAQ or American Stock Exchange; #Ex = number of exchanges on which firm *i*'s equity is listed, from Worldscope; AF = analyst following for firm i in 2005 (2007, 2009); SIM = a variable which captures the similarity of local GAAP to IFRS, based on Bae et al. 2008; and Tax = 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having tax-driven nature of the National Accounting Regime in 2002.

Panel C: Spearman \ Pearson Correlations: Fiscal Year 2005 (2007; 2009)

2005	NoIFRS	EUReg	Fin	USGAAP	Permit	FCons	Diverse	RegQ	IFRS_Enf	J&R_Enf	Lev	Close	TA	ROA	USList	#EX	SSf	AF	SIM	Tax
NoIFRS	1	-0.19*	0.04*	0.05*	-0.13*	-0.47*	-0.26*	0.20*	0.07*	0.10*	-0.23*	-0.01	-0.41*	-0.15*	0.07*	-0.08*	0.15*	-0.28*	0.32*	-0.24*
EUReg	-0.19*	1	-0.02	-0.03	0.07*	0.02	0.12*	-0.11*	-0.04*	-0.13*	0.02	-0.06*	0.10*	0.07*	-0.09*	0.04*	-0.06*	0.11*	-0.18*	0.13*
Fin	0.04*	-0.02	1	-0.06*	0.05*	-0.18*	-0.06*	0.02	0.00	-0.03	0.16*	0.00	0.23*	0.06*	-0.04*	-0.03*	0.05*	-0.07*	-0.03	0.02
USGAAP	0.05*	-0.03	-0.06*	1	0.14*	0.06*	-0.01	0.04*	-0.17*	-0.08*	-0.05*	0.01	0.05*	0.00	0.25*	0.15*	0.05*	0.12*	-0.04*	0.05*
Permit	-0.13*	0.07*	0.05*	0.14*	1	-0.07*	0.05*	0.03*	-0.27*	-0.39*	0.08*	-0.09*	0.01	0.05*	0.01	0.15*	-0.14*	-0.06*	-0.45*	0.39*
FCons	-0.47*	0.02	-0.18*	0.06*	-0.07*	1	0.14*	0.09*	0.05*	0.11*	0.11*	0.06*	0.24*	0.05*	0.03	0.07*	0.05*	0.22*	0.10*	-0.05*
Diverse	-0.28*	0.12*	-0.08*	-0.01	0.07*	0.15*	1	-0.18*	0.01	-0.03*	0.27*	0.04*	0.38*	0.08*	0.02	0.14*	-0.15*	0.28*	-0.21*	0.15*
RegQ	0.20*	-0.12*	0.01	0.03	0.00	0.10*	-0.20*	1	-0.11*	0.23*	-0.24*	-0.02	-0.10*	-0.07*	0.02	0.02	0.41*	0.05*	0.63*	-0.49*
IFRS_Enf	0.07*	-0.04*	0.00	-0.17*	-0.27*	0.05*	-0.01	-0.08*	1	0.45*	0.05*	0.07*	0.06*	-0.02	-0.03	-0.21*	-0.11*	0.06*	0.21*	-0.12*
J&R_Enf	0.13*	-0.14*	-0.03	-0.09*	-0.45*	0.11*	-0.05*	0.30*	0.54*	1	-0.05*	0.01	0.04*	-0.06*	0.06*	-0.16*	-0.07*	0.06*	0.54*	-0.51*
Lev	-0.24*	0.02	0.13*	-0.05*	0.08*	0.11*	0.29*	-0.24*	0.06*	-0.05*	1	-0.02	0.45*	0.00	-0.01	0.07*	-0.10*	0.10*	-0.22*	0.15*
Close	-0.04*	-0.05*	-0.01	0.02	-0.15*	0.12*	0.05*	0.05*	0.11*	0.12*	0.00	1	0.13*	0.02	0.00	-0.01	0.08*	0.00	0.06*	-0.04*
TA	-0.44*	0.10*	0.19*	0.05*	0.02	0.24*	0.35*	-0.10*	0.06*	0.05*	0.43*	0.24*	1	0.21*	0.08*	0.26*	-0.01	0.68*	-0.12*	0.10*
ROA	-0.14*	0.10*	-0.03*	0.00	0.01	0.05*	0.06*	0.03	-0.05*	-0.05*	-0.18*	0.05*	0.18*	1	0.01	0.03	-0.06*	0.11*	-0.12*	0.07*
USList	0.07*	-0.09*	-0.04*	0.25*	0.01	0.03	0.01	0.02	-0.03	0.05*	-0.01	0.01	0.07*	0.04*	1	0.22*	-0.03	0.09*	-0.01	-0.02
#EX	-0.09*	0.03*	-0.05*	0.15*	0.20*	0.07*	0.11*	-0.01	-0.25*	-0.21*	0.04*	0.02	0.17*	0.03	0.10*	1	0.09*	0.26*	-0.07*	0.11*
SSf	0.15*	-0.06*	0.05*	0.05*	-0.14*	0.05*	-0.15*	0.36*	-0.11*	-0.06*	-0.10*	0.12*	-0.02	-0.04*	-0.03	0.09*	1	0.02	0.34*	-0.08*
AF	-0.30*	0.11*	-0.08*	0.12*	-0.06*	0.24*	0.24*	0.07*	0.07*	0.09*	0.10*	0.14*	0.65*	0.22*	0.09*	0.17*	0.03*	1	-0.01	0.02
SIM	0.26*	-0.13*	-0.02	0.03	-0.34*	0.08*	-0.24*	0.71*	-0.21*	0.17*	-0.24*	0.10*	-0.16*	-0.03	-0.01	0.02	0.60*	0.00	1	-0.80*
Tax	-0.24*	0.13*	0.02	0.05*	0.39*	-0.05*	0.16*	-0.54*	-0.12*	-0.54*	0.16*	-0.12*	0.10*	0.01	-0.02	0.15*	-0.08*	0.01	-0.66*	1

2007	NoIFRS	EUReg	Fin	USGAAP	Permit	FCons	Diverse	RegQ	IFRS_Enf	J&R_Enf	Lev	Close	TA	ROA	USList	#EX	SSf	AF	SIM	Tax
NoIFRS	1	-0.02	0.03*	0.16*	0.13*	-0.52*	-0.24*	0.07*	-0.02	-0.20*	-0.24*	-0.23*	-0.33*	-0.07*	0.08*	-0.09*	0.11*	-0.28*	-0.12*	-0.02
EUReg	-0.02	1	-0.02	-0.13*	0.08*	0.01	0.09*	-0.10*	-0.03*	-0.13*	-0.02	-0.08*	0.07*	0.07*	-0.14*	0.03	-0.05*	0.08*	-0.18*	0.11*
Fin	0.03*	-0.02	1	-0.02	0.04*	-0.11*	-0.04*	0.02	-0.02	-0.01	0.21*	0.04*	0.25*	0.04*	-0.02	-0.02	0.05*	-0.04*	-0.01	0.04*
USGAAP	0.16*	-0.13*	-0.02	1	0.02	0.03*	-0.01	0.00	-0.04*	0.08*	-0.01	0.01	0.08*	-0.11*	0.53*	0.09*	-0.01	0.11*	0.00	-0.01
Permit	0.13*	0.08*	0.04*	0.02	1	-0.10*	0.01	0.07*	-0.20*	-0.38*	-0.01	-0.12*	0.01	0.04*	0.03	0.12*	-0.07*	-0.04*	-0.44*	0.30*
FCons	-0.52*	0.01	-0.11*	0.03*	-0.10*	1	0.16*	0.04*	0.02	0.13*	0.16*	0.12*	0.23*	0.05*	0.03	0.06*	0.02	0.22*	0.10*	0.02
Diverse	-0.26*	0.10*	-0.05*	-0.02	0.01	0.17*	1	-0.23*	0.00	-0.01	0.29*	0.12*	0.40*	0.07*	0.02	0.15*	-0.17*	0.31*	-0.17*	0.18*
RegQ	0.08*	-0.11*	0.01	0.01	0.04*	0.03	-0.27*	1	-0.02	0.20*	-0.17*	-0.05*	-0.11*	-0.08*	0.00	0.02	0.59*	0.01	0.59*	-0.43*
IFRS_Enf	-0.02	-0.03*	-0.02	-0.04*	-0.20*	0.02	-0.02	0.02	1	0.45	0.06*	0.11*	0.08*	-0.01	-0.02	-0.17*	-0.03*	0.04*	0.23*	-0.15*
J&R_Enf	-0.21*	-0.14*	-0.01	0.06*	-0.44*	0.13*	0.00	0.24*	0.57*	1	0.04*	0.08*	0.07*	-0.04*	0.07*	-0.12*	-0.04*	0.07*	0.56*	-0.45*
Lev	-0.26*	-0.01	0.17*	-0.01	-0.02	0.18*	0.31*	-0.20*	0.06*	0.06*	1	0.10*	0.45*	0.03*	0.00	0.07*	-0.02	0.16*	-0.10*	0.18*
Close	-0.30*	-0.07*	0.05*	0.02	-0.18*	0.17*	0.15*	-0.02	0.15*	0.20*	0.13*	1	0.21*	0.04*	0.00	0.03*	0.07*	0.09*	0.08*	0.04*
TA	-0.35*	0.08*	0.22*	0.07*	0.02	0.23*	0.36*	-0.11*	0.08*	0.09*	0.43*	0.33*	1	0.21*	0.09*	0.26*	-0.04*	0.69*	-0.13*	0.13*
ROA	-0.09*	0.08*	-0.04*	0.03*	0.00	0.09*	0.12*	-0.08*	-0.08*	-0.04*	-0.13*	0.09*	0.24*	1	0.01	0.03*	-0.05*	0.09*	-0.10*	0.06*
USList	0.08*	-0.14*	-0.02	0.53*	0.03	0.03	0.01	0.01	-0.02	0.05*	0.00	0.01	0.08*	0.04*	1	0.20*	-0.04*	0.09*	-0.01	0.00
#EX	-0.10*	0.02	-0.02	0.08*	0.16*	0.06*	0.14*	-0.03*	-0.20*	-0.16*	0.08*	0.08*	0.19*	0.03*	0.09*	1	0.07*	0.26*	-0.06*	0.12*
SSf	0.11*	-0.05*	0.05*	-0.01	-0.07*	0.02	-0.17*	0.50*	-0.03*	-0.04*	-0.02	0.10*	-0.05*	-0.10*	-0.04*	0.07*	1	0.00	0.33*	-0.03*
AF	-0.30*	0.08*	-0.05*	0.10*	-0.05*	0.23*	0.28*	0.00	0.05*	0.10*	0.17*	0.23*	0.66*	0.24*	0.08*	0.19*	0.01	1	-0.02	0.09*
SIM	0.01	-0.13*	-0.01	-0.01	-0.31*	0.05*	-0.25*	0.74*	-0.17*	0.15*	-0.17*	0.04*	-0.20*	-0.10*	-0.02	-0.01	0.58*	-0.05*	1	-0.72*
Tax	-0.02	0.11*	0.04*	-0.01	0.30*	0.02	0.19*	-0.54*	-0.15*	-0.46*	0.19*	-0.02	0.13*	0.05*	0.00	0.15*	-0.03*	0.08*	-0.61*	1

2009	NoIFRS	EUReg	Fin	USGAAP	Permit	FCons	Diverse	RegQ	IFRS_Enf	J&R_Enf	Lev	Close	TA	ROA	USList	#EX	SSf	AF	SIM	Tax
NoIFRS	1	-0.07*	0.02	0.19*	0.12*	-0.52*	-0.24*	0.08*	-0.05*	-0.20*	-0.25*	-0.25*	-0.34*	-0.04*	0.12*	-0.09*	0.10*	-0.27*	-0.10*	-0.02
EUReg	-0.07*	1	-0.03	-0.29*	0.00	0.00	0.05*	-0.03*	0.01	-0.06*	-0.02	-0.03*	0.03*	0.06*	-0.27*	0.00	0.01	0.02	-0.02	0.01
Fin	0.02	-0.03	1	-0.02	0.04*	-0.09*	-0.03*	0.03*	0.01	0.00	0.18*	0.06*	0.23*	0.02	-0.01	-0.01	0.06*	-0.03*	0.00	0.02
USGAAP	0.19*	-0.29*	-0.02	1	0.00	0.03	-0.03	0.00	-0.02	0.10*	-0.01	0.00	0.06*	-0.12*	0.57*	0.05*	-0.02	0.09*	0.02	-0.03*
Permit	0.12*	0.00	0.04*	0.00	1	-0.13*	0.00	0.04*	-0.14*	-0.34*	0.03	-0.07*	0.03*	0.03*	0.03*	0.12*	-0.04*	-0.03*	-0.41*	0.29*
FCons	-0.52*	0.00	-0.09*	0.03	-0.13*	1	0.17*	0.00	0.02	0.14*	0.21*	0.12*	0.22*	0.00	0.03	0.06*	0.00	0.21*	0.10*	0.05*
Diverse	-0.27*	0.06*	-0.04*	-0.03*	0.00	0.18*	1	-0.20*	0.03*	0.02	0.30*	0.14*	0.40*	0.05*	0.02	0.15*	-0.15*	0.29*	-0.14*	0.15*
RegQ	0.07*	-0.04*	0.02	0.01	0.04*	-0.01	-0.23*	1	-0.01	0.15*	-0.23*	-0.08*	-0.11*	-0.03*	-0.01	0.03	0.62*	0.04*	0.58*	-0.34*
IFRS_Enf	-0.05*	0.01	0.01	-0.02	-0.14*	0.02	0.01	0.05*	1	0.45*	0.10*	0.12*	0.13*	0.01	-0.02	-0.15*	-0.01	0.05*	0.21*	-0.12*
J&R_Enf	-0.20*	-0.04*	0.00	0.09*	-0.40*	0.14*	0.04*	0.22*	0.59*	1	0.05*	0.05*	0.10*	-0.01	0.08*	-0.10*	-0.03*	0.08*	0.54*	-0.41*
Lev	-0.26*	-0.01	0.17*	-0.01	0.02	0.21*	0.33*	-0.24*	0.10*	0.07*	1	0.14*	0.43*	-0.01	0.03	0.07*	-0.07*	0.12*	-0.15*	0.20*
Close	-0.32*	-0.03	0.07*	0.01	-0.11*	0.16*	0.18*	-0.05*	0.16*	0.17*	0.16*	1	0.26*	0.03*	-0.01	0.04*	0.05*	0.10*	0.02	0.08*
TA	-0.35*	0.02	0.21*	0.07*	0.04*	0.22*	0.36*	-0.11*	0.14*	0.14*	0.41*	0.38*	1	0.20*	0.10*	0.26*	-0.02	0.69*	-0.12*	0.13*
ROA	0.04*	0.03	-0.05*	0.03	0.05*	-0.04*	0.00	0.04*	0.01	-0.01	-0.22*	0.05*	0.22*	1	0.01	0.02	-0.03	0.07*	-0.06*	0.01
USList	0.12*	-0.27*	-0.01	0.57*	0.03*	0.03	0.01	0.00	-0.02	0.06*	0.03	0.00	0.10*	0.05*	1	0.18*	-0.04*	0.12*	-0.01	0.00
#EX	-0.09*	-0.01	-0.02	0.05*	0.15*	0.06*	0.13*	-0.02	-0.17*	-0.13*	0.07*	0.10*	0.19*	0.01	0.08*	1	0.08*	0.27*	-0.05*	0.11*
SSf	0.10*	0.01	0.06*	-0.02	-0.04*	0.00	-0.15*	0.53*	-0.01	-0.04*	-0.07*	0.07*	-0.02	0.00	-0.04*	0.08*	1	0.04*	0.33*	0.02
AF	-0.30*	0.02	-0.04*	0.08*	-0.03*	0.23*	0.25*	0.03*	0.06*	0.12*	0.13*	0.24*	0.66*	0.16*	0.11*	0.21*	0.05*	1	0.04*	0.07*
SIM	0.03*	-0.02	-0.01	0.00	-0.30*	0.02	-0.22*	0.75*	-0.19*	0.09*	-0.23*	-0.03*	-0.21*	-0.02	-0.02	0.00	0.59*	0.00	1	-0.69*
Tax	-0.02	0.01	0.02	-0.03*	0.29*	0.05*	0.16*	-0.48*	-0.12*	-0.41*	0.20*	0.04*	0.13*	-0.07*	0.00	0.14*	0.02	0.06*	-0.56*	1

This table presents correlation coefficients calculated for a sample of variables from fiscal year 2005 (2007; 2009).Variables included in this table: NoIFRS=1 if firm i did not adopt IFRS in 2005 (2007; 2009); *Proxies for country-specific or EU-wide implementation mechanisms*: EUReg = 1 if firm i is listed on an exchange regulated by the EU; Fin = 1 if firm i is in financial services or insurance; USGAAP = 1 if firm i uses US GAAP in its 2004(2006; 2008) financial statements; Permit_Pre = 1 if firm i's country permitted IFRS prior to 2005 and zero otherwise; *Proxies for single legal entity structure*: FCons = 1 if firm i labels its 2005 (2007; 2009) financial statements as "fully consolidated"; Diverse = number of SIC codes for firm i from Worldscope (a proxy for complexity and therefore the potential for consolidation); *Proxies for enforcement*: RegQ = the regulatory quality variable from Christensen et al. (2011) and Kaufmann et al. (2009); IFRS_Enf = 1 if firm i's country established a specific agency for enforcement of IFRS; J&R_Enf = a proxy for resources invested in securities regulation enforcement from Jackson and Roe (2009); SSf= feasibility of short-selling as reported in Charoenrook and Daouk (2005); *Proxies for reporting incentives*: Lev = long-term debt divided by the sum of long-term debt and market capital for firm i in year t, from Worldscope; Close = percentage of shares held by insiders based on Closely Held Shares provided by Worldscope; TA = natural log of total assets (a proxy for size); ROA= Return on assets; USList = 1 if firm i was listed on NYSE, NASDAQ or American Stock Exchange; #Ex = number of exchanges on which firm *i*'s equity is listed, from Worldscope; AF = analyst following for firm i in 2005; SIM = a variable which captures the similarity of local GAAP to IFRS, based on Bae et al. 2008; and Tax = 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having tax-driven nature of the National Accounting Regime in 2002.

Table 6: Comparison of Accounting Quality and Firm Characteristics IFRS vs. Non-IFRS EU Firms

Panel A: Comparison of Accounting Quality Proxies

	Fiscal Year	2005	2007	2009
Accounting Quality Proxy				
	IFRS Ratio	1.189	3.860	0.219
	Non-IFRS Ratio	0.909	2.707	0.227
Smoothness				
	Difference	-0.281	-1.153	0.008
Nearness to Cash	Coefficient	-1.014***	0.692***	0.862**
	standard error	0.150	0.207	0.426
Corr(Accruals, OCF)	IFRS	-0.266	-0.051	-0.064
	Non-IFRS	-0.207	-0.292	-0.704
	z-test on difference	-1.68*	3.42***	9.95***

Following Barton, Hansen, and Pownall (2010), Pownall, et al. (2012), Barth et al. (2007), Lang et al. (2003), and Burgstahler et al. (2006), the Smoothness measure is the ratio of the standard deviation of the residuals from a regression for net income and the standard deviation of the residuals from a regression for operating cashflows. The regressions for each of the three years are as follows:

$$NI\_assets_{it} = \beta_0 + \beta_1 Log\_mktval_{it} + \beta_2 Sales\ Growth_{it} + \beta_3 OCF\_assets_{it} + \beta_4 Leverage_{it} + \beta_5 Auditor_{it} + \beta_6 USCROSSLISTED_{it} + \beta_7 \#\ FExchanges_{it} + \varepsilon_{it}$$

$$OCF\_assets_{it} = \beta_0 + \beta_1 Log\_mktval_{it} + \beta_2 Sales\ Growth_{it} + \beta_3 Leverage_{it} + \beta_4\ Audit_{it} + \beta_5 USCROSSLISTED_{it} + \beta_6 \#\ FExchanges_{it} + \varepsilon_{it}$$

The variables are defined on table 4. We evaluated the significance of the differences between the ratio for the IFRS adopters and the non-adopters using a 1000-repetition bootstrapped empirical distribution, based on randomly assigning firms to the IFRS-using and non-IFRS-using groups in the same proportions as the real data, and recomputing the variability measures.

The Nearness to Cash proxy is the β_2 coefficient from the following pooled regression:

$$OCF_{it} = \alpha + \beta_1 NI_{it} + \beta_2 NI_{it} * IFRS_{it} + \varepsilon_{it}$$

Corr(Accruals, OCF) is the Pearson correlation coefficient between current accruals and operating cash flows.

***, **, and * indicate statistical significance at 0.01, 0.05, and 0.10 levels, respectively.

Panel B: Comparison of Firm Characteristics

Fiscal Year		2005	2007	2009
Firm Characteristic				
ROA_IFRS	N	3,209	4,584	4,829
	Mean	0.024	-0.125	-0.100
	Median	0.035	0.035	0.011
	St. Dev.	0.164	6.725	3.356
ROA_Non-IFRS	N	1,221	832	755
	Mean	-0.096	-0.020	-0.063
	Median	0.014	0.020	0.011
	St. Dev.	0.830	0.273	0.466
ROA_All EU	N	4,440	5,429	5,592
	Mean	-0.010	-0.108	-0.095
	Median	0.030	0.032	0.011
	St. Dev.	0.460	6.180	3.123
t-test on difference in means	IFRS vs. Non-IFRS	7.79***	-0.45	-0.31
	IFRS vs. All EU	3.88***	-0.12	-0.08
	Non-IFRS vs. All EU	-4.78***	0.41	0.28
z-test on difference in medians	IFRS vs. Non-IFRS	-11.04***	-4.72***	-0.96
AF_IFRS	N	3,209	4,584	4,829
	Mean	0.810	0.720	0.729
	Median	0.000	0.000	0.000
	St. Dev.	1.068	1.041	1.061
AF_Non-IFRS	N	1,221	832	755
	Mean	0.106	0.092	0.108
	Median	0.000	0.000	0.000
	St. Dev.	0.445	0.430	0.456
AF_All EU	N	4,440	5,429	5,592
	Mean	0.615	0.624	0.645
	Median	0.000	0.000	0.000
	St. Dev.	0.989	0.998	1.023
t-test on difference in means	**I**FRS vs. Non-IFRS	22.31***	17.15***	15.87***
	IFRS vs. All EU	8.18***	4.73***	4.11***
	Non-IFRS vs. All EU	-17.52***	-15.15***	-14.24***
z-test on difference in medians	IFRS vs. Non-IFRS	-22.67***	-18.30***	-16.99***
SalesGrowth_IFRS	N	3,209	4,584	4,829
	Mean	0.194	3.038	0.660
	Median	0.420	0.208	-0.024
	St. Dev.	4.020	97.236	22.190
SalesGrowth_Non-IFRS	N	1,221	832	755
	Mean	3.502	1.932	0.802
	Median	0.057	0.222	-0.817
	St. Dev.	96.132	31.998	11.734
SalesGrowth_All EU	N	4,440	5,429	5,592
	Mean	1.106	2.861	0.678
	Median	0.028	0.209	-0.030
	St. Dev.	50.535	90.221	21.066
t-test on difference in means	IFRS vs. Non-IFRS	-1.95*	-0.33	-0.17
	IFRS vs. All EU	-1.02	0.09	-0.05
	Non-IFRS vs. All EU	1.17	-0.30	0.16
z-test on difference in medians	IFRS vs. Non-IFRS	9.64***	0.73	-4.63***

M/B_IFRS	N	3,209	4,584	4,829
	Mean	3.144	2.039	1.974
	Median	1.894	1.696	1.118
	St. Dev.	30.758	32.951	11.901
M/B_Non-IFRS	N	1,221	832	755
	Mean	69.238	3.567	3,254
	Median	1.656	1.512	0.997
	St. Dev.	2,318.357	20.499	32.913
M/B_All EU	N	4,440	5,429	5,592
	Mean	21.316	2.272	2.145
	Median	1.853	1.670	1.101
	St. Dev.	1,216.035	31.327	16.389
t-test on difference in means	IFRS vs. Non-IFRS	-1.61	-1.29	-2.00**
	IFRS vs. All EU	-0.85	-0.36	-0.61
	Non-IFRS vs. All EU	0.97	1.49	1.49
z-test on difference in medians	IFRS vs. Non-IFRS	-3.28***	-0.97	1.39
Leverage_IFRS	N	3,209	4,584	4,829
	Mean	0.567	0.597	0.609
	Median	0.575	0.547	0.544
	St. Dev.	0.290	2.234	2.231
Leverage_Non-IFRS	N	1,221	832	755
	Mean	0.516	0.493	0.421
	Median	0.406	0.333	0.335
	St. Dev.	1.985	2.921	0.998
Leverage_All EU	N	4,440	5,429	5,592
	Mean	0.553	0.581	0.582
	Median	0.539	0.525	0.528
	St. Dev.	1.070	2.344	2.107
t-test on difference in means	IFRS vs. Non-IFRS	1.42	1.17	2.26**
	IFRS vs. All EU	0.73	0.35	0.59
	Non-IFRS vs. All EU	-0.87	-0.97	-2.07**
z-test on difference in medians	IFRS vs. Non-IFRS	-15.09***	-15.00***	-14.17***
%ZeroRet_IFRS	N	3,209	4,584	4,829
	Mean	0.228	0.285	0.327
	Median	0.150	0.149	0.199
	St. Dev.	0.215	0.278	0.291
%ZeroRet_Non-IFRS	N	1,221	832	755
	Mean	0.529	0.416	0.505
	Median	0.559	0.324	0.510
	St. Dev.	0.292	0.322	0.320
%ZeroRet_All EU	N	4,440	5,429	5,592
	Mean	0.311	0.305	0.351
	Median	0.196	0.165	0.226
	St. Dev.	0.274	0.289	0.302
t-test on difference in means	IFRS vs. Non-IFRS	-37.55***	-12.29***	-15.38***
	IFRS vs. All EU	-14.28***	-3.57***	-4.11***
	Non-IFRS vs. All EU	24.29***	10.21***	13.05***
z-test on difference in medians	IFRS vs. Non-IFRS	29.72***	11.96***	14.69***

Ave BidAsk_IFRS	N	3,209	4,584	4,829
	Mean	0.024	0.044	0.080
	Median	0.013	0.017	0.030
	St. Dev.	0.043	0.092	0.172
Ave BidAsk_Non-IFRS	N	1,221	832	755
	Mean	0.092	0.083	0.143
	Median	0.053	0.035	0.058
	St. Dev.	0.121	0.142	0.228
Ave BidAsk_All EU	N	4,440	5,429	5,592
	Mean	0.043	0.050	0.089
	Median	0.018	0.019	0.034
	St. Dev.	0.080	0.102	0.182
t-test on difference in means	IFRS vs. Non-IFRS	-27.79***	-10.44***	-8.91***
	IFRS vs. All EU	-12.23***	-3.11***	-2.44**
	Non-IFRS vs. All EU	17.03***	8.36***	7.48***
z-test on difference in medians	IFRS vs. Non-IFRS	32.87***	15.57***	12.88***
StdDevReturn_IFRS	N	3,209	4,584	4,829
	Mean	0.022	0.030	0.039
	Median	0.018	0.023	0.031
	St. Dev.	0.015	0.112	0.088
StdDevReturn_Non-IFRS	N	1,221	832	755
	Mean	0.029	0.031	0.044
	Median	0.023	0.024	0.031
	St. Dev.	0.031	0.039	0.058
StdDevReturn_All EU	N	4,440	5,429	5,592
	Mean	0.024	0.030	0.039
	Median	0.019	0.023	0.031
	St. Dev.	0.021	0.104	0.084
t-test on difference in means	IFRS vs. Non-IFRS	-10.42***	-0.38	-1.55
	IFRS vs. All EU	-4.68***	-0.09	-0.42
	Non-IFRS vs. All EU	6.86***	0.34	1.39
z-test on difference in medians	IFRS vs. Non-IFRS	7.51***	0.59	-1.64
%Close_IFRS	N	2,064	2,693	2,825
	Mean	44.445	45.577	46.381
	Median	46.268	47.416	49.155
	St. Dev.	26.658	26.232	26.484
%Close_Non-IFRS	N	507	227	206
	Mean	42.018	40.626	42.886
	Median	40.341	34.641	36.012
	St. Dev.	28.279	35.476	34.939
%Close_All EU	N	2,576	2,930	3,033
	Mean	44.007	45.251	46.145
	Median	45.385	46.544	48.646
	St. Dev.	27.009	27.086	27.142
t-test on difference in means	IFRS vs. Non-IFRS	1.81*	2.65***	1.78*
	IFRS vs. All EU	0.60	0.54	0.34
	Non-IFRS vs. All EU	-1.47	-2.39**	-1.63*
z-test on difference in medians	IFRS vs. Non-IFRS	-2.04*	-2.91**	-1.96**

BigFour_IFRS	N	2,064	2,693	2,825
	Mean	0.747	0.691	0.695
	Median	1.000	1.000	1.000
	St. Dev.	0.435	0.462	0.461
BigFour_Non-IFRS	N	507	227	206
	Mean	0.460	0.560	0.568
	Median	0.000	1.000	1.000
	St. Dev.	0.499	0.498	0.497
BigFour_All EU	N	2,576	2,930	3,033
	Mean	0.691	0.681	0.686
	Median	1.000	1.000	1.000
	St. Dev.	0.462	0.466	0.464
t-test on difference in means	IFRS vs. Non-IFRS	12.91***	4.10***	3.80***
	IFRS vs. All EU	4.25***	0.83	0.72
	Non-IFRS vs. All EU	-10.11***	-3.76***	-3.52***

Table 5: Multivariate Results

Panel A: Regression coefficients

VARIABLES	2005	2007	2009
EUReg	-0.6565***	-0.0029	-0.1093
	(0.133)	(0.314)	(0.363)
Fin	0.0643	0.1695	0.0487
	(0.540)	(0.297)	(0.265)
USGAAP	2.3244**	10.1893***	12.2413***
	(1.146)	(0.980)	(1.279)
Permit_Pre	-0.5319	-0.2458	-0.1841
	(0.649)	(0.398)	(0.379)
FCons	-4.3399***	-2.9954***	-2.9077***
	(0.365)	(0.254)	(0.393)
Diverse	-0.1072***	-0.1742***	-0.2069***
	(0.040)	(0.061)	(0.052)
RegQ	-0.1897	-0.4136	-0.2560
	(0.974)	(0.969)	(0.790)
IFRS_Enf	0.6241	1.2533**	1.4607**
	(0.429)	(0.550)	(0.672)
J&R_Enf	-0.3667	-1.4205**	-1.8309**
	(0.483)	(0.620)	(0.831)
SSf	1.8702**	2.5049**	1.3990
	(0.735)	(1.163)	(0.966)
Lev	0.2336	-0.8863	-0.9590*
	(0.225)	(0.649)	(0.541)
Close	-0.0021	-0.0149***	-0.0175***
	(0.006)	(0.005)	(0.005)
TA	-0.5012***	-0.3613***	-0.3669***
	(0.066)	(0.121)	(0.085)
ROA	-0.0004	0.0032***	0.0039***
	(0.002)	(0.001)	(0.001)
USList	3.7256***	1.2737	7.5663***
	(1.089)	(1.298)	(1.006)
#EX	0.2364***	-0.3934*	-0.5635***
	(0.069)	(0.211)	(0.138)
AF	-0.4307*	-1.4362***	-1.3910***
	(0.234)	(0.417)	(0.424)
SIM	0.9839***	-0.6311**	-0.0854
	(0.316)	(0.298)	(0.355)
Tax	0.0085	-1.1690**	-0.2179
	(0.682)	(0.540)	(0.428)
Constant	9.0836	16.0860**	21.7645**
	(5.725)	(6.992)	(9.234)
Industry fixed effects	Yes	Yes	Yes
Clustered by country	Yes	Yes	Yes
Pseudo R^2	0.4954	0.5135	0.5131
N	3898	4887	4702

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; The regression coefficients reported in this table are from the following equation:

$$\Pr(\text{NoIFRS})_{i,2005} = \alpha + \beta_1\text{EUReg} + \beta_2\text{Fin} + \beta_3\text{USGAAP} + \beta_4\text{Permit\_Pre} + \beta_5\text{FCons} + \beta_6\text{Diverse} + \delta_1\text{RegQ} + \delta_2\text{IFRS\_Enf} + \delta_3\text{J\&R\_Enf} + \phi_1\text{Lev} + \phi_2\text{Close} + \phi_3\text{TA} + \phi_4\text{Code} + \phi_5\text{USList} + \phi_6\#\text{Ex} + \phi_7\text{AF} + \phi_8\text{SIM} + \phi_9\text{Tax} + \text{Industry and Country Fixed Effects} + \varepsilon_I;$$

NoIFRS=1 if firm i did not adopt IFRS in 2005 (2007, 2009);

Proxies for country-specific or EU-wide implementation mechanisms: EUReg = 1 if firm i is listed on an exchange regulated by the EU; Fin = 1 if firm i is in financial services or insurance; USGAAP = 1 if firm i uses US GAAP in its 2004 (2006, 2008) financial statements; Permit_Pre = 1 if firm i's country permitted IFRS prior to 2005 and zero otherwise;

Proxies for single legal entity structure: FCons = 1 if firm i labels its 2005 (2007, 2009) financial statements as "fully consolidated"; Diverse = number of SIC codes for firm i from Worldscope;

Proxies for enforcement: RegQ = the regulatory quality variable from Christensen, Hail, and Leuz (2011); IFRS_Enf = 1 if firm i's country established a specific agency for enforcement of IFRS; J&R_Enf = a proxy for resources invested in securities regulation enforcement from Jackson and Roe (2009); SSf= feasibility of short-selling as reported in Charoenrook and Daouk (2005);

Proxies for reporting incentives: Lev = long-term debt divided by the sum of long-term debt and market capital for firm i in year t, from Worldscope; Close = percentage of shares held by insiders based on Closely Held Shares provided by Worldscope; TA = natural log of total assets from firm i's 2005 (2007, 2009) financial statements; ROA= return on assets; USList = 1 if firm i was listed on NYSE, NASDAQ or American Stock Exchange; #Ex = number of exchanges on which firm *i*'s equity is listed, from Worldscope; AF = analyst following for firm i in 2005 (2007, 2009); SIM = a variable which captures the similarity of local GAAP to IFRS, based on Bae et al. 2008; and Tax = 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having tax-driven nature of the National Accounting Regime in 2002. Industry fixed effects are based on firm i's GIC (global industry classification) from Worldscope. Accounting data are taken from Worldscope and are in U.S. dollars.

Panel B: Marginal Effects

VARIABLES	2005	2007	2009
EUReg	-0.0551***	-0.0001	-0.0028
	(0.021)	(0.009)	(0.010)
Fin	0.0045	0.0050	0.0012
	(0.039)	(0.010)	(0.007)
USGAAP	0.3628	0.9721***	0.9773***
	(0.244)	(0.013)	(0.006)
Permit_Pre	-0.0350	-0.0067	-0.0044
	(0.039)	(0.011)	(0.009)
FCons	-0.7488***	-0.2829***	-0.2453***
	(0.060)	(0.075)	(0.092)
Diverse	-0.0074***	-0.0049***	-0.0050***
	(0.003)	(0.001)	(0.001)
RegQ	-0.0130	-0.0116	-0.0062
	(0.067)	(0.026)	(0.019)
IFRS_Enf	0.0408*	0.0328**	0.0339**
	(0.024)	(0.015)	(0.016)
J&R_Enf	-0.0251	-0.0398***	-0.0443**
	(0.033)	(0.015)	(0.017)
SSf	0.0839***	0.0407***	0.0242*
	(0.026)	(0.014)	(0.014)
Lev	0.0160	-0.0248	-0.0232*
	(0.015)	(0.018)	(0.013)
Close	-0.0001	-0.0004**	-0.0004***
	(0.000)	(0.000)	(0.000)
TA	-0.0344***	-0.0101**	-0.0089**
	(0.007)	(0.005)	(0.004)
ROA	-0.0000	0.0001***	0.0001***
	(0.000)	(0.000)	(0.000)
USList	0.6917***	0.0667	0.9554***
	(0.194)	(0.109)	(0.021)
#EX	0.0162***	-0.0110**	-0.0136***
	(0.006)	(0.005)	(0.004)
AF	-0.0295**	-0.0403***	-0.0337***
	(0.012)	(0.009)	(0.008)
SIM	0.0675**	-0.0177	-0.0021
	(0.028)	(0.012)	(0.009)
Tax	0.0006	-0.0403*	-0.0055
	(0.047)	(0.024)	(0.011)
N	3898	4887	4702

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; The marginal effects reported in this table are presented for the results in Table 5 Panel A; all variables and model characteristics are the same.

Table 6: Multivariate Results Including Seven Additional Countries

VARIABLES	2005	2007	2009
EUReg	-0.6843***	1.2039**	2.1011**
	(0.116)	(0.552)	(1.047)
Fin	0.0068	0.0522	0.0542
	(0.514)	(0.306)	(0.284)
USGAAP	2.4392**	8.9515***	11.5457***
	(1.146)	(1.161)	(1.401)
Permit_Pre	-0.9160	0.6402	0.4584
	(0.711)	(0.480)	(0.442)
FCons	-4.2873***	-2.7415***	-2.8005***
	(0.365)	(0.231)	(0.333)
Diverse	-0.1304***	-0.1908***	-0.2138***
	(0.036)	(0.073)	(0.064)
RegQ	0.8993	-1.3805	-0.8418
	(0.758)	(1.512)	(1.383)
IFRS_Enf	0.7901	0.3117	0.1498
	(0.531)	(0.579)	(0.565)
SSf	2.0925***	3.4622**	2.5276*
	(0.643)	(1.665)	(1.349)
Lev	0.0868	-1.0864**	-0.9875**
	(0.219)	(0.485)	(0.413)
Close	-0.0009	-0.0195***	-0.0192***
	(0.006)	(0.006)	(0.005)
TA	-0.4880***	-0.2335**	-0.2947***
	(0.064)	(0.097)	(0.067)
ROA	-0.0018	0.0015	0.0033***
	(0.002)	(0.003)	(0.001)
USList	3.2537***	1.8446	7.1294***
	(1.054)	(1.394)	(1.324)
#EX	0.3110***	-0.3998**	-0.5639***
	(0.064)	(0.175)	(0.158)
AF	-0.4561**	-1.6025***	-1.5682***
	(0.225)	(0.367)	(0.391)
Tax	-0.9201	-0.5367	0.0944
	(0.600)	(0.839)	(0.717)
Constant	2.3304**	1.4326	0.7900
	(0.934)	(1.933)	(1.886)
Industry fixed effects	Yes	Yes	Yes
Clustered by country	Yes	Yes	Yes
Pseudo R^2	0.4781	0.4410	0.4572
N	3928	5184	5119

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; The table presents coefficients from the following regression:

$\Pr(\text{NoIFRS})_{i,2005} = \alpha + \beta_1 \text{EUReg} + \beta_2 \text{Fin} + \beta_3 \text{USGAAP} + \beta_4 \text{Permit\_Pre} + \beta_5 \text{FCons} + \beta_6 \text{Diverse} + \delta_1 \text{RegQ} + \delta_2 \text{IFRS\_Enf} + \phi_1 \text{Lev} + \phi_2 \text{Close} + \phi_3 \text{TA} + \phi_4 \text{Code} + \phi_5 \text{USList} + \phi_6 \#\text{Ex} + \phi_7 \text{AF} + \phi_8 \text{Tax}$ + Industry and Country Fixed Effects + ε_I;

NoIFRS=1 if firm i did not adopt IFRS in 2005 (2007, 2009);

Proxies for country-specific or EU-wide implementation mechanisms: EUReg = 1 if firm i is listed on an exchange regulated by the EU; Fin = 1 if firm i is in financial services or insurance; USGAAP = 1 if firm i uses US GAAP in its 2004 (2006, 2008) financial statements; Permit_Pre = 1 if firm i's country permitted IFRS prior to 2005 and zero otherwise;

Proxies for single legal entity structure: FCons = 1 if firm i labels its 2005 (2007, 2009) financial statements as "fully consolidated"; Diverse = number of SIC codes for firm i from;

Proxies for enforcement: RegQ = the regulatory quality variable from Christensen, Hail, and Leuz (2011); IFRS_Enf = 1 if firm i's country established a specific agency for enforcement of IFRS; SSf= feasibility of short-selling as reported in Charoenrook and Daouk (2005);

Proxies for reporting incentives: Lev = long-term debt divided by the sum of long-term debt and market capital for firm i in year t, from Worldscope; Close = percentage of shares held by insiders based on Closely Held Shares provided by Worldscope; TA = natural log of total assets from firm i's 2005 (2007, 2009) financial statements; ROA= return on assets; USList = 1 if firm i was listed on NYSE, NASDAQ or American Stock Exchange; #Ex = number of exchanges on which firm *i*'s equity is listed, from Worldscope; AF = analyst following for firm i in 2005 (2007, 2009); and Tax = 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having tax-driven nature of the National Accounting Regime in 2002. Industry fixed effects are based on firm i's GIC (global industry classification) from Worldscope. Accounting data are taken from Worldscope and are in U.S. dollars.

Table 7: Logistic Regression Analyses With Implementation, Enforcement, and Reporting Incentives Variables (2005 Subsample)

VARIABLES	Full model	Only Ind & Ctr	Implementation	Enforcement	Incentives	Impl & Enf	Impl & Inc	Enf & Inc
EUReg	-0.6565***		-0.8949***			-0.7857***	-0.6295***	
	(0.133)		(0.091)			(0.102)	(0.112)	
Fin	0.0643		-0.2676			-0.4349	0.1537	
	(0.540)		(0.370)			(0.428)	(0.530)	
USGAAP	2.3244**		1.4274**			1.6707**	2.2169**	
	(1.146)		(0.611)			(0.814)	(0.985)	
Permit_Pre	-0.5319		-0.9794**			-1.0453**	-0.4812	
	(0.649)		(0.498)			(0.489)	(0.675)	
FCons	-4.3399***		-3.3417***			-4.0326***	-3.8958***	
	(0.365)		(0.368)			(0.344)	(0.406)	
Diverse	-0.1072***		-0.3438***			-0.2633***	-0.1315***	
	(0.040)		(0.041)			(0.033)	(0.042)	
RegQ	-0.1897			1.3938**		1.7585***		-0.6963
	(0.974)			(0.600)		(0.464)		(0.711)
IFRS_Enf	0.6241			0.5784		0.6083		0.3889
	(0.429)			(0.369)		(0.428)		(0.339)
J&R_Enf	-0.3667			-0.2038		-0.2761		-0.2391
	(0.483)			(0.170)		(0.290)		(0.262)
SSf	1.8702**			0.5776		1.0801**		1.0898
	(0.735)			(0.814)		(0.478)		(0.690)
Lev	0.2336				-0.4500*		0.3638*	-0.5344**
	(0.225)				(0.254)		(0.211)	(0.249)
Close	-0.0021				-0.0014		-0.0010	-0.0023
	(0.006)				(0.004)		(0.006)	(0.004)
TA	-0.5012***				-0.4999***		-0.5011***	-0.5143***
	(0.066)				(0.068)		(0.064)	(0.060)
ROA	-0.0004				-0.0011		-0.0002	-0.0010
	(0.002)				(0.003)		(0.002)	(0.002)
USList	3.7256***				4.2818***		3.1686***	4.6093***
	(1.089)				(0.576)		(0.693)	(0.766)
#EX	0.2364***				0.1333		0.2460***	0.1508
	(0.069)				(0.094)		(0.075)	(0.115)
AF	-0.4307*				-0.6522***		-0.4053*	-0.6505***
	(0.234)				(0.230)		(0.209)	(0.228)
SIM	0.9839***				0.8967***		1.3646***	0.7257***
	(0.316)				(0.116)		(0.106)	(0.234)
Tax	0.0085				0.2410		1.0263*	-0.4942
	(0.682)				(0.394)		(0.537)	(0.535)
Pseudo R^2	0.4954	0.0175	0.2588	0.0684	0.3408	0.3117	0.473	0.3550
Observations	3898	6229	4899	5822	4117	4874	3908	4105

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1;
Basic equation: $\Pr(\text{NoIFRS})_{i,2005} = \alpha + \beta_1\text{EUReg} + \beta_2\text{Fin} + \beta_3\text{USGAAP} + \beta_4\text{Permit\_Pre} + \beta_5\text{FCons} + \beta_6\text{Diverse} + \delta_1\text{RegQ} + \delta_2\text{IFRS\_Enf} + \delta_3\text{J\&R\_Enf} + \phi_1\text{Lev} + \phi_2\text{Close} + \phi_3\text{TA} + \phi_4\text{Code} + \phi_5\text{USList} + \phi_6\#\text{Ex} + \phi_7\text{AF} + \phi_8\text{SIM} + \phi_9\text{Tax}$ + Industry and Country Fixed Effects + ε_I;
NoIFRS=1 if firm i did not adopt IFRS in 2005 (2007, 2009);
Proxies for country-specific or EU-wide implementation mechanisms: EUReg = 1 if firm i is listed on an exchange regulated by the EU; Fin = 1 if firm i is in financial services or insurance; USGAAP = 1 if firm i uses US GAAP in its 2004 (2006, 2008) financial statements; Permit_Pre = 1 if firm i's country permitted IFRS prior to 2005 and zero otherwise;
Proxies for single legal entity structure: FCons = 1 if firm i labels its 2005 (2007, 2009) financial statements as "fully consolidated"; Diverse = number of SIC codes for firm i from Worldscope;
Proxies for enforcement: RegQ = the regulatory quality variable from Christensen, Hail, and Leuz (2011); IFRS_Enf = 1 if firm i's country established a specific agency for enforcement of IFRS; J&R_Enf = a proxy for resources invested in securities regulation enforcement from Jackson and Roe (2009); SSf= feasibility of short-selling as reported in Charoenrook and Daouk (2005);
Proxies for reporting incentives: Lev = long-term debt divided by the sum of long-term debt and market capital for firm i in year t, from Worldscope; Close = percentage of shares held by insiders based on Closely Held Shares provided by Worldscope; TA = natural log of total assets from firm i's 2005 (2007, 2009) financial statements; ROA= return on assets; USList = 1 if firm i was listed on NYSE, NASDAQ or American Stock Exchange; #Ex = number of exchanges on which firm *i*'s equity is listed, from Worldscope; AF = analyst following for firm i in 2005 (2007, 2009); SIM = a variable which captures the similarity of local GAAP to IFRS, based on Bae et al. 2008; and Tax = 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having tax-driven nature of the National Accounting Regime in 2002. All regressions include industry fixed effects and all standard errors are clustered by country. Industry fixed effects are based on firm i's GIC (global industry classification) from Worldscope. Accounting data are taken from Worldscope and are in U.S. dollars.

Table 8: Multivariate Results Using Alternate EUReg Specification

VARIABLES	2005	2007	2009
EUReg	-3.1992***	-2.8885***	-2.3887***
	(0.418)	(0.582)	(0.555)
Fin	0.4297	0.6010***	0.3414***
	(0.391)	(0.166)	(0.131)
USGAAP	3.0463***	9.0903***	11.2095***
	(1.165)	(0.976)	(1.208)
Permit_Pre	-0.5293	-0.2748	-0.1633
	(0.753)	(0.455)	(0.413)
FCons	-5.1739***	-3.4971***	-3.2202***
	(0.458)	(0.395)	(0.506)
Diverse	-0.1183**	-0.0985*	-0.1374***
	(0.047)	(0.054)	(0.052)
RegQ	-0.4848	-0.8377	-0.5590
	(1.178)	(1.080)	(0.880)
IFRS_Enf	0.4821	0.9601**	1.2936**
	(0.514)	(0.461)	(0.602)
J&R_Enf	-0.4168	-1.1660**	-1.5682**
	(0.430)	(0.504)	(0.712)
SSf	1.7807**	2.2228*	1.1383
	(0.818)	(1.217)	(1.024)
Lev	0.4494	-0.3005	-0.9317***
	(0.279)	(0.325)	(0.325)
Close	-0.0012	-0.0048	-0.0089*
	(0.004)	(0.006)	(0.005)
TA	-0.2824***	-0.2618***	-0.2200***
	(0.043)	(0.090)	(0.065)
ROA	-0.0002	0.0026***	0.0031***
	(0.002)	(0.001)	(0.001)
USList	1.8162**	-0.1762	6.0111***
	(0.832)	(1.444)	(1.107)
#EX	0.2855***	-0.0175	-0.1069
	(0.073)	(0.163)	(0.163)
AF	-0.2758	-1.0207**	-1.1586***
	(0.234)	(0.404)	(0.426)
SIM	0.5516	-1.3359***	-0.6082*
	(0.367)	(0.307)	(0.342)
Tax	-0.5251	-1.8011***	-0.6312
	(0.713)	(0.581)	(0.489)
Constant	10.6911**	13.8292**	18.9035**
	(4.900)	(5.533)	(7.852)
Industry fixed effects	Yes	Yes	Yes
Clustered by country	Yes	Yes	Yes
Pseudo R^2	0.6056	0.5957	0.5735
Observations	3898	4887	4702

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; The regression coefficients reported in this table are from the following equation:

$$\Pr(\text{NoIFRS})_{i,2005} = \alpha + \beta_1 \text{EUReg} + \beta_2 \text{Fin} + \beta_3 \text{USGAAP} + \beta_4 \text{Permit\_Pre} + \beta_5 \text{FCons} + \beta_6 \text{Diverse} + \delta_1 \text{RegQ} + \delta_2 \text{IFRS\_Enf} + \delta_3 \text{J\&R\_Enf} + \phi_1 \text{Lev} + \phi_2 \text{Close} + \phi_3 \text{TA} + \phi_4 \text{Code} + \phi_5 \text{USList} + \phi_6 \#\text{Ex} + \phi_7 \text{AF} + \phi_8 \text{SIM} + \phi_9 \text{Tax} + \text{Industry and Country Fixed Effects} + \varepsilon_I;$$

NoIFRS=1 if firm i did not adopt IFRS in 2005 (2007, 2009);

Proxies for country-specific or EU-wide implementation mechanisms: EUReg = 1 if firm i is listed on ESMA's database of firms designated as regulated by the EU and zero otherwise; Fin = 1 if firm i is in financial services or insurance; USGAAP = 1 if firm i uses US GAAP in its 2004 (2006, 2008) financial statements; Permit_Pre = 1 if firm i's country permitted IFRS prior to 2005 and zero otherwise;

Proxies for single legal entity structure: FCons = 1 if firm i labels its 2005 (2007, 2009) financial statements as "fully consolidated"; Diverse = number of SIC codes for firm i from;

Proxies for enforcement: RegQ = the regulatory quality variable from Christensen, Hail, and Leuz (2011); IFRS_Enf = 1 if firm i's country established a specific agency for enforcement of IFRS; J&R_Enf = a proxy for resources invested in securities regulation enforcement from Jackson and Roe (2009); SSf= feasibility of short-selling as reported in Charoenrook and Daouk (2005);

Proxies for reporting incentives: Lev = long-term debt divided by the sum of long-term debt and market capital for firm i in year t, from Worldscope; Close = percentage of shares held by insiders based on Closely Held Shares provided by Worldscope; TA = natural log of total assets from firm i's 2005 (2007, 2009) financial statements; ROA= return on assets; USList = 1 if firm i was listed on NYSE, NASDAQ or American Stock Exchange; #Ex = number of exchanges on which firm *i*'s equity is listed, from Worldscope; AF = analyst following for firm i in 2005 (2007, 2009); SIM = a variable which captures the similarity of local GAAP to IFRS, based on Bae et al. 2008; and Tax = 1 for countries identified in the EU's report *GAAP Convergence 2002* (BDO et al. 2003) as having tax-driven nature of the National Accounting Regime in 2002. Industry fixed effects are based on firm i's GIC (global industry classification) from Worldscope. All standard errors are clustered by country. Accounting data are taken from Worldscope and are in U.S. dollars.