



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

Department of Accounting

## **Mandatory IFRS Adoption and the Stewardship Role of Financial Reporting**

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### **Abstract**

We examine how China's mandatory IFRS adoption affects domestically listed state-controlled Chinese firms' sensitivity of the CEO's cash compensation to accounting earnings, a proxy for the stewardship usefulness of financial reporting. We find that the pay-for-performance sensitivity is significantly positive in the pre-adoption period but declines significantly in the post-adoption period. The decline is stronger for firms most significantly affected by the IFRS adoption. We find no evidence of a similar decline in the pay-for-performance sensitivity for state-controlled Chinese firms unaffected by the mandatory IFRS adoption. There is also evidence that the negative impact of the IFRS adoption on the pay-for-performance sensitivity is confined to central-government-controlled firms, which are found to have a stronger incentive to link managerial compensation to firm performance than local-government-controlled firms. Overall, our results are consistent with the hypothesis that the mandatory IFRS adoption reduces the stewardship usefulness of financial reporting.