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Department of Accounting

Earnings quality effects of mandatory IFRS adoption

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Abstract

We examine the earnings quality effects of mandatory adoption of International Financial Reporting Standards (IFRS). Following the method in Leuz et al. (2003), we analyse the aggregate level of earnings management across 30 countries before and after IFRS adoption. We hypothesize that IFRS effects depend on the actual enforcement of the new standards. In turn, IFRS implementation is predicted to depend on (i) the *ex ante* distance between local GAAP regimes and IFRS; and on (ii) market and institutional factors that generate incentives for the provision of high quality information. We find no evidence of a consistent improvement in earnings quality across all IFRS adopter countries. Our results indicate that, on average, the institutional and market forces that shape preparers incentives appear to dominate the beneficial IFRS effects. Our evidence is consistent with uneven IFRS implementation and enforcement around the world. We also provide evidence that the adjustments made on IFRS transition have significant mid-term effects on reported performance.