THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Department of Accounting

Mandatory IFRS Reporting and Changes in Enforcement

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Abstract

In recent years, a number of countries have made reporting under International Financial Reporting Standards (IFRS) mandatory. The capital-market effects around this change have been extensively studied, but their sources are not yet well understood. This study presents new evidence that aims to distinguish between several potential explanations for the observed capitalmarket effects. We find that, across all countries, mandatory IFRS reporting had little impact on liquidity. The liquidity effects are not only concentrated in the European Union (EU), but limited to five EU countries that also made substantive changes in enforcement concurrent with the introduction of IFRS. There is little evidence of liquidity benefits around IFRS adoption in countries without substantive enforcement changes even when they have strong legal and regulatory systems. Moreover, we find similar liquidity effects for firms that experience enforcement changes but do not concurrently switch to IFRS. Our analyses indicate that changes in reporting enforcement play a critical role for the liquidity benefits around the introduction of IFRS, and that we have to be careful about attributing the effects to the change in accounting standards alone.