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

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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.

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