The Effect of IFRS on the Usefulness of Earnings Announcements

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Abstract

Based on prior researchers' finding that the usefulness of earnings increases after IFRS adoption, I investigate the mechanisms through which IFRS affects market price responses to annual earnings announcements. Using a sample of 140 firms listed on Euronext over 2000 – 2010, I confirm that the market response increased after IFRS adoption. I find that the change was more pronounced in Euronext countries where local GAAP was further from IFRS. Using the Francis, Schipper and Vincent (2002) research design, I also find that the absolute amount of unexpected earnings and investors' average response to unexpected earnings does not explain the increased usefulness of earnings announcements after IFRS adoption. I provide evidence that the increase in the magnitude of market reactions to earnings announcements is attributable to the increase in concurrently released information in press releases – specifically, the inclusion of detailed statement of cash flow information. This trend is more pronounced in countries where local GAAP was further from IFRS.

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1. Introduction

A growing body of literature investigates the effect of International Financial Reporting Standards (IFRS) on the quality of the accounting information (e.g., Daske, Hail, Leuz and Verdi 2008, Barth, Landsman and Lang 2008). This literature primarily examines whether the switch from local GAAP to IFRS is associated with a change in the characteristics of accounting earnings (e.g., accrual quality, persistence, predictability) and in the implications of the change in accounting earnings on market outcomes (e.g., cost of capital, information asymmetry, liquidity). A common feature that emerges from this literature is that there is no conclusive assessment of the first order effects on capital market and accounting outcomes associated with IFRS (e.g., Soderstrom and Sun 2007; Pope and McLeay 2011). The heterogeneity of the results derives from the difficulty of a non-controlled experiment, where many factors other than the financial reporting regime are changing (Schipper 2005).

My paper contributes to this literature examining the relation between market responses and annual earnings announcements using a sample of firms listed on Euronext.[1] I choose Euronext for two reasons. Euronext provides a common regulatory, technological, and institutional platform for the four countries whose shares are listed on it: France, Belgium, the Netherlands, and Portugal.[2] Given my focus on the effect of accounting information on market reactions, this common platform is important because it ensures that the market metrics (prices or returns) used as inputs to the assessment of earnings usefulness, are homogeneous in their returns generating process. This design reduces the likelihood that earnings announcement

[1] Euronext is a pan-European stock exchange. Euronext was formed on 22 September 2000 following a merger of the Amsterdam Stock Exchange, Brussels Stock Exchange, and Paris Bourse, in order to take advantage of the harmonization of the European Union financial markets.

[2] As of July 31st 2010, 1,370 of the 1,584 Euronext securities (i.e., 88 percent) are French, Belgian, Dutch and Portuguese.

usefulness effects are driven by unspecified cross-country capital market differences.

Second, the four Euronext countries, as members of the European Union (EU), are subject to the same institutional changes related to financial reporting (Capital Market Directives).[3] This harmonized setting allows me to hold constant many institutional factors and to control for whether and how firms have changed their earnings announcement disclosure in response to the mandatory change in the financial reporting regime.

An empirical investigation on the effect of IFRS on the usefulness of earnings announcements is important for three reasons. First, on 19 July 2002, the European Commission promulgated Regulation 1606/2002 that mandates the official adoption of IFRS for all EU listed companies starting from January 1, 2005.[4] The proponents of this regulation asserted that IFRS would make financial statements more useful to users of financial statements. While prior research finds some evidence that mandatory IFRS adoption affects accounting qualities and capital market outcomes (e.g., Barth, Landsman and Lang 2008; Li 2010), little empirical evidence supports this assertion for the effect of IFRS adoption on the usefulness of accounting earnings.

Second, a major issue in international accounting research that investigates the effect of accounting standard changes on capital market outcomes is that it is difficult to rule out changes in other determinants of these market outcomes to convincingly attribute the observed effect (e.g., the change in the usefulness of earnings) to the introduction of IFRS. Leuz and Wysocki (2009) point out that many institutional changes occurred in securities markets around the

[3] There are four EU Directives that have been approved in concomitance with IFRS Regulation 1606/2002: (1) 2003/6/EC Directive on insider dealing and market manipulation; (2) 2004/109/EC Directive on the harmonization of transparency requirements; (3) 2007/14/EC Directive implementing Directive 2004/109/EC (3); (4) 2003/71/EC Directive on the prospectus.

[4] Art. 5 of Regulation EC 1606/2002 allows exemptions or deferrals from IFRS for firms with only debt securities traded, firms that are using US GAAP at December 31st 2005, and firms traded on other than EU stock exchanges.

period of IFRS introduction in the EU, and some could have affected market outcomes. For example, an important capital market change in security regulation occurred in the EU around IFRS adoption is the Transparency Directive (hereafter TD). Christensen, Hail and Leuz (2010) find that, on average, market liquidity increases and firms' cost of capital decreases as EU member states tighten their transparency regulation.

Third, prior research does not speak to whether the change in the usefulness of earnings announcements following IFRS adoption is attributable to a change in the measures known to affect the relation between unexpected market returns and unexpected earnings. While Landsman, Maydew and Thornock (2011) (henceforth, LMT) provide evidence consistent with the usefulness of earnings announcements being larger in countries that adopt IFRS than in countries that continue using local GAAP, they do not speak to whether the change in market price reactions is attributable to a change in the unexpected earnings distribution (news content), or in investors' behavior in response to unexpected earnings, or in the amount and the form of concurrent information released in the earnings announcements as a consequence of IFRS (Francis, Schipper and Vincent 2002) (henceforth, FSV).

To test whether IFRS affects the usefulness of earnings announcements, I use a sample of 1,430 earnings announcement observations representing 140 firms listed on Euronext with data available during 2000 – 2010. The pre-adoption period is 2000 (the year when Euronext was founded) to 2004, while the post-adoption period is 2005 to 2010. My study proceeds in three stages. In the first stage, I document the increased usefulness of earnings announcements following IFRS adoption. Consistent with prior research (e.g., DeFond, Hung, Trezevant 2007, FSV, LMT), I measure the usefulness of earnings announcements using abnormal trading volume (*AVOL*) during the three days surrounding the earnings announcement date. I also use a

measure of earnings usefulness as reported in FSV: the beta-adjusted absolute abnormal returns using the day with the largest abnormal return in the three days surrounding the earnings announcement date, scaled by the standard deviation of absolute abnormal returns during the estimation period (*MaxAAR(std)*).

My analysis shows that Euronext firms experience a significant increase in market reactions to earnings announcements after IFRS adoption: *AVOL* increases from 0.22 in the pre-IFRS adoption period to 0.42 in the post-IFRS adoption period (*t*-statistic 4.53). *MaxAAR(std)* increases from 7.75 in pre-IFRS adoption period to 10.39 in the post-IFRS adoption period (*t*-statistic 7.86)

In the second stage, following a similar research design as in FSV, I examine three explanations for this trend. These explanations are based on prior studies' findings that the magnitude (absolute value) of market reaction to earnings announcements is a function of (1) the magnitude of unexpected earnings and (2) the earnings response coefficient (ERC). Results examining the first explanation (the magnitude of unexpected earnings) suggest that the trend in the absolute magnitude of unexpected earnings is negative and significant (the average yearly decrease is 0.1 percent; *t*-statistic - 2.30). Results examining the second explanation (the ERC) show a non-positive change in the average investor's responses to earnings announcements before and after IFRS adoption. In summary, I find that the increase in the usefulness of earnings announcements is not attributable to an increase in the magnitude of unexpected earnings nor to an increase in the magnitude of the ERC.

The third explanation examines whether information released concurrently with the summary earnings number in the earnings announcement press releases contributes to explaining the increased market response to earnings announcements following IFRS adoption.

I conduct a content analysis on a set of 1,062 hand-collected press releases for the 140 sample firms with at least two observations during the pre- and post-adoption period. I find an expansion in the amount of concurrent information about the balance sheet, the income statement, the statement of cash flows and the statement of changes in equity. I also find that this trend is more pronounced in Euronext countries where local GAAP was further from IFRS (i.e., Belgium, France and Portugal) than in the Euronext country where local GAAP was closer (i.e., the Netherlands). My results suggest that the inclusion of detailed statement of cash flows information in firms' earnings announcement press releases is associated with more intense return and trading volume effects following IFRS adoption. After controlling for an over-time increasing trend in the association between the market response and concurrent disclosure of detailed statement of cash flow (*SCF*) information, the coefficient on *SCF* (when interacted with *IFRS*) is positive and significant for both the measures of market response (*t*-statistics are 1.98 and 1.75 for *MaxAR(std)* and *AVOL*, respectively).

The third stage of my paper is based on the findings in prior literature on the distance between local GAAP and IFRS (Bae, Tan and Welker 2008; Tan, Wang and Welker 2011; Ding, Jeanjean and Stolowy 2007; Siciliano 2011). In particular, I build on the evidence found in the second stage, by exploring the interaction between concurrently-released detailed information and accounting distance. Because the effect of detailed IFRS-related information is expected to be more pronounced in countries where local GAAP was further from IFRS, I predict that the market effects of concurrent detailed information in earnings announcement press releases is more pronounced after IFRS adoption for Euronext countries that exhibit the largest distance between their local GAAP and IFRS. I find that in countries where local GAAP was further from IFRS the market response to concurrent detailed information in earnings

announcement press releases is generally positive. The coefficient on the *SCF* (when interacted with *IFRS* and a proxy for accounting distance, *DIS*) is positive and significant for both measures of market response.

This study contributes to the international accounting literature in two ways. First, it provides insights into the economic effect of IFRS adoption on the relation between market responses and unexpected earnings. Despite a growing body of literature on the economic consequences of IFRS (e.g., Daske et al. 2008, DeFond et al. 2010, Li 2010), there is limited evidence (LMT is an exception) of the effect of IFRS on the price-earnings relation using a short-window research design.

Second, this study investigates the institutional setting around IFRS adoption and the voluntary disclosure conveyed by EU firms in earnings announcement press releases, by using hand-collected international data over a period that spans IFRS adoption. I provide results consistent with an increase in concurrent information in firms' press releases – specifically, the inclusion of detailed statement of cash flows and statement of changes in equity. I conclude that managers' voluntary decisions to expand concurrent statement of cash flows information in earnings announcement press releases is the main factor driving the increased market response following IFRS adoption and this effect is different across countries that exhibited different distances between local GAAP and IFRS before the IFRS mandate.

The remainder of the paper is organized as follows. Section 2 reviews prior research and develops the hypotheses. Section 3 describes the sample, the data and illustrates the research design. Section 4 summarizes the results, while Section 5 concludes.

2. Prior research, hypothesis development and research design

In this section I begin by summarizing the challenges faced by researchers in conducting IFRS studies. These challenges are important for understanding results concerning the capital market effects of IFRS adoption in extant research and to support my research design choices. I next discuss theories as to why IFRS is expected to affect the usefulness of earnings announcements. Finally, I describe the research design that I use to test the hypotheses.

2.1. Prior research

A large body of research in international accounting examines the implications of IFRS adoption on accounting and capital market outcomes. The literature has primarily focused on the effects of IFRS on firms' earnings quality, earnings management, earnings comparability, cost of capital, investor and analyst behavior (e.g., Jeanjean and Stolowi 2008; Daske et al. 2008; Li 2010; DeFranco, Kotari and Verdi 2011). This research has produced mixed results. There are at least five potential reasons for the mixed evidence: (1) differences across studies in the definition of samples, in the periods investigated and in the proxies used for the same underlying but unobservable concept (e.g., earnings quality, earnings management, earnings comparability, cost of capital); (2) identification issues attributable to the assumptions researchers make (or do not make) about simultaneous changes in compliance, incentives, regulatory environments before, around and after IFRS adoption; (3) the difference between voluntary versus mandatory IFRS adoption[5]; (4) differences in cross-jurisdictional and time-series data availability; (5) use of databases or surveys containing country environmental data

[5] In the first case (voluntary adoption), if the characteristics on which voluntarily adopting firms differ are correlated with market outcomes, incorrect inferences about the effects of IFRS might be reached because of a potential selection bias. In the second case (mandatory adoption), since all firms must adopt IFRS, it is not possible to know the capital market outcomes, had IFRS not been implemented. In this scenario, as Pope and McLeay (2011) point out, a difference-in-differences design does not eliminate entirely the uncertainty associated with attributing an observed effect in the market outcome to IFRS, especially when the countries included in the benchmark sample present a different and non-constant macro-economic infrastructure.

that pre-date the sample period investigated (e.g., the LaPorta et al. (1998) measure of country enforcement is based on 1980s data; the CIFAR (1995) measure of disclosure quality is based on 1990's data).

Studies investigating the effects of IFRS adoption on capital market outcomes can be broadly classified in two categories: (1) research that examines properties of accounting numbers that are associated with market participants' resource allocation decisions; and (2) research that examines proxies for decision usefulness based on observable decision outcomes. Research in category (1) has focused on various properties of earnings such as earnings persistence, earnings predictability, earnings timeliness, and accrual quality. Ahmed, Neel and Wang (2009) conclude that IFRS adoption results in smoother earnings, larger absolute accruals and less timeliness of loss recognition, with more pronounced effects for firms in countries with a strong rule of law. Other studies, in contrast, find no effects on earnings properties around IFRS adoption. For example, Jeanjean and Stolowy (2008) suggest that earnings management in France, the UK and Australia did not change after IFRS adoption. As another example, Atwood, Drake, Myers and Myers (2010) document that earnings reported under IFRS are no more or less persistent and are no more or less associated with future cash flows than are earnings reported under local GAAP.

Research in category (2) has examined capital market effects associated with IFRS adoption, such as changes in market liquidity or estimated cost of capital. Researchers have also studied the effect of IFRS earnings numbers on the properties of other users' decision outcomes, such as analyst forecasts and recommendations and institutional investment. Related to the effect of IFRS on market outcomes, Li (2010) argues that improvements in comparability contribute to her finding lower cost of capital for EU firms after IFRS adoption, with the effects

depending on the strengths of the countries legal enforcement. Daske et al. (2008) find that firms that already switched to IFRS prior to the 2005 mandate experience significant liquidity, valuation, and cost of capital effects around IFRS adoption (i.e., 2005-2006). However, and in contrast to Li (2010), they do not conclude that these effects are attributable to an increase in comparability deriving from the increased number of firms reporting under IFRS following the mandate.

Turning to the effects of IFRS on users' decision outcomes, Horton, Serafeim and Serafeim (2008), Wang, Young, and Zhuan (2008), Bae et al. (2008) and Tan et al. (2011) suggest that both voluntary and mandatory IFRS adoption improves forecast accuracy, decreases forecast dispersion and volatility in forecast revisions. They conclude that this effect is associated with IFRS improving the information environment through more high quality and more comparable information. Cuipers and Buijink (2005), in contrast, show higher dispersion among EU firms using IFRS.

Among the studies included in category (2), research on the effect of IFRS adoption on the usefulness of accounting information is sparse. LMT provide empirical evidence that the information content of earnings announcements increases in 16 countries that mandatorily adopted IFRS in 2005 relative to 11 countries that maintained local GAAP during 2002 - 2007. Moreover, they suggest three mechanisms through which IFRS adoption increased the information content of earnings announcements: (1) a decrease in reporting lag; (2) an increase in analyst following; (3) an increase in foreign direct investments.

I also investigate the effect of IFRS adoption on the usefulness of earnings announcements. There are, however, two aspects that distinguish my study from LMT. First, while LMT speak to IFRS as the main factor affecting the usefulness of earnings

announcements, I investigate whether the mechanisms that affect the relation between market reactions and earnings announcements have changed during the post-IFRS adoption period. As discussed in Section 2.2, while LMT hypothesize that the usefulness of IFRS earnings announcements is significantly different from the usefulness of local GAAP earnings announcements, I investigate three potential explanations for this trend: (1) the change in unexpected earnings (news content); (2) the change in the average investor response to unexpected earnings (the ERC); and (3) the change in the amount of concurrent detailed information released in the earnings announcement press releases.

Second, while LMT research design is based on a sample of IFRS and non-IFRS countries that experience cross-sectional and time-series variation in institutional and regulatory factors (Pope and McLeay 2011), I focus on a single stock market (Euronext) where all firms adopt IFRS, but where countries exhibit differences in accounting distance between local GAAP and IFRS before the IFRS mandate. This research setting allows me to assess the effect of IFRS adoption on earnings usefulness by exploiting accounting distance as a mediating factor. In summary, while LMT investigate the difference in the information content of IFRS earnings announcements versus non-IFRS earnings announcements (numbers), I examine whether and *how* IFRS affects the relation between unexpected earnings and unexpected returns, by exploiting a setting where jurisdictions differ in terms of accounting distance from local GAAP to IFRS prior to the IFRS mandate. In the next session, I use a framework similar to FSV to elaborate on my hypotheses about the effect of IFRS adoption on (1) the magnitude of unexpected earnings; (2) the market responses to unexpected earnings; (3) the over-time change in the amount of concurrent detailed information disclosed in earnings announcement press releases.

2.2. Hypothesis development

FSV examine three competing explanations for the over-time increase in usefulness of earnings announcements in the United States (US): (1) changes in the magnitude of unexpected earnings; (2) changes in the earnings response coefficient (the ERC); (3) changes in the amount and the form of concurrent information reported in earnings announcement press releases. The authors find that the first two explanations (the change in the magnitude of unexpected earnings and the ERC) do not support their finding an increase in the information content of earnings announcement press releases: the magnitude of earnings surprises decrease and the market response to earnings announcement press releases also decreases over time. They find that expanded concurrent disclosure, especially the inclusion of detailed income statements in tabular form, is a potential explanation for the over-time increased usefulness of earnings announcement. Because LMT find an over-time increase in the usefulness of annual earnings announcements after IFRS adoption, I focus my analysis on the three competing explanations proposed by FSV to develop my hypotheses for the effect of a change in market response to earnings announcements by a sample of Euronext firms pre- and post-IFRS adoption.

(1) *Changes in the absolute amount of unexpected earnings*

The first potential explanation for a change in earnings usefulness following IFRS adoption is based on early work (e.g., Lev 1989) finding that unexpected earnings is one of the measures of price sensitivity to earnings announcements and that the market reaction to earnings announcements increases with the magnitude of the earnings surprise (e.g., Beaver, Clarke and Wright 1979).

Prior empirical evidence on the effect of IFRS on earnings forecasts shows that to the extent that widespread IFRS adoption reduces accounting standard induced differences in

financial reporting across countries, it may facilitate cross-border comparisons of financial data and make it easier for analysts to predict earnings. This effect would decrease the magnitude of unexpected earnings. For instance, Horton et al. (2008) and Byard, Li and Yu (2011) find that the analysts forecast error, equal to the absolute earnings surprise deflated by the closing price of the previous year, decreases after mandatory IFRS adoption in the EU.

Based on these prior findings and on prior theory (e.g., Beaver et al. 1979, Lev 1989), I predict the following hypothesis, stated in the null form:

> H1: *The increased market response to earnings announcement press releases following IFRS adoption is associated with an over-time increase in the magnitude of unexpected earnings (UE).*

(2) *Changes in the market response to earnings announcements*

As a second potential explanation for an increase in the information content of earnings announcements following IFRS adoption, I focus on the market reaction to unexpected earnings as measured by the earnings response coefficient (the ERC). Prior literature documents that the intensity of the ERC is associated with earnings attributes, such as persistence and risk (Easton and Zmijewski, 1989), and/or with a change in other economic factors that are unrelated to the financial reporting process, such as growth and interest rates (e.g., Collins and Kothari 1989). This literature also shows that the relation between market price responses and the magnitude of unexpected earnings is not linear (Freeman and Tse 1992; Basu 1997).

Prior empirical research, however, has not investigated whether the average investors' response to a unit of earnings surprise changed after IFRS adoption, nor if such a change (if it existed) was attributable to a change in earnings qualities, such as persistence and risk. Thus, whether an increased market reaction to earnings announcements during the post-IFRS adoption period is associated with an intensified investors' average reaction to earnings news is an

empirical question:

> H2: *The change in usefulness of earnings announcements following IFRS adoption is associated with the change in the earnings response coefficient (ERC).*

(3) Change in concurrent disclosure in earnings announcement press releases following IFRS adoption

The third potential explanation for a change in earnings usefulness following IFRS adoption is based on Hoskins et al.'s (1986) and FSV findings that in the US capital market earnings announcements press releases convey incremental voluntary information (in addition to bottom-line earnings), thus explaining a significant portion of market reactions to earnings announcements. If IFRS caused an expansion of the disclosure of firms' earnings announcement press releases, I expect that the concurrent disclosure investigated in FSV is also a factor explaining the increased usefulness of earnings announcements following IFRS adoption. I describe next the mechanism through which IFRS adoption can affect the content of earnings announcement press releases.

The effect of IFRS adoption on the information content of earnings announcements

There are two arguments that explain a potential increase in concurrent detailed information disclosed in Euronext firms' earnings announcement press releases following IFRS adoption: (1) the distance between IFRS and local GAAP and (2) the presence of a regulatory mechanism that ensures (and/or encourages) that additional (voluntary) information stemming from IFRS adoption is included in earnings announcement press releases. As for the first argument, because IFRS is more detailed relative to local GAAP in the four Euronext countries I examine (Ding et al. 2007, Bae et al. 2008, 2011, Siciliano 2011), I expect that when IFRS replaces local GAAP that is further from IFRS, it is more likely to observe an increase in IFRS-related disclosure. However, because the information disclosed in earnings announcement press releases is not regulated by accounting standards, the existence of distance between local GAAP

and IFRS does not represent a necessary condition to observe an increase in IFRS-related disclosure in press releases.

As for the second argument, in October 2005 the Committee on European Securities Regulators (CESR) issued a recommendation containing several proposals to encourage European listed firms that voluntarily disclose non-GAAP financial measures (in their earnings announcement press releases) "to do so in a way that is appropriate and useful for investor's decision making".[6, 7] This CESR recommendation established the principle of "prominence of presentation of GAAP earnings versus alternative performance earnings" (par. 29), considering as GAAP earnings those that are prepared in accordance with IFRS. The CESR recommendation recognized that IFRS imposes the presentation of additional (to what was required by prior local GAAP) specific data, such as the statement of cash flows, that is important to enable users of financial statements to understand the entity's financial position and performance (par. 14).[8]

Based on these arguments, I expect an increase in the amount of IFRS-related information in Euronext earnings announcement press releases and, building on FSV, I predict that this trend is associated with the intensified market reactions documented in LMT. Thus, my H3 is as follow:

> H3: *Following IFRS adoption, increased disclosure in concurrent information in earnings announcement press releases explains larger abnormal market reactions to earnings announcements.*

My last hypothesis (H4) is based on prior literature that seeks to establish whether

[6] CESR, Recommendation on Alternative Performance Measures, October 2005.
[7] Similarly, the usefulness principle was recognized in the US in an SEC cautionary advice regarding the use of non-GAAP financial measures (December 4, 2001).
[8] The 2005 CESR recommendation suggests that listed firms consider as defined measure all information included in audited IFRS financial statements, either on the face of the balance sheet, income statement, statement of changes in equity, cash flow statements or in the notes.

changes in accounting or market outcomes are more likely to occur where the differences between local GAAP and IFRS are largest. Intuitively, if the local GAAP that IFRS replaces is close to IFRS, one may not expect major IFRS-related effects on outcome variables of interest. One way of designing the research to allow for GAAP differences is to allow estimated IFRS effects to vary with measures of GAAP difference or distance. Building on prior studies that measure the distance between local GAAP and IFRS (e.g, Bae et al. 2008, Ding et al. 2007; Siciliano 2011), I predict that increased informativeness of earnings announcements following IFRS adoption is more pronounced in Euronext countries where local GAAP was further from IFRS than in Euronext countries where local GAAP was closer.

> H4: *Following IFRS adoption intensified market reaction to increased concurrent information in earnings announcement press releases is larger in Euronext countries where local GAAP was further from IFRS (Belgium, France and Portugal) than in Euronext countries where local GAAP was closer to IFRS (Netherlands).*

3. Sample, Data and Research Design

3.1. Sample selection and Data

The sample includes firms listed on the Euronext Stock Exchange. Because Euronext was started in 2000, I collect accounting and market data over the 11-year period 2000 – 2010 using Thomson Worldscope and Datastream, respectively. The sampling criteria are as follows. First, as my analysis focuses on Euronext, I remove firms that are not included in the Euronext database during the sample period by matching Worldscope and the Euronext Fact Book file.[9] Second, to be consistent with LMT, I remove small firms, using the classification criteria of Euronext. Specifically, I eliminate firms with a month-end market capitalization smaller than 150 million euro for 90 percent or more of month-ends during 2000 - 2010. Third, I exclude

[9] I have obtained the complete Euronext Fact Book file from the Investors' Center at Euronext Paris. This database provides the monthly list of all Euronext firms from September 2000.

financial firms, such as banks and insurance companies (with two-digit industry code 43 in Worldscope), because these firms have unique operating characteristics and are governed by specific regulations. Fourth, I exclude Euronext firms that voluntarily adopt IFRS (or US GAAP) prior to 2005.[10] This choice allows me to avoid potential confounding effects of incentives for firms to adopt IFRS voluntarily (Barth et al. 2008).

I retain firms with 11 consecutive years of accounting data (i.e., earnings, total assets and accounting standards followed), five years prior to the IFRS adoption (2000 - 2004) and six years after IFRS adoption (2005 – 2010). My Worldscope sample consists of 146 Euronext firms (1,606 firm/years) from France, Belgium, Portugal and the Netherlands with earnings and total assets available during 2000 – 2010. I match firms' accounting information with market returns from Thomson Datastream. As in LMT, I exclude firms that do not have sufficient trading activity during the event window. Specifically, I exclude firms with zero-returns for larger than 80 percent of the days in the total estimation window. Finally, I collect earnings announcement information from the I/B/E/S (International Detail File) database and match them with the Worldscope/Datastream combined sample. After winzorizing continuous variables at the 1st and 99th percentile, my final sample includes 1,430 earnings announcements for 140 unique Euronext firms for fiscal years 2000 – 2010. [11]

A summary of the sample selection criteria and the distribution of observations by country and year are reported in Table 1 and Table 2, respectively.

3.2. Research design

[10] The field to identify the type of accounting standards adopted in Worldscope is "Accounting Standards Followed". I code firm-year observations as local if one of the following cases applies: 01 (local standards), 08 (local standards with EU and IASC guidelines), 10 (local standards with some EU guidelines), 17 (local standards with some OECD guidelines), 18 (local standards with some IASC guidelines), 19 (local standards with some IASC and OECD guidelines). I code firm-year observations as IFRS in the following case: 23 (IFRS).

[11] Financial firms represent firms with 2-digit SIC code "43" in Worldscope. Firms' returns, firms' volumes and firms' month-end market values are from Datastream (items *RI, VO, MV,* respectively).

Following prior literature (e.g., Ball and Brown 1968; Beaver 1968, Lev 1989), I define earnings usefulness as the ability of accounting information to generate a change in the investors' probability distribution (beliefs) of future firm value. The change in investors' beliefs leads to a decision, which is reflected in a change in stock price or stock volume. If the investors' action can be attributed to specific accounting information, such information is considered useful. Following this logic, I consider larger revisions in stock price and volume following an earnings announcement as indicative of an increase in earnings usefulness.

I assess the usefulness of earnings announcements using two measures. The first measure is the beta-adjusted abnormal return selecting the day with the largest (in absolute value) abnormal return in the three days [-1, 0, 1] surrounding the I/B/E/S earnings announcement date, deflated by the standard deviation of the firm's (absolute) abnormal returns on all trading days of year *t*. The second measure is the abnormal trading volume at earnings announcement dates. I calculate this measure as the average trading volume during the firm's earnings announcement window [-1, 0, 1], scaled by the average trading volume during the estimation period [-60, - 10] and [+10, +60].

Specifically, for the first measure of earnings usefulness, I use the following equation to calculate abnormal returns:

$$AR_{jt} = R_{jt} - (\alpha_j + \beta_{jt} R_{mt}) \quad (1)$$

where R_{jt} is firm *j*'s raw return on the earnings announcement day of year *t*, R_{mt} is the country value-weighted market return on that day, and α_i and β_i are firm's *j* market model parameters estimated during the estimation period [-60, -10 and +10, +60]. I select firm *j*'s residual abnormal returns on the earnings announcement date of year *t* (AR_{jt}), by choosing the day with the largest abnormal (in absolute value) return. To control for changes in the underlying

volatility of the stock, I deflate this measure by the standard deviation of firm *j*'s absolute abnormal returns on all trading days in year *t*.

For the second measure of earnings usefulness (abnormal stock volume) I compute the following expression:

$$AVOL_{jt} = \left(\frac{\overline{Vol_{jt}}_{[-1,0,+1]}}{\overline{Vol}_{jt[-60,-10][+10,+60])}} \right) \quad (2)$$

where $\overline{V}_{jt}$ is the average number of shares (scaled by the number of shares outstanding of firm *j*) that are traded during the earnings announcement date [-1, 0, +1] and V_j is the average number of shares daily traded (scaled by the number of shares outstanding of firm *j*) during the estimation period ($t - 60$ to $t - 10$ and $t + 10$ to $t + 60$) surrounding the earnings announcement date. Since *AVOL* is highly skewed, I take its natural logarithm:

$$AVOL_{jt} = \ln\left(\frac{\overline{Vol_{jt}}_{[-1,0,+1]}}{\overline{Vol}_{jt[-60,-10][+10,+60])}} \right) \quad (3)$$

4. Empirical Results

4.1. Descriptive statistics

Descriptive data on the two measures of earnings usefulness are reported in Table 3, Panel A and B. The results show the following: the mean (median) *MaxAAR(std)* increases from 7.76 (7.39) before IFRS adoption to 10.39 (9.97) after IFRS adoption. This finding suggests that the largest abnormal return during the 3-day window around the earnings announcement date is larger than the normal idiosyncratic return volatility during the non-announcement period and that this effect is more pronounced during the post-IFRS period. These changes are significant at the 0.001 level. The mean (median) *AVOL* increases from 0.23 (0.24) before IFRS adoption

to 0.43 (0.40) after IFRS adoption. This finding suggests that the daily trading volume during the 3-day window around the earnings announcement date is larger than the average trading volume during the estimation period and that this effect is larger after IFRS adoption.

I next examine the time trend of market response before and after IFRS adoption. I do so by regressing the two measures of market responses ($MaxAAR(std)_{jt}$ and $AVOL_{jt}$), on a trend variable, *TREND*, that is equal to $t - 2000$, and a dummy variable IFRS which takes the value one for the period 2005 – 2010.

$$MaxAAR(std)_{jt,}\ AVOL_{jt,} = \beta_0 + \beta_1 TREND_t + \beta_2 IFRS + \varepsilon_{jt} \quad (4)$$

A positive and significant coefficient on $TREND_t$ (β_1), which controls for possible time patterns in market responses, indicates the existence of an over-time increase in earnings usefulness. The results of estimating Equation 4 (in Table 4) show that β_1 is positive and statistically significant (p-value < 1 percent) for the two measures of earnings usefulness (0.38 in the abnormal return regression, and 0.03 in the abnormal trading volume regression). However, β_1 becomes insignificant when I include *IFRS* as explanatory variable, whereas the coefficient on IFRS (β_2) is positive and significant (2.49, t-statistic 2.04 for *MaxAAR(std)* and 0.11, t-statistic 2.12 for *AVOL*). Overall, this finding suggests that IFRS adoption explains the increase in market return and volume effects during the post-adoption period (2005 – 2010).

In Table 5 I compare market reactions (*MaxAAR(std)* and *AVOL*) from Euronext countries where local GAAP was further from IFRS with market reactions from Euronext countries where local GAAP was closer to IFRS, pre- and post-IFRS adoption. The purpose of this analysis is to examine if market responses are different among countries that exhibit cross sectional variation in the distance between local GAAP and IFRS and how this difference changes during the post-IFRS adoption period. I use DIS as a dummy variable that is equal to

one (zero) for firm/observations from Belgium, France and the Portugal (the Netherlands). Consistent with descriptive statistics presented in Table 3, I find that both *MaxAAR(std)* and *AVOL* increase following IFRS adoption (in the Netherlands from 9.12 to 11.02 and from 0.28 to 0.49 for *MaxAAR* and *AVOL*, respectively; in Belgium, France and Portugal from 6.32 to 9.94 and from 0.19 to 0.37 for *MaxAAR(std)* and *AVOL*, respectively). Also worthy of note is the decrease for both measures of market responses in the difference between (1) Netherlands and (2) Belgium, France and Portugal. In particular, *MaxAAR(std)* decreases from 31 percent to 10 percent and *AVOL* decreases from 33 percent to 24 percent).

Summarizing the descriptive analyses in Table 3-Table 5, I find that abnormal returns and abnormal trading volume during the earnings announcement window increases over time. Moreover, I find that these effects are more pronounced in countries where local GAAP was further from IFRS prior to 2005. Consequently, I conclude that the difference in market reactions to earnings announcements (returns and volume effects) between the two sets of Euronext countries decreases. Based on these results, I next conduct tests of competing explanations to investigate whether and why the intensified market reactions to earnings announcements are more pronounced after IFRS adoption, especially in countries that exhibited the largest distance between local GAAP and IFRS.

4.2. Competing explanations for the increased usefulness of earnings announcements following IFRS adoption

Changes in the magnitude of unexpected earnings (H1)

In this subsection, I test H1 and examine the trend in the magnitude of unexpected earnings. I measure the magnitude of unexpected earnings, |UE|, as the absolute difference between the actual EPS of firm *j* at the announcement date and the mean (median) analyst forecasts of earnings for firm *j*, scaled by the price at the beginning of the year *t*, as reported by

I/B/E/S (Walther, 1997). Panel A and B in Table 3 show that the mean (median) |UE|, calculated using the median of analysts' earnings estimate in I/B/E/S, decreases from 0.021 (0.007) before IFRS adoption to 0.013 (0.004) after IFRS adoption. This change (-38 percent for the mean and -42 percent for the median) is significant at the 0.001 level.

To verify whether this trend is more pronounced after IFRS adoption, I perform a trend analysis, controlling for other control variables known to affect the magnitude of unexpected earnings (e.g., Amir et al. 2003). These variables include the number of analysts following the firm before the earnings announcement, the dispersion of analysts' forecasts before the earnings announcement and the logarithm of year-end market value of equity before the earnings announcement. Equation (5) shows the trend equation that includes these control variables:

$$|UE|_{jt} = \beta_0 + \beta_1 TREND_t + \beta_2 IFRS + \beta_3 NUMEST_{jt} + \beta_4 DISP_{jt} + \beta_5 MVE_{jt} + \varepsilon_{jt} \quad (5)$$

Based on prior research, I expect *NUMEST* to be negatively associated with the magnitude of unexpected earnings because a larger number of analysts following the firm decreases the forecast error. I predict that *DISP* is positively associated with the magnitude of unexpected earnings because when analysts disagree on earnings forecasts, unexpected earnings tend to be larger. *MVE* is expected to be negatively associated with the magnitude of unexpected earnings because it is more difficult to forecast earnings of small firms given that they disseminate less information than large firms in the market. The results of estimating equation (5) are shown in Table 6. I present my results using |*UE*| as the dependent variable estimated using the median analyst estimate of earnings before the earnings announcement. When I do not include my control variables (column 1), I find that the coefficient on *TREND* is insignificant, whereas the coefficient on *IFRS* is negative and significant (-0.019, *t*-statistic -2.19. When I include my control variables (column 2), I find that the coefficient on *IFRS*

remains negative (-0.004, *t*-statistic -1.74) and the coefficients on the control variables (except *MVE*) have the expected sign and are statistically significant. This result suggests that the decrease in |*UE*| is more pronounced after IFRS adoption.

Following Freeman and Tse (1992) and FSV, I present additional evidence on the change in the distribution of |*UE*|. In Table 7 I report the number of |*UE*| observations using the following six ranges of magnitude: $|UE| \leq 0.001$, $0.001 < |UE| \leq 0.005$, $0.005 < |UE| \leq 0.01$, $0.01 < |UE| \leq 0.05$, $0.05 < |UE| \leq 0.1$, $|UE| \geq 0.1$. The findings indicate that the overall decrease in the mean |*UE*| is the result of a shift of |*UE*| observations from the most extreme ranges of the distribution ($0.01 < |UE| \leq 0.05$, $0.05 < |UE| \leq 0.1$, $|UE| \geq 0.1$) to three middle ranges of the distribution ($|UE| \leq 0.001$, $0.001 < |UE| \leq 0.005$, $0.005 < |UE| \leq 0.01$). In each range, the mean |UE| has not significantly changed. The only range where the change in the mean |*UE*| presents a significant decrease is $0.01 < |UE| \leq 0.05$ (from 0.023 to 0.020, *t*-statistics 1.76).

In summary, consistent with H1 and prior findings (e.g., Bae et al. 2008, 2011, Byard et al. 2011 and Horton et al. 2008), the results in Table 6 and Table 7 show that the magnitude of unexpected earnings decreased after IFRS adoption and that this change is associated with a shift toward greater frequencies of smaller |*UE*| values around IFRS adoption. I conclude that the increased usefulness of earnings announcements is not associated with an increase in the magnitude of unexpected earnings.

Changes in the earnings response coefficient (the ERC) (H2)

In this subsection I test H2 by investigating whether increased usefulness of earnings announcements following IFRS adoption is associated with a change in the earnings response coefficient (the ERC). I calculate the coefficient estimates (the ERC) by linking the two measures of earnings usefulness (the signed *MaxAR(std)* and *AVOL*) to *UE* in the following

equation.

$$MaxAR(std)_{jt,} = \beta_0 + \beta_1 TREND_t + \beta_2 IFRS + \beta_3 UE_{jt} + \beta_4 UE_{jt} * IFRS + \varepsilon_{jt} \quad (6)$$

$$AVOL_{jt} = \beta_0 + \beta_1 TREND_t + \beta_2 IFRS + \beta_3 |UE|_{jt} + \beta_4 |UE|_{jt} * IFRS + \varepsilon_{jt} \quad (7)$$

where the coefficient on *TREND* (β_1) captures the over-time change in market responses, the coefficient on IFRS (β_2) captures the average change in market responses after IFRS adoption. My coefficient of interest is β_4, which measures whether the ERC has changed following IFRS adoption. Specifically, evidence in support of an increase in market responses to unexpected earnings following IFRS adoption is indicated by a positive coefficient (β_4) on *UE * IFRS* (and on $|UE|_{jt}$ * *IFRS* in equation 7). The results in Table 8 show that the coefficient on *UE * IFRS* is not statistically significant for either measure of abnormal market responses (*MaxAR(std)* in column 1 and *AVOL* in column 2), whereas the coefficient on the IFRS indicator (β_2), is positive and statistically significant (0.131, *t*-statistic 1.92), when *MaxAR(std)* is used as the dependent variable. Results (not reported) of estimating equation (6) for each of the six ranges of magnitude of absolute unexpected earnings confirm that the ERC has not increased after IFRS adoption.[12] These results suggest that the per-unit market responses to unexpected earnings have not increased over time even though the market's reaction are more intense following IFRS adoption. I conclude that the increased usefulness of earnings announcements is not associated with an increase in the average investors' response to a unit of unexpected earnings.

[12] Prior literature documents that the ERC is associated with a change in earnings qualities, such as persistence and risk (e.g., Easton and Zmijewski 1989). I compute earnings persistence as the coefficient estimate from an order one autoregressive model (AR1) for earnings scaled by average total assets in year t using OLS. My market-based proxy for risk is return volatility, measured as the standard deviation of the firm's daily return before and after IFRS adoption. In untabulated tests I find that persistence decreases after IFRS adoption (from 0.681 to 0.612) and that the change is statistically significant (*t*-statistic 3.257). Turning to risk, I find that volatility after IFRS adoption increases (from 0.053 to 0.061, *t*-statistic 4.249). Both results are consistent with a non-increasing effect of IFRS on the ERC as reported in Table 8.

Changes in the amount and the form of concurrent information reported in earnings announcement press releases (H3, H4)

In this subsection I investigate the third potential explanation for increased usefulness of earnings announcements following IFRS adoption. Building on FSV, I examine whether the more intense market reaction to earnings announcements following IFRS adoption is associated with expanded concurrent disclosure in earnings announcement press releases.

For my investigation of firms' earnings announcements I hand-collect the press-releases for all my Euronext sample firms. For collecting firms' press releases I use the firms' websites and Thomson One Banker. I collect the English version of firms' press-releases and, if I cannot find it, I collect the French and the Portuguese versions.[13] To identify disclosing patterns in earnings announcement press releases over time, I first code a sample of 333 firms' press releases of 40 randomly selected firms over 2001 – 2011. I note that the percentage of firms disclosing detailed balance sheet, income statement, statement of cash flows and statement of changes in equity increases over time and especially following IFRS adoption. I extend my content analysis to all earnings announcement press releases of my Euronext sample. I collect 1,062 press releases for 140 firms with at least two observations before and after 2005. I read and code each press release to verify the presence (i.e., zero if absent, one if present) of each the following information considered by IFRS as the primary documents of financial report (IAS 1):

(1) a detailed balance sheet (BS);

(2) a detailed income statement (IS);

(3) a detailed statement of cash flows (SCF);

[13] All earnings announcements used for this study from Dutch firms are in English. Whenever I find two versions of the same press release (i.e., one in English and one in original language), I first verify if the two versions are the same (and they are). Then, I use the English version for the analysis.

(4) a detailed statement of changes in equity (SE).[14]

Table 9, Panel A, reports the average number of pages and number of word per year for the 1,062 press releases. It also shows the average number of firms that report a detailed balance sheet, income statement, statement of cash flows and statement of change in equity information. Panel B and Panel C in Table 9 show descriptive information in the Netherlands (Panel B) and in Belgium, France and Portugal (Panel C). I find that while almost all firms in the Netherlands reported a detailed balance sheet and income statement before IFRS adoption (97 percent and 98 percent, respectively); this compares to less than half of the firms in Belgium, France and Portugal over the same period (25 percent and 39 percent, respectively). My analysis also shows that almost 92 percent of the firms the Netherlands reported concurrent statement of cash flows information in earnings announcement press releases before IFRS adoption, whereas only 19 percent of firms in Belgium, France and Portugal did so over the same period. However, for both groups of countries I find that a few firms reported a detailed statement of changes in equity in their earnings announcement press releases before IFRS adoption (23 percent in the Netherlands and 4 percent in France, Belgium and Portugal) and that this percentage increases after IFRS adoption (65 percent in the Netherlands and 14 percent in Belgium, France and Portugal).

Taken together, these results confirm that concurrent detailed balance sheet, income statement, statement of cash flows and statement of change in equity information increased after IFRS adoption. This trend, however, was not limited only to elements of financial statements that were not regulated under local GAAP (i.e., the statement of cash flows in Belgium, France

[14] FSV code three additional concurrent disclosure variables: 1) non-recurring earnings components; 2) CEO qualitative comments; 3) current and forecast operating data. FSV find that these three variables are all insignificant in explaining increased usefulness of earnings announcements. Moreover, coding these three variables involves a high degree of subjectivity. Consequently, I do not include these three variables in my investigation.

and Portugal and the statement of change in equity in all Euronext countries). The trend also included accounting information that was already regulated under local GAAP (i.e., the presentation of the balance sheet and the income statement). These results suggest that the accounting distance and the 2005 CESR recommendation on EU firms' disclosure in earnings announcement press releases were two complementary forces that influenced the expanded concurrent information in earnings announcement following IFRS adoption.

I report the results of tests of H3 in Table 10. This analysis expands the analysis presented in Table 10 by including as independent variables in regression (6) and (7) four disclosure variables as proxies for concurrently-released detailed balance sheet, income statement, statement of cash flows and statement of changes in equity. I also include the interaction between these four variables with the IFRS indicator (column 1 and column 3). Similar to FSV, to investigate the effect of the value of information contained in unexpected earnings on abnormal returns responses, I use the absolute value of unexpected earnings (column 2). The purpose of this analysis is to test whether other concurrent detailed accounting information-releases contribute to explain the documented increase in market price responses to earnings announcements after IFRS adoption.

Table 10 shows that when *MaxAR(std)* is used as the dependent variable (column 1), the coefficients on *TREND, UE* and *IFRS* are insignificant. The coefficients on the concurrent disclosure variables (*BS, IS, SCF, SE*) are all insignificant except for *SE* (0.962, *t*-statistic 2.09), whereas the most significant disclosure, when interacted with *IFRS*, is the statement of cash flows (0.032; *t*-statistic 1.98). This result suggests that the intensified market reactions to the concurrent disclosure of detailed statement of cash flow following IFRS adoption explains the increased usefulness of earnings announcements.

When *MaxAAR(std)* is used as the dependent variable (column 2), the coefficients on *TREND,* |*UE*| and *IFRS* are insignificant. The coefficients on the concurrent disclosure variables are significant for *BS* (2.941, *t*-statistic 1.92) and *IS* (2.835, *t*-statistic 1.98), but not for *SCF* and *SE*. The most significant disclosure variables, when interacted with *IFRS*, are *BS* (2.98; *t*-statistic 1.67), *SCF* (1.879; *t*-statistic 2.08) and *SE* (1.91; *t*-statistic 1.71). This result suggests that the intensified market reactions to the concurrent disclosure of detailed balance sheet, statement of cash flows and statement of changes in equity following IFRS adoption explains the increased usefulness of earnings announcements.

Table 10 shows that when *AVOL* is used as the dependent variable (column 3), the coefficients on *TREND,* |*UE*| and *IFRS* are insignificant. The coefficients on the concurrent disclosure dummy variables (*BS, IS, SCF, SE*) are significant in the case of *BS* and *SCF* (0.218, *t*-statistic 1.78 and 0.254, *t*-statistic 2.13, respectively). In the analysis of the interactions between additional concurrent disclosures and IFRS, there is a positive and significant coefficient on *SCF* (0.252; *t*-statistic 1.75), *IS* (0.241; *t*-statistic 1.92) and BS (0.304; *t*-statistic 1.92). This result suggests that the intensified market reactions to the concurrent disclosure of detailed statement of cash flows, income statement and balance sheet following IFRS adoption explains the increased usefulness of earnings announcements.

Taken together, the results in Table 10 suggest that of all the concurrent disclosure information I investigate (*BS*, *IS*, *SCF*, *SE*), concurrently-released detailed statements of cash flows are associated with the more pronounced returns and trading volume effects following IFRS adoption. They also show that concurrently-released detailed income statements, balance sheet and statement of changes in equity are associated with increased market responses following IFRS adoption, although I do not find consistent results across the three models.

Tests of H4 are presented in Table 11. To investigate whether the expansion in disclosure in earnings announcements is more important in explaining more pronounced returns and volume effects following IFRS adoption in the Euronext country where local GAAP was further from IFRS (the Netherlands) than in Euronext countries where local GAAP was closer (Belgium, France and Portugal), I perform the same tests as those presented in Table 10, including an additional variable (*DIS*) in level and in interaction with each concurrently-released disclosure component, and with the IFRS indicator. Specifically, *DIS* is a dummy variable that is equal to one for firm/observations in Belgium, France and Portugal and zero for firms/observations in the Netherlands. Similar to FSV, to investigate the effect of the value of information contained in unexpected earnings on abnormal returns responses, I use the absolute value of unexpected earnings (column 2).

Table 11 shows that intensified market reactions to concurrently-released disclosure in earnings announcements following IFRS adoption is larger in Belgium, France and Portugal (than in the Netherlands) for the *SCF:* when *MaxAR(std)* is used as the dependent variable, the coefficient on *SCF* (interacted with IFRS and DIS) is 2.097 (*t*-statistic 2.10) and when *AVOL* is used as the dependent variable, the coefficient on *SCF* (interacted with IFRS and DIS) is 0.232 (*t*-statistic 1.84). None of the coefficients on the other concurrently-released disclosure dummies (interacted with *IFRS* and *DIS*) is significant. Using the absolute value of absolute abnormal returns as the dependent variable, results in column 2 are similar to those in column 1. The coefficient on the interaction between the *SCF* dummy, *IFRS* and *DIS* is positive and significant (3.521, *t* statistic 6.95), so as the coefficients on the dummies *IS* and *SE* (when interacted with *IFRS* and *DIS*). Overall, findings in columns 1-3 suggest that the inclusion of detailed statement of cash flows in earnings announcement press releases in Belgium, France

and Portugal (where local GAAP was further from IFRS) is the dominant factor explaining intensified market reactions to earnings announcements.

Sensitivity analysis

My results are robust to several analyses, which I summarize below.

Results in Table 10 and 11 suggest that concurrently-released statement of cash flows information in press releases is associated with more intense market reactions to earnings announcements, and that this association is more pronounced in Euronext countries where local GAAP was further from IFRS before 2005. One potential concern with this analysis is that the characteristics of the statement of cash flows may not reflect the distance (*DIS*) between the local GAAP and IFRS in the four Euronext countries. To address this issue, similar to Siciliano (2011) I conduct a two-level investigation about the statement of cash flows regulation in the four Euronext countries. At the *de jure* level I examine the extent to which local GAAP differed from IFRS in terms of presentation of the statement of cash flows in consolidated financial statements. Specifically, I verify whether the local GAAP provided guidance on the preparation and presentation of statement of cash flows before IFRS adoption. At the *de facto* level, I randomly select the 2002-2004 consolidated financial statements of 70 Euronext firms in my sample: 50 from Belgium, France and Portugal and 20 from the Netherlands. I next examine the following three dimensions: (1) the presence of a statement of cash flows; (2) the prominence of the statement of cash flows (i.e., if it is presented as primary financial statement or it is disclosed in the notes); (3) the format of the statement of cash flows.

The *de jure* analysis suggests that while in Belgium, France and Portugal local GAAP did not require the preparation and the presentation of a statement of cash flows in consolidated financial statements, in the Netherlands the preparation of a statement of cash flows was

required. In the *de facto* analysis I find that all of the 70 firms disclosed a statement of cash flows in their consolidated financial statements during 2002-2004. However, while all sample firms in the Netherlands included a statement of cash flows as primary document of the consolidated financial statements (as prescribed by IAS 1), only 53 percent of the firms in Belgium, France and Portugal did so; the remaining 47 percent of firms in these countries disclosed the statement of cash flows in the notes. Finally, I find that while all firms in the Netherlands used a format of the statement of cash flows similar to that prescribed by IAS 7, only 34 percent of firms in Belgium, France and Portugal referred to IFRS for detailed implementation guidance on the preparation of statement of cash flows before 2005.

In summary, this analysis confirms that the prominence and the format of statement of cash flows in consolidated financial statements varied across the four Euronext countries before IFRS adoption and is one of the components of financial reporting that explains the distance between local GAAP and IFRS before IFRS adoption.

Table 9 shows that the mean number of words and pages of annual earnings announcement press releases increases over the sample period. One potential concern with my empirical analysis is that other information reported in press releases contributed to explain increased market reactions to earnings announcements. From a preliminary analysis of a subsample of 333 press releases I observe the following profile: the disclosure about risk and financial guidance in firms' press releases increases over time in the Euronext countries I examine. This trend may be attributable to the Transparency Directive (TD) promulgated in 2005, which recommends that EU listed firms disclose in their reports information about risks and future business developments. I also note that segment reporting and pension accounting were two accounting items that were differently regulated under local GAAP and under IFRS

(IAS 14 and IAS 19, respectively). Following the methodology reported in the Appendix, I extract from the earnings announcement press releases the total number of words related to risk, CEO's financial guidance, segment information and pension accounting. The trend analysis (similar to that presented in Table 4) shows a positive (and significant) trend only for risk disclosure (3 percent, *t*-statistic 2.13), but the coefficient on *IFRS* is not significant. Finally, adding *RISK* (and its interaction with *IFRS* and *DIS*) in my specification presented in Table 10 and 11, I continue to observe a positive and significant association between market responses and concurrent statement of cash flows information, whereas the coefficient on *RISK* (and on its interactions with *IFRS* and *DIS*) is insignificant.

Following prior literature (e.g., DeFond et al. 2007), another potential concern is the choice of the I/B/E/S earnings announcement date, used for the calculation of my two dependent variables. Using the announcement date reported in the 1,062 hand-collected earnings press releases, I find that the average (median) difference between I/B/E/S and the actual firms' earnings announcement dates is two days (zero) before 2005 and zero (zero) after 2005. To address the concern that the trend in market responses may be influenced by the noise in the I/B/E/S database, I repeat my hypothesis tests considering the earnings announcement date reported in the 1,062 hand-collected press releases. The results of this analysis are consistent with those reported in Table 4, Table 10 and Table 11.

I also test whether the increasing trend in market reactions to earnings announcement press releases after IFRS adoption in Euronext countries is associated with a more general worldwide economic trend that affects market responses to earnings announcements. Specifically, I calculate *MaxAAR(std)* and *AVOL* for a random sample of 140 US (control) firms

listed on the NYSE during 2003 – 2010.[15] The choice of an institutional setting (such as the US) where the financial reporting regime does not change during the sample period, allows me to alleviate the risk of an identification problem. The trend analysis (untabulated) shows that there is no increasing trend in market responses to earnings announcement press releases: for each of the two measures used as the dependent variables, the coefficient on *TREND* and on an indicator variable, *POST* (for firm-years in 2005-2010), is non-statistically different from zero.[16] For a subset of 40 US firms (randomly selected from the 140 US firms), I also hand-collect and code 320 earnings announcement press releases.[17] I find that there is no increase in the inclusion of detailed balance sheet, income statement, statement of cash flows over time in the earnings announcements, nor the coefficients on their interactions with *POST* are associated with the market responses.

Finally, I examine whether my results are sensitive to the choice of the dependent variable for market responses, to the choice of the window around the earnings announcement date and to the measure of unexpected earnings. Specifically, I use the average abnormal return in the three days surrounding the earnings announcement window [-1; 0; +1] and my reported inferences remain essentially unchanged. I also examine a 6-day window, [-3, +3], around I/B/E/S earnings announcement date. The results from the 6-day window are qualitatively similar (and with similar statistical significance) to those reported for the 3-day window. I use the seasonal random-walk difference in earnings as a second measure of unexpected earnings, with qualitatively unchanged results.

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[15] I deliberately choose this period to avoid the effect of SEC Regulation G on the content of earnings announcement press releases. Regulation G applies to all firms disclosures in annual and quarterly reports filed with respect to a fiscal period ending after March 28, 2003. This regulation requires firms to reconcile non-GAAP financial measures to the most directly comparable GAAP financial measure and to present the most directly comparable financial measure calculated in accordance with GAAP. Excluding 2000 – 2002 allows me to hold the US institutional setting relatively constant.

[16] I use POST instead of IFRS to indicate US firm/observations during 2005 – 2010.

[17] Firms press releases are extracted from the 8-K filings in the Edgar database available on the SEC website.

5. Conclusions

I investigate the mechanisms through which IFRS affects increased market price responses to earnings announcements documented in prior research (e.g., LMT 2011). Using a sample of 140 firms listed on Euronext over 2000 – 2010, I confirm that, on average, absolute market price responses, measured as abnormal returns and abnormal trading volume increase after IFRS adoption. I also find that market reactions to earnings announcements are larger in Euronext countries whose local GAAP was further from IFRS before to the shift to IFRS.

I provide evidence that the larger market price response to earnings announcements after IFRS adoption is not attributable to larger absolute unexpected earnings nor to larger investor responses to unexpected earnings. Instead, my content analysis of 1,062 hand-collected Euronext firms' earnings announcement press releases shows that there is an increase in the inclusion of concurrently-released disclosure of balance sheet, income statement, statement of cash flows and statement of changes in equity following IFRS adoption. Specifically, my results indicate that the inclusion of detailed statements of cash flows information contributes to explain increases in abnormal market reactions to earnings announcements following IFRS adoption and this effect is more pronounced in Euronext countries where local GAAP was further from IFRS prior to IFRS adoption.

While I recognize the caveat of a small sample of long-surviving firms in my study, I regard the results in the prior literature with some caution. Specifically, while LMT assume that the increase in the market response to earnings announcements following IFRS adoption is attributable to the properties of earnings as a single-number summary of firms' performance, I conclude that this trend is due to the increase in concurrently-released disclosure (specifically statement of cash flows) in firms' earnings announcements. The result of an increased

association between market responses and the inclusion of statement of cash flows in firms' earnings announcements may be a joint outcome of IFRS adoption and concurrent institutional environment, leading to the disclosure of more standardized and comparable financial reporting information. In sum, this study further indicates the need to expand our understanding of the effect of institutional settings and accounting standards on financial reporting and capital market outcomes.

Appendix

For each of my 1,062 earnings announcement press release I collect the following information:

IS = indicator variable that is equal to 1 if the press release for year *t* and firm *j* contains a detailed income statement.

BS = indicator variable that is equal to 1 if the press release for year *t* and firm *j* contains a detailed balance sheet.

SCF = indicator variable that is equal to 1 if the press release for year *t* and firm *j* contains a statement of cash flows.

SE = indicator variable that is equal to 1 if the press release for year *t* and firm *j* contains a statement of changes in equity.[18]

Segment = the number of words related to segment using for the search the following strings: "segment(s)", "sector(s)", "division*", "geographic*", "line", "cluster", "by country", "per country", "by zone", "by market", "zones geographiques", "secteur d'activité" "information sectorielles", "segmento*"

Guidance = the number of words related to firms' forecast about future perspectives using for the search the following strings: "perspectives", "prognose*", "outlook", "guidance", "will", "perspectivas"

Risk = the number of words related to business strategies using for the search the following strings: "Risk*", "Uncertain*", "risco", "risque".

Pension accounting = the number of words related to business strategies using for the search the following strings: "pension*", "retirement benefit*" "post-employment", "actuarial gain", "actuarial loss", "pension scheme", "avantages postérieurs à l'emploi".

[18] Some earnings announcement press releases contain only several key line items (or a summary) of a balance sheet, income statement, statement of cash flows and statement of changes in equity, instead of a complete or detailed statement. I code these press releases as not containing a detailed financial statement.

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Tables

Table 1: Sample Description

	# of Obs.	# of Firms
Firms with end of the month market value of equity (90% of times) over 150 million Euros from Dec 2000 to Dec 2010 (covered in Euronext Fact Book File, Worldscope)	2,272	231
Non-financial firms	1,758	178
Mandatory IFRS adopters	1,648	154
Firms with available data in Worldscope during 2000-2010	1,606	146
Total number of firms/observations (with available data in Datastream, Worldscope and I/B/E/S)	1,430	140

This table shows the criteria I use to arrive to the final sample. Financial firms represent firms with 2-digit SIC code "43" in Worldscope. Mandatory IFRS adopters are based on the Worldscope classification (Field 07536): category "23" (IFRS) starting from fiscal year 2005. Firms' returns, firms' volumes and firms' month-end market values are from Datastream (items *RI, VO, MV,* respectively). Firms' earnings announcement dates, fiscal year end dates are from I/B/E/S.

Table 2: Sample Composition of Earnings Announcements by Country and by Year

	Country				
Year	Belgium	France	The Netherlands	Portugal	Total
2000	7	92	27	9	135
2001	7	90	26	9	132
2002	7	91	28	8	134
2003	6	85	27	8	126
2004	7	95	28	9	139
2005	7	89	27	7	130
2006	7	90	27	9	133
2007	7	89	27	8	131
2008	7	90	26	8	131
2009	7	89	27	8	131
2010	6	67	26	9	108
Total	75	967	296	92	1,430

This table shows the number of observations in the sample for each Euronext sample country and year. The complete sample is composed of 1,430 earnings announcements from I/B/E/S from 2000 to 2010 with corresponding returns and volume data from Thomson Datastream.

Table 3: Descriptive Statistics

(Panel A): pre-IFRS

VARIABLES	N	Mean	Sdev	p1	p25	Median	p75	p99
MaxAAR(std)	672	7.756	4.587	1.879	5.186	7.391	10.548	23.323
AVOL	672	0.229	0.714	-1.552	-0.161	0.243	0.682	1.875
|UE|	672	0.021	0.043	0.000	0.002	0.007	0.020	0.261

(Panel B): post-IFRS

VARIABLES	N	Mean	Sdev	p1	p25	Median	p75	p99
MaxAAR(std)	758	10.392***	5.044	2.261	5.359	9.974***	11.412	27.024
AVOL	758	0.427***	0.512	-1.122	0.110	0.402***	0.690	1.640
|UE|	758	0.013***	0.028	0.000	0.002	0.004***	0.010	0.162

This table shows the descriptive statistics for the sample. *MaxAAR(std)* is the largest (absolute) abnormal return in the window around the I/B/E/S earnings announcement day t = [−1, 0, +1], scaled by the standard deviation of (absolute) abnormal returns calculated during the estimation window ([-60, - 10] and [+10, +60]). Abnormal volume is calculated as $AVOL_{jt} = \overline{V}_{jt}/V_j$, where $\overline{V}_{jt}$ is the mean event-period volume for firm j and V_j is the mean volume calculated during the estimation window ([-60, - 10] and [+10, +60]). Unexpected earnings, $|UE|$, is calculated as the actual annual earnings per shares minus the median analyst I/B/E/S estimate of earnings, divided by the price at the beginning of the year. All continuous variables are winzorized at the 1st and 99th percentiles. To assess the statistical significance of the difference in the mean (median) before and after IFRS, I use paired t-tests (Wilcoxon-Mann-Whitney tests). *** p<0.01, ** p <0.05, * p<0.10.

Table 4: Trend Analysis in Market Responses

VARIABLES	MaxAAR(std)		AVOL	
TREND	0.386***	0.046	0.030***	0.015*
	[3.457]	[0.241]	[6.311]	[1.889]
IFRS		2.495**		0.110**
		[2.04]		[2.124]
CONSTANT	6.929***	8.609***	0.153***	0.183***
	[9.122]	[10.36]	[4.68]	[5.884]
Industry fixed effects	YES	YES	YES	YES
Adjusted R-squared	0.000	0.001	0.001	0.020

This table present the result of the trend analysis from OLS regression of *MaxAAR(std)* and *AVOL*, on a time trend variable *TREND* defined as (t – 2000). *IFRS* is a dummy variable that takes the value one for the period 2005 – 2010. Significance at *** $p<0.01$, ** $p<0.05$, * $p<0.10$ is based on a two-tailed *t*-test where the *t*-statistics are calculated using firm clustered standard errors. The sample consists of 1,430 firm/year observations and the period is 2000 – 2010.

Table 5: Difference-in-Difference Analysis of the Two Measures of Market Response (*MaxAAR(std)* and *AVOL*) Conditional on Accounting Distance and IFRS Adoption Period

MaxAAR(std)		DIS = 0	DIS = 1	Diff. (1 – 2)
		(1)	(2)	
Pre-IFRS adoption	(1)	9.12	6.32	31%***
Post-IFRS adoption	(2)	11.02	9.94	10%***
Diff.	(2 – 1)	21%***	57%***	

AVOL		DIS = 0	DIS = 1	Diff. (1 – 2)
		(1)	(2)	
Pre-IFRS adoption	(1)	0.287	0.192	33%***
Post-IFRS adoption	(2)	0.497	0.374	24%***
Diff.	(2 – 1)	71%***	95%***	

This table presents the difference-in-difference analysis for each measure of market response at the earnings announcement date by conditioning Euronext countries on accounting distance (*DIS*) and IFRS adoption period (Pre-Post IFRS adoption). *DIS* is a dummy variable that is equal to one (zero) for firm/observations from Belgium, France and Portugal (the Netherlands). It is a proxy for the distance between local GAAP and IFRS before IFRS adoption. To assess the statistical significance of the differences I use paired *t*-tests. *** p<0.01, ** p <0.05, * p<0.10.

Table 6: Trend Analysis of Unexpected Earnings (|UE|)

VARIABLES	(1)	(2)
TREND	0.001	0.000
	[1.125]	[0.712]
IFRS	-0.007**	-0.004*
	[-2.198]	[-1.744]
NUMEST		-0.000**
		[-2.167]
DISP		0.677***
		[8.749]
MVE		0.000
		[0.636]
CONSTANT	0.015***	0.005*
	[5.68]	[1.738]
Industry fixed effects	YES	YES
Observations	1430	1430
Adjusted R-squared	0.02	0.34

This table shows the analysis of time trend in the absolute value of unexpected earnings (|*UE*|). |*UE*|, is calculated as the actual annual earnings per shares minus the median analyst estimate of earnings, divided by the price at the beginning of the year. The full sample consists of 1,430 observations during 2000 – 2010. *TREND* is equal to t – 2000, *IFRS* is a dummy variable that takes the value one for the period 2005 – 2010. *NUMEST* is the number of analysts following the firm before the earnings announcement, as reported by I/B/E/S. *DISP* is the standard deviation of analysts' earnings forecasts, scaled by the most recent share price. *MVE* is the year-end firm's market capitalization from Worldscope. Significance at *** p<0.01, ** p <0.05, * p<0.10 is based on a two-tailed t-test where the t-statistics are calculated using firm clustered standard errors.

Table 7: Distribution of Absolute Unexpected Earnings (|UE|)

	Number of Earnings Announcements by |UE| portfolio											
	|UE| ≤ 0.001		0.001≤|UE|≤ 0.005		0.005<|UE|≤ 0.01		0.01<|UE|≤ 0.05		0.05<|UE|≤ 0.1		0.1≤|UE|	
	Mean	#	Mean	#	Mean	#	Mean	#	Mean	#	Mean	#
Pre-IFRS	0.000	115	0.002	179	0.007	94	0.023	216	0.068	33	0.195	29
Post-IFRS	0.000	190	0.002	260	0.007	132	0.020*	149	0.068	20	0.174	14

This table shows the distribution of Unexpected Earnings, |*UE*|, calculated as the actual annual earnings per shares minus the median analyst estimate of earnings, divided by the price at the beginning of the year. The six ranges of |*UE*| are those examined by Freeman and Tse (1992) and Francis, Schipper and Vincent (2002).

Table 8: Time and IFRS Trend in Market Responses to Earnings Announcements

VARIABLES	MaxAR(std)	AVOL
TREND	-0.035	0.021
	[-0.986]	[1.467]
IFRS	0.131*	0.008
	[1.924]	[1.612]
UE	-1.034	
	[-0.568]	
UE*IFRS	-1.146	
	[-0.97]	
|UE|		0.079
		[1.04]
|UE|*IFRS		-0.122
		[-0.73]
CONSTANT	0.234*	0.161***
	[1.941]	[3.892]
Industry fixed effects	YES	YES
Observations	1430	1418
Adjusted R-squared	0.002	0.021

This table shows the average coefficients from OLS regression of (signed) *MaxAR(std)* and *AVOL* on *UE* (|*UE*|), *TREND, IFRS* and *UE* (|*UE*|) interacted with *IFRS*. Significance at *** $p<0.01$, ** $p<0.05$, * $p<0.10$ is based on a two-tailed *t*-test where the *t*-statistics are calculated using firm clustered standard errors. The regressions include industry fixed effects (unreported).

Table 9 (Panel A): Descriptive Statistics for the Content Analysis of 1,062 Earnings Announcement Press Releases

Year	Average number of pages	Average number of words	Average presence BS (%)	Average presence IS (%)	Average presence SCF (%)	Average presence SE (%)
2000	5.04	1443	29	32	16	4
2001	6.68	2466	36	52	29	4
2002	7.22	2552	43	55	34	6
2003	8.11	2625	36	50	36	7
2004	8.92	2838	46	56	37	11
2005	9.82	2934	45	58	42	19
2006	8.77	2987	48	56	41	21
2007	9.73	3260	50	57	45	24
2008	10.65	3589	56	64	51	26
2009	11.48	3755	68	66	53	26
2010	12.99	4257	65	69	59	28

Panel B: Descriptive Statistics for the Press Release Content Analysis: Netherlands (DIS = 0)

Year	Average number of pages	Average number of words	Average presence BS (%)	Average presence IS (%)	Average presence SCF (%)	Average presence SE (%)
2000	9.60	2822	80	80	80	20
2001	10.44	4646	100	100	89	11
2002	11.71	3991	93	100	86	21
2003	16.14	5004	100	100	100	29
2004	16.33	5519	100	100	94	28
2005	15.95	6046	95	95	84	53
2006	18.44	6358	94	94	89	67
2007	18.95	7036	100	100	90	67
2008	18.74	6689	100	100	91	70
2009	19.65	6443	100	100	91	70
2010	19.48	6365	100	100	91	74

Panel C: Descriptive Statistics for the Press Release Content Analysis: Belgium, France and Portugal (DIS = 1)

Year	Average number of pages	Average number of words	Average presence BS (%)	Average presence IS (%)	Average presence SCF (%)	Average presence SE (%)
2000	3.90	1098	15	20	0	0
2001	5.71	1905	20	40	12	3
2002	5.80	2094	27	41	14	2
2003	6.14	2290	21	39	20	2
2004	7.01	2406	36	47	24	5
2005	6.87	2721	41	51	33	11
2006	6.60	2328	40	48	31	11
2007	7.49	2538	43	48	35	16
2008	8.62	2805	45	52	42	15
2009	9.45	3083	48	59	44	15
2010	11.08	3635	52	60	50	15

This table shows descriptive statistics on the content analysis of 1,062 earnings announcement press releases for a sample of 140 Euronext firms for the following variables: number of pages, number of words, IS (dummy variable) that indicates the presence in the press release of a detailed income statement; BS (dummy variable) that indicates the presence in the press release of a detailed balance sheet; SCF (dummy variable) that indicates the presence in the press release of a detailed statement of cash flows; SE (dummy variable) that indicates the presence in the press release of a detailed statement of changes in equity. Some earnings announcement press releases contain only several key line items (or a summary) of a balance sheet, income statement, statement of cash flows and statement of changes in equity, instead of a complete or detailed statement. I code these press releases as not containing a detailed financial statement. Panel A shows descriptive information for the four Euronext countries, Panel B for the Netherlands (where DIS = 0), Panel C for Belgium, France and Portugal (where DIS = 0). *DIS* is a dummy variable, proxy for the distance between local GAAP and IFRS before IFRS adoption. *DIS* is equal to one (zero) for firm/observations from Belgium, France and Portugal (the Netherlands).

Table 10: IFRS Trend in Market Responses to Unexpected Earnings and Concurrently-Released Disclosure in Earnings Announcements

VARIABLES	(1) MaxAR(std)	(2) MaxAAR(std)	(2) AVOL
TREND	-0.034	0.339	0.001
	[-0.729]	[1.253]	[0.273]
IFRS	0.013	-0.829	0.012
	[0.769]	[-0.136]	[0.581]
UE	-1.689		
	[-0.372]		
UE*IFRS	-1.102		
	[-0.571]		
BS	-0.064	2.941*	0.218*
	[-0.133]	[1.925]	[1.782]
IS	-0.259	2.835**	-0.277
	[-0.897]	[1.987]	[-1.501]
SCF	0.036	0.817	0.254**
	[0.471]	[1.562]	[2.136]
SE	0.962**	2.033	-0.041
	[2.098]	[1.628]	[-0.321]
BS*IFRS	0.129	2.985*	0.304*
	[0.187]	[1.671]	[1.926]
IS*IFRS	0.291	1.483	0.241*
	[0.288]	[0.762]	[1.924]
SCF*IFRS	0.032**	1.879**	0.252*
	[1.983]	[2.081]	[1.756]
SE*IFRS	0.742	1.918*	0.162
	[1.403]	[1.719]	[1.172]
|UE|		0.172	0.071
		[0.483]	[0.281]
|UE|*IFRS		-1.012*	0.48
		[-1.781]	[0.134]
CONSTANT	0.292**	8.191***	0.121***
	[2.134]	[4.648]	[4.524]
Industry fixed effects	YES	YES	YES
Observations	1062	1062	1062
Adjusted R-squared	0.022	0.041	0.034

This table presents the results from OLS regression *MaxAR(std), MaxAAR(std)* and *AVOL* on *UE* (\|*UE*|), on a time trend variable (*TREND*), an *IFRS* indicator, as described in Table 4, and a set of dummy variables (BS, IS, SCF and SE) as described in Table 9. The sample consists of 1,062 observations during 2000 – 2010. Significance at *** $p<0.01$, ** $p<0.05$, * $p<0.10$ is based on a two-tailed *t*-test where the *t*-statistics are calculated using firm clustered standard errors. The regressions include industry fixed effects (unreported).

Table 11: IFRS Trend in Market Responses to Unexpected Earnings and Concurrently-Released Disclosure in Earnings Announcements Conditional on Accounting Distance

VARIABLES	(1) MaxAR(std)	(2) MaxAAR(std)	(2) AVOL
TREND	-0.039	0.336*	0.073
	[-0.884]	[1.749]	[1.295]
DIS	0.312	-1.398	-0.136
	[0.555]	[-1.27]	[-1.145]
IFRS	0.008	-0.074	0.009
	[0.683]	[-1.27]	[0.783]
UE	-1.358		
	[-0.379]		
BS	-0.058	-3.271	0.183
	[-0.127]	[-1.426]	[1.422]
IS	-0.231	2.841*	-0.275
	[-0.710]	[1.982]	[-0.902]
SCF	0.195	0.391	0.313**
	[0.294]	[0.291]	[2.092]
SE	0.919*	1.798	0.183
	[1.939]	[1.215]	[0.492]
UE*IFRS	-0.962		
	[-0.210]		
BS*IFRS	0.045	2.283	0.178
	[0.184]	[1.271]	[1.414]
IS*IFRS	0.319	2.901	0.145
	[0.274]	[1.351]	[0.539]
SCF*IFRS	0.028*	1.901	0.269
	[1.713]	[1.131]	[1.062]
SE*IFRS	-0.096	1.923	0.333
	[-0.126]	[1.316]	[1.352]
BS*IFRS*DIS	0.368	2.918	-0.263
	[0.567]	[1.217]	[-1.264]
IS*IFRS*DIS	0.469	3.901*	0.259
	[1.406]	[1.732]	[0.761]
SCF*IFRS*DIS	2.097**	3.521***	0.232*
	[2.100]	[6.956]	[1.849]
SE*IFRS*DIS	1.026	2.191*	0.121
	[1.573]	[1.651]	[1.355]
|UE|		0.409	0.219
		[0.069]	[0.129]
|UE|*IFRS		-1.29***	0.112
		[-2.79]	[0.045]
CONSTANT	0.516	7.191***	0.195*
	[0.624]	[4.001]	[1.721]
Industry fixed effects	YES	YES	YES
Observations	1062	1062	1062
Adjusted R-squared	0.025	0.053	0.044

This table presents the results from OLS regression *MaxAR(std), MaxAAR(std)* and *AVOL* on *UE* (\|*UE*\|), on a time trend variable (*TREND*), an *IFRS* indicator, as described in Table 4, a set of dummy variables (BS, IS, SCF and SE), as described in Table 9 and *DIS,* as described in Table 5. The sample consists of 1,062 observations during 2000 – 2010. Significance at *** $p<0.01$, ** $p<0.05$, * $p<0.10$ is based on a two-tailed *t*-test where the *t*-statistics are calculated using firm clustered standard errors. The regressions include industry fixed effects (unreported).