Advertisement

Journal of Business Finance & Accounting / Volume 33, Issue 3-4 / pp. 329-373

Economic Benefits of Adopting IFRS or US-GAAP – Have the Expected Cost of Equity Capital Really Decreased?

Holger Daske

First published: 19 May 2006

https://doi.org/10.1111/j.1468-5957.2006.00611.x

PDF

Abstract

Abstract: The question of whether the adoption of International Financial Reporting Standards (IFRS) results in measurable economic benefits is of special interest, particularly in light of the European Union's adoption of IFRS for listed companies. In this paper, I investigate the common conjecture that internationally recognised financial reporting standards (IAS/IFRS or US-GAAP) reduce the cost of capital for adopting firms. Building on Leuz and Verrecchia (2000), I use a set of German firms that have adopted such standards and investigate the potential economic benefits of this reporting strategy by analysing their cost of equity capital through the use and customisation of available implied estimation methods. Evidence from the 1993–2002 period fails to document lower expected cost of equity capital for firms applying IAS/IFRS or US-GAAP. During the transition period I analyse, the expected cost of equity capital in fact appear to have rather increased under non-local accounting standards.

References

Ashbaugh, H. and P. Olssen 2002, 'An Explanatory Study of the Valuation Properties of Cross-Listed Firms' IAS

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Auer, K.V. 1998, 'Der Einfluß des Wechsels vom Rechnungslegungsstandard auf die Risikoparameter von schweizerischen Aktien', *ZfbF* **50**, pp. 129–55.

Google Scholar

Ball, R., A. Robin and J.S. Wu 2003, 'Incentives Versus Standards: Properties of Accounting Income in Four East Asian Countries', *Journal of Accounting and Economics*, Vol. **36**, pp. 235–70.

Web of Science® | Google Scholar

Ballwieser, W. 1997, 'Grenzen des Vergleichs von Rechnungslegungssystemen – dargestellt anhand von HGB, U.S. GAAP und IAS', in K. Forster (ed.), *Aktien- und Bilanzrecht*, pp. 371–91.

Google Scholar

Barry, C.B. and S.J. Brown 1985, 'Differential Information and Security Market Equilibrium', *Journal of Financial and Quantitative Analysis*, Vol. **20**, No. 4, pp. 407–23.

Web of Science® | Google Scholar

Barth, M.E., G. Clinch and T. Shibano 1999, 'International Accounting Harmonization and Global Equity Markets', *Journal of Accounting and Economics*, Vol. **26**, pp. 201–35.

Web of Science® | Google Scholar

Bartov, E., S.R. Goldberg and M. Kim 2005, 'Comparative Value Relevance Among German, U.S., and International Accounting Standards: A German Stock Market Perspective', *Journal of Accounting, Auditing and Finance*, Vol. **20**, No. 2, pp. 95–119.

Google Scholar

Bonse, A. 2004, *Informationsgehalt von Konzernabschlüssen nach HGB, IAS und US-GAAP – Eine empirische Analyse aus Sicht der Eigenkapitalgeber* (Wiesbaden).

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Web of Science® | Google Scholar

Botosan, C.A. and M.A. Plumlee 2002, 'A Re-examination of Disclosure Level and the Expected Cost of Equity Capital', *Journal of Accounting Research*, Vol. **40**, No. 1, pp. 21–40.

Web of Science® | Google Scholar

Breker, N., K-P. Naumann and S. Tielmann 1999, 'Der Wirtschaftsprüfer als Begleiter der Internationalisierung der Rechnungslegung', *Die Wirtschaftsprüfung*, Heft 4/5, pp. 140–54, 185–95.

Google Scholar

Clarkson, P., J. Guedes and R. Thompson 1996, 'On the Diversification, Observability, and Measurement of Estimation Risk', *Journal of Financial and Quantitative Analysis*, pp. 69–84.

CAS | Web of Science® | Google Scholar

Claus, J. and J. Thomas 2001, 'Equity Premia as Low as Three Percent? Evidence from Analysts' Earnings Forecasts for Domestic and International Stock Markets', *Journal of Finance*, Vol. **56**, No. 5, pp. 1629–66.

Web of Science® | Google Scholar

Coles, J., U. Loewenstein and J. Suay 1995, 'On Equilibrium Pricing under Parameter Uncertainty', *Journal of Financial and Quantitative Analysis*, Vol. **30**, No. 3, pp. 347–64.

Web of Science® | Google Scholar

Cuijpers, R. and W. Buijink 2005, 'Voluntary Adoption of Non-local GAAP in the European Union: A Study of Determinants and Consequences', *European Accounting Review*, Vol. **14**, No. 3, pp. 487–524.

Google Scholar

Daske, H., G. Gebhardt and S. Klein 2006, 'Estimating the Expected Cost of Equity Capital Using Analysts's Consensus Forecasts', *Schmalenbach Business Review*, Vol. **58**, pp. 2–36.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

DRSC 2000: *DRS 1, Befreiender Konzernabschluss nach § 292a HGB* (Berlin).

Google Scholar

Easley, D. and M. O'Hara 2004, 'Information and the Cost of Capital', *Journal of Finance*, Vol. **55** (August), pp. 1553–83.

Web of Science® Google Scholar

Easton, P. 2004, 'PE Ratios, PEG Ratios, and Estimating the Implied Expected Rate of Return on Equity Capital', *The Accounting Review*, Vol. **79**, No. 1, S. 79–95.

Web of Science® Google Scholar

Easton, P. and S. Monahan 2005, 'An Evaluation of Accounting-Based Measures of Expected Returns', *The Accouting Review*, Vol. **80**, No. 2, pp. 501–38.

Web of Science® Google Scholar

Easton, P., T.S. Harris and J.A. Ohlson 1992, 'Aggregate Accounting Earnings Can Explain Most of Securities Returns', *Journal of Accounting and Economics*, Vol. **15**, pp. 119–43.

Web of Science® Google Scholar

Easton, P., G. Taylor and P. Shroff 2001, 'Implications of Fading the Return-on-Equity to the Industry Median Return-on-Equity', Working Paper (Fisher College of Business).

Google Scholar

Easton, P., G. Taylor, P. Shroff and T. Sougiannis 2002, 'Using Forecasts of Earnings to Simultaneously Estimate Growth and the Rate of Return on Equity Investment', *Journal of Accounting Research*, Vol. **40**, No. 3, pp. 657–76.

Web of Science® Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Elton, E.J. and M.J. Gruber 1995, *Modern Portfolio Theory and Investment Analysis*(5th ed., New York).

Google Scholar

EU COM (95) 508 1995, *Accounting Harmonisation: A New Strategy Vis-à-Vis International Harmonisation* (Brussels).

Google Scholar

Fama, E.F. and K.R. French 1992, 'The Cross-section of Expected Stock Returns', *Journal of Finance*, Vol. **47**, No. 2, pp. 427–65.

Web of Science® Google Scholar

Fama, E.F. and K.R. French 1997, 'Industry Costs of Equity', *Journal of Financial Economics*, Vol. **43**, pp. 153–93.

Web of Science® Google Scholar

Fama, E.F. and K.R. French 2004, 'The CAPM: Theory and Evidence', *Journal of Economic Perspectives*, Vol. **18**, pp. 25–46.

Web of Science® Google Scholar

Fama, E.F. and J. McBeth 1973, 'Risk, Return and Equilibrium: Empirical Tests', *Journal of Political Economy*, Vol. **81**, pp. 607–36.

Web of Science® Google Scholar

Financial Accounting Standards Board (FASB) 1999, *The IASC-U.S. Comparison Project 1999* (Norwalk).

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

GAAP Convergence 2002, *A Survey of National Efforts to Promote and Achieve Convergence with International Financial Reporting Standards* (eds.), BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers.

Google Scholar

Gebhardt, G. 2000, 'The Evolution of Global Standards in Accounting', in R.E. Litan and A.M. Santomero (eds.), *Brookings-Wharton Papers on Financial Services 2000*, pp. 341–76.

Google Scholar

Gebhardt, G. and A.A. Heilmann 2004, 'Enforcement of German and International Accounting Standards in Germany: The Case of Cash Flow Statements', in A. Hopwood, C. Leuz and D. Pfaff (eds.), *The Economics and Politics of Accounting*, pp. 218–38.

Google Scholar

Gebhardt, W.R., C. Lee and B. Swaminathan 2001, 'Toward an Implied Cost of Capital', *Journal of Accounting Research*, Vol. **39**, No. 1, pp. 135–76.

Web of Science® Google Scholar

Glaum, M. and D.L. Street 2002, 'Rechnungslegung der Unternehmen am Neuen Markt – Die Einhaltung der Ausweispflichten nach IAS und US-GAAP', in R. Von Rosen (ed.), *Studien des Deutschen Aktieninstituts*.

Google Scholar

Gode, D. and P. Mohanram 2003, 'Inferring the Cost of Capital Using the Ohlson-Juettner Modell', *Review of Accounting Studies*, Vol. **8** (March), S. 399–431.

Web of Science® Google Scholar

Guay, W., S.P. Kothari and S. Shu 2003, 'Properties of Implied Cost of Capital Using Analysts' Forecasts', Working Paper (MIT Sloan School of Management).

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Hail, L. and C. Leuz 2004a, 'International Differences in Cost of Capital: Do Legal Institutions and Securities Regulation Matter?', Working Paper (University of Pennsylvania).

Google Scholar

Hail, L. and C. Leuz 2004b, 'Cost of Capital and Cash Flow Effects of U.S. Cross-Listings', Working Paper (University of Pennsylvania).

Google Scholar

Harris, M.S. and K.A. Muller III 1999, 'The Market Valuation of IAS versus US-GAAP Accounting Measures using Form 20-F Reconciliations', *Journal of Accounting and Economics*, Vol. **26**, pp. 285–312.

Web of Science® Google Scholar

Harris, T.S., M. Lang and H.P. Möller 1994, 'The Value Relevance of German Accounting Measures: An Empirical Analysis', *Journal of Accounting Research*, Vol. **32**, No. 2, pp. 187–209.

Web of Science® Google Scholar

Hayn, S. and G. Graf Waldersee 2002, *IAS / US-GAAP / HGB im Vergleich: Systematische Darstellung für den Einzel- und Konzernabschluss* **3**. Auflage, Stuttgart).

Google Scholar

Heckman, J. 1979, 'Sample Selection Bias as a Specification Error', *Econometrica*, Vol. **47**, No. 1, pp. 153–62.

Web of Science® Google Scholar

International Accounting Standards Board (IASB) 2002, *International Accounting Standards Committee Foundation, Annual Report 2002* (London).

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Juettner-Nauroth, B. and K. Skogsvik 2005, 'A Note on the Impact of Conservative Accounting Principles in Abnormal Earnings Growth Modelling and Residual Income Valuation Modelling', Working Paper (Stockholm School of Economics).

Google Scholar

Köhler, A.G., K-W. Marten, D. Schlereth, Dieter and A. Crampton 2003, 'Praxisbefragung: Erfahrungen von Unternehmen bei der Umstellung der Rechnungslegung von HGB auf IAS/IFRS oder US-GAAP', *Betriebs-Berater*, **58**. Jg., Heft 49, S. 2615–21.

Google Scholar

Lambert, R., C. Leuz and R.E. Verrecchia 2005, 'Accounting Information, Disclosure, and the Cost of Capital', Working Paper (University of Pennsylvania).

Google Scholar

Lang, M.H. and R. Lundholm 1996, 'Corporate Disclosure Policy and Analyst Behaviour', *The Accounting Review*, Vol. **71**, No. 4, pp. 467–92.

Web of Science® Google Scholar

Lee, C.M.C. and J. Myers 1999, 'What is the Intrinsic Value of the Dow?', *Journal of Finance*, Vol. **54**, No. 5, pp. 1693–742.

Web of Science® Google Scholar

Leuz, C. 2003, 'IAS versus US GAAP: Information Asymmetry-Based Evidence from Germany's New Market', *Journal of Accounting Research*, Vol. **41**, No. 3, pp. 445–72.

Web of Science® Google Scholar

Leuz, C. and J. Wüstemann 2004, 'The Role of Accounting in the German Financial System', *The German Financial System*, Reinhard H. Schmidt und Jan Pieter Krahnen (eds.) (Oxford), S. 450–81.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Levitt, A. 1998, 'The Importance of High Quality Accounting Standards', *Accounting Horizons*, Vol. **12**, No. 2, pp. 79–82.

Google Scholar

Malkiel, B.G. and Y. Xu 1997, 'Risk and Return Revisited', *Journal of Portfolio Management*, Vol. **23** (Spring), pp. 9–14.

Web of Science® | Google Scholar

Marten, K.-U., D. Schlereth, A. Crampton and A. Köhler 2002, 'Rechnungslegung nach IAS – Nutzeneffekte aus Sicht von Eigenkapitalgebern', *Betriebs-Berater*, **57**. Jg., Heft 39, S. 2007–12.

Google Scholar

McKinsey 2002, *Global Investor Opinion Survey on Corporate Governance* (http://www.mckinsey.com/governance).

Google Scholar

Newey, W.K. and K.D. West 1987, 'A Simple, Positive Semi-definite, Heteroskedasticity and Autocorrelation Consistent Covariance Matrix', *Econometrica*, Vol. **55**, No. 3, pp. 703–8.

Web of Science® | Google Scholar

Ohlson, J. 2005, 'On Accounting-Based Valuation Formulae', *Review of Accounting Studies*, Vol. **10**, pp. 323–47.

Web of Science® | Google Scholar

Ohlson, J. and B.E. Juettner-Nauroth 2005, 'Expected EPS and EPS Growth as Determinants of Value', *Review of Accounting Studies*, Vol. **10**, pp. 349–65.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Google Scholar

Petersen, M. 2005, 'Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches', Working Paper (Northwestern University).

Google Scholar

Pownell, G. and K. Schipper 1999, 'Implications of Accounting Research for the SEC's Consideration of International Accounting Standards for U.S. Securities Offerings', *Accounting Horizons*, Vol. **13**, pp. 259–80.

Google Scholar

Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the Application of International Accounting Standards, O. J. No. L 243 (September 9).

Google Scholar

Schildbach, T. 2004, 'Rechnungslegung im Spannungsfeld zweier Kulturen der Regulierung', *Der Schweizer Treuhänder*, **3/04**, pp. 159–72.

Google Scholar

Sengupta, P. 1998, 'Corporate Disclosure Quality', *The Accounting Review*, Vol. **73**, pp. 459–74.

Web of Science® Google Scholar

Thomson Financial 2003: *Glossary I/B/E/S Summary History – Version 2.0*, (New York).

Google Scholar

Van Hulle, K. 2003, 'Von den Bilanzrichtlinien zu International Accounting Standards', *Die Wirtschaftsprüfung*, Heft 18/2003.

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Web of Science® | Google Scholar

Citing Literature

Download PDF

ABOUT WILEY ONLINE LIBRARY

Privacy Policy
Terms of Use
About Cookies
Manage Cookies
Accessibility
Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences
Accept All
Reject Non-Essential