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The Impact of Reported Financial Information on the Transfer Prices of Securities. Comparative Empirical Study

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Abstract

The present paper aims to achieve a comparative analysis of the informational contribution of the financial reports drawn by Romanian companies quoted on the autochthonous capital market, and the contribution to supporting the investment process brought by the financial statements drawn in an international context. The elements of the comparison are the levels of value relevance of the financial statements drawn according to US GAAP (for North America), respectively of the reports issued in conformity with the International Financial Reporting Standards (IFRS) (for the European regions). By using econometric models consecrated in specialized literature, respectively Easton & Harris (1991) and Ohlson (1995), we identified a differentiated contribution according to the accounting norms and to the economic environment where companies perform their activity, for the financial data in making investment / disinvestment decisions. This stresses, after testing the first model, a stronger deterministic connection between financial-accounting information and the stock performance recorded for *LSE* quoted companies compared to those on the USA capital market, respectively quoted Romanian companies that report in conformity of IFRS. Drawing the financial statements according to RAS provides the investors in the non-regulated section of the Romanian stock market with a better informational basis than in the case of the equivalent clusters analyzed. The second model, based on prices, reveals an increased intensity of the connection in the case of Romanian companies quoted in the main section of the BSE, whose dimension exceeds the association observed in the context of the other stock markets.

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Keywords: value relevance; accounting regulation frameworks; stock performance; financial information; comparative analysis;

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1. Introduction

Using various normative frameworks for financial reporting, complementary to the specific national conditions for the implementation of the same regulations, still generate peculiarities in what concerns the ability of financial-accounting information to contribute to improving the process of adopting the investment decisions, with an impact on determining the transfer prices of securities. The globalization of financial markets, which resulted in the free flow of capital, requires nevertheless information benchmarks referring to the degree of relevance of the information reported by the economic entities present in the international economic environment, as well as solutions for its normalization.

The diversity of the elements specific to the socio-economic and legal environment where companies perform their activity gives this relation multiple dimensional characteristics. We can thus notice the need to identify the relevance of the accounting data associated to each economic area. This is the main worldwide generator of a strong process of accounting norms convergence, meant to eliminate the significant differences concerning the accounting treatments applied to the same economic phenomena, acknowledged in the financial reports of companies that belong to distinct economic areas. Nevertheless, accounting normalization does not give any certainties concerning the equivalence of the value relevance irrespective of the geographical location, as numerous other national-specific factors have their own effects.

This paper draws a comparative study of the level of value relevance of the accounting data reported in the Romanian context, between those following the national accounting norms (RAS), for companies quoted on the over-the-counter market (RASDAQ), and those using the International Financial Reporting Standards (IFRS), for companies whose securities are allowed for transactions on the regulated section of the autochthonous capital market, and of the information published in financial statements drawn according to US GAAP (for North America), respectively IFRS (for Europe).

2. Current state of knowledge and foundation of the work hypotheses

Initially conceptualized in the works of authors such as Francis and Schipper (1999) and Barth *et al.* (2001), the term of *value relevance* identifies the deterministic connection established between the financial information reported by economic entities and the indicators of stock performance (the return of shares or the value of the companies expressed as share price). This concept reflects the extent to which the accounting information have the qualitative features that are considered as desiderata in the financial-accounting reporting process (in this case, relevance), for the correct representation of their information contribution in making the decisions associated to the transfer price of securities. The quantification of the level of value relevance is done by estimating the intensity of the connection (the R^2 determination report) between the two types of financial information (accounting and stock exchange).

The significant role of the analyses concerning the value relevance of the financial-accounting data in reducing the degree of uncertainty associated to making decisions on placing available capital requires new examinations of the relationship each time a disjunctive factor appears in the socio-economic context (legal framework changes, economic crisis, etc.) or when time evolution determines intensity changes in the influence of complementary environmental factors (country risks, natural risks, etc.).

Lim and Park (2011) analyze the value relevance of accounting data from a time perspective, over a 39-year interval. The authors reveal a decrease in the intensity of the association relation between accounting data and the financial information generated on the stock market, identifying as a determinant factor of this involution as the higher volatility of the returns provided by traded actions.

The debates concerning the reasons for the decrease of the value relevance provided a double perspective on the analyzed phenomenon. In this sense, Donelson *et al.* (2011) argue that the occurrence, in financial statements, of special structures caused by the lack of correlation of the incomes with the expenses, generate changes in the quality of the result indicators, thus negatively influencing the above-mentioned association relation. This is the effect of accounting prudence, which in the opinion of Lin *et al.* (2014) consists of an asymmetrical relation concerning the recognition of profits and losses in financial statements.

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