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Value Relevance of German Gaap and IFRS Consolidated Financial Reporting: An Empirical Analysis on the Frankfurt Stock Exchange

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Abstract

It seems logical to assume that GAAP aimed at informing investors shows a higher association with share prices (value relevance) than GAAP aimed at protecting creditors. The majority of empirical studies support this assumption. This paper examines the value relevance of IFRS and German GAAP. Regression analyses are applied to companies listing on the Frankfurt Stock Exchange and publishing exclusively either IFRS or German GAAP consolidated financial reports over the period 2000-2004. As a result of Regulation (EC) No 1606/2002, comparative research becomes impossible after 2004: German GAAP will no longer exist on European stock exchanges. The paper's study is restricted to a single capital market in order to eliminate pricing differences between capital markets based in different countries; that has already been done in earlier research. Improved circumstances for investigating value relevance compared with prior research are, however, the selection criteria for the listed companies (emphasis on international transparency requirements, free float and free float market capitalisation) and the share prices used (average price around the end of the business year when the financial reporting data is not yet published). The results of the study show that German GAAP is significantly more value relevant statistically than IFRS. These results have to be interpreted in the light of the selection criteria. It is an unexpected outcome calling for further research.

Keywords: IFRS, German GAAP, value relevance, regression analysis, accounting theory

JEL Classification: G12, M41, M44, M47

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