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Are IFRS value-relevant for separate financial statements? Evidence from the Italian stock market*



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ABSTRACT

Using a sample of Italian firms, this paper investigates whether separate financial statements are useful to capital market investors, and whether International Financial Reporting Standards (IFRS) are more value-relevant than domestic generally accepted accounting principles (GAAP). These issues are key in evaluating the decision made by some states in the European Union to extend the use of IFRS to separate financial statements. The study provides evidence that separate financial statements are value-relevant, regardless of the accounting standard set. However, contrary to expectations, separate financial statements under IFRS do not have incremental information content beyond domestic GAAP. There is even some evidence that domestic GAAP financial statements are more value-relevant than IFRS. Finally, this paper documents the important role of model specification in value-relevance studies.

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1. Introduction

Since 2005 all listed companies in the European Union (EU) have been required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). IFRS were introduced in the EU by Regulation 1606/2002, which mandates IFRS for listed consolidated financial statements, with a member state option to apply IFRS to other reporting entities. A certain number of states have used this option to extend IFRS to separate financial statements. Table 1 shows the states in the EU and the European Economic Area (EEA) requiring or permitting IFRS for separate financial statements.

IFRS adoption for separate financial statements has widely been questioned, especially in those countries where taxation rules are closely aligned to domestic generally accepted accounting principles (GAAP) (Choi & Mueller, 1992; Delvaille, Ebbers, & Saccon, 2005; Lamb, Nobes, & Roberts, 1998; Macias & Muiño, 2011; Nobes, 1998, 2003; Oliveras & Puig, 2007; Whittington, 2005). Many also have argued that IFRS are intended for consolidated accounts and for the needs of capital market investors, raising practical concerns about the relevance of IFRS for separate financial statements (European Financial Reporting Advisory Group, 2011). For these reasons, EFRAG recently launched a proactive project, "Separate Financial Statements Prepared under IFRS", whose purpose is to determine whether IFRS are fit-for-purpose in satisfying the information needs of separate financial statement users.

The purpose of this research is therefore to investigate whether separate financial statements are useful to capital market investors and whether IFRS are more value-relevant than domestic GAAP. These are key issues both for EFRAG's

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Table 1IFRS adoption for separate financial statements in the EU and EEA.

Member states	Requiring IFRS in listed companies' separate financial statements	Requiring IFRS in other companies' separate financial statements	Permitting IFRS in separate financial statements
Austria	No	No	No
Belgium	Yes, for real estate investment companies	No	No
Bulgaria	Yes	Yes, except for SMEs and entities in liquidation and insolvency	Yes, for SMEs
Cyprus	Yes	Yes	No
Czech Rep.	Yes	No	No
Denmark	No	No	Yes, all types
Estonia	Yes	Yes, for credit institutions, insurance undertakings, financial holding companies, mixed financial holding companies, investment firms	Yes, all other types
Finland	No	No	Yes, for companies which are audited by certified auditors except insurance companies
France	No	No	No
Germany	No	No	Additionally to still required local GAAP
Greece	Yes	Yes, for banks and other financial institutions	Yes, for companies audited by certified auditors
Hungary	No	No	Additionally to still required local GAAP
Iceland	Yes	Yes. If the consolidated groups are permitted to use IFRS in their consolidated accounts	Yes, for medium sized and big companies
Ireland	No	No	Yes, for all bar companies not trading for gain
Italy	Yes, except for insurance companies	Yes, for supervised financial companies and companies with financial instruments widely distributed among the public	Yes, all other types except for insurance and small enterprises
Latvia	Yes	Yes, for banks, insurance commercial companies and other supervised financial institutions	No
Liechtenstein	No	No	Yes, all types
Lithuania	Yes	Yes, for banks and other credit institutions	Yes, except for banks and othe credit institutions, insurance companies
Luxemburg	No	No	Yes, all types
Malta	Yes	Yes, for banks, insurance companies, certain other supervised financial institutions and larger companies deemed significant in the local economy	Yes, all other types
Netherlands	No	No	Yes, all types
Norway	No	No	Yes, all types
Poland	No	No	Yes, for companies having file for admission to public tradin or whose parent uses IFRS
Portugal	No	No	Yes, for companies within the scope of consolidation of an entity who applies IAS/IFRS. Credit institutions and other financial institutions are excluded
Romania	Yes, for credit institutions	Yes, for credit institutions	No, but for purposes of information only
Slovakia	Yes, for companies of public interest	Yes, for companies of public interest	Yes, for those listed companie and merchants with securitie except banks which are not those of public interest
Slovenia	No	Yes, for banks and insurance companies	Yes, for all other types, if so decided by the assembly of th company, but for the minimu period of 5 years
Spain	No	No	No
Sweden	No	No	No
UK	No	No	Yes, except for the charity

Source: European Commission, "Implementation of IAS Regulation 1606/2002 in the UE and EEA at 7th February 2012".

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