

**DO EARNINGS REPORTED UNDER IFRS TELL US MORE  
ABOUT FUTURE EARNINGS AND CASH FLOWS?**

T. J. Atwood  
Florida State University

Michael S. Drake  
Texas A&M University

James N. Myers  
University of Arkansas

and

Linda A. Myers  
University of Arkansas

*April 2009*

**Keywords:** International Financial Reporting Standards; IFRS; domestic accounting standards; GAAP; usefulness of earnings; earnings prediction; future cash flows

**Data Availability:** Data are available from sources identified in the text.

Michael Drake gratefully acknowledges financial support from the Deloitte & Touche Foundation and James Myers gratefully acknowledges financial support from the Ralph L. McQueen Professorship at the University of Arkansas.

**DO EARNINGS REPORTED UNDER IFRS TELL US MORE  
ABOUT FUTURE EARNINGS AND CASH FLOWS?**

**Abstract:** Regulators in the United States, the European Union, and in Canada have committed to adoption of International Financial Reporting Standards (IFRS). This has led to considerable debate about the relative benefits and costs of allowing firms to use IFRS versus domestic accounting standards (DAS). We contribute to this debate by examining whether associations between current accounting earnings (or earnings components) and future earnings and/or future cash flows differ under IFRS versus DAS. Using samples comprised of 58,832 firm-year observations drawn from 33 countries from 2002 through 2006, we conduct empirical tests that examine earnings persistence and the association between current earnings and future cash flows for firms reporting under IFRS (the IFRS sample) relative to two control samples – all firms reporting under non-U.S. DAS (the non-U.S. DAS sample) and all firms reporting under U.S. Generally Accepted Accounting Principles (the U.S. GAAP sample). We find no evidence of a systematic difference in associations between current earnings and future earnings and/or cash flows for the IFRS and non-U.S. DAS samples. However, we find that U.S. GAAP generally outperforms IFRS in terms of earnings persistence and associations between current earnings and future cash flows. These results should be of interest to academics and standard-setters as they debate the merits of transitioning to IFRS, and to parties who use reported earnings to form expectations for future earnings and cash flows.

## I. INTRODUCTION

The initiative to establish a uniform set of international accounting standards has gained considerable momentum in recent years. On the international front, in 2002, the European Parliament and Council issued a regulation requiring that all publicly listed European Union (E.U.) firms prepare their financial statements in conformity with International Financial Reporting Standards (IFRS) starting in fiscal 2005, and in 2007, the Canadian Accounting Standards Board issued a plan for replacing Canadian Generally Accepted Accounting Principles with IFRS for firms listed on Canadian exchanges beginning in fiscal 2011. In the United States (U.S.), in 2005, the Financial Accounting Standards Board (FASB) issued a formal commitment to converge U.S. Generally Accepted Accounting Principles (GAAP) to IFRS (FASB 2002), and in 2007, the Securities Exchange Commission (SEC) announced its decision to no longer require foreign corporations listed in the U.S. to reconcile between IFRS and U.S. GAAP (SEC Release 33-8879). Furthermore, in November 2008, the SEC issued a “Proposed Road Map” for allowing U.S. domestic firms to report using IFRS (SEC Releases 33-8982; 34-58960) by 2010.

The emergence of new regulations and commitments such as these has generated considerable attention and debate regarding differences in financial reporting quality across reporting regimes (Hopkins et al. 2008; Jamal et al. 2008; Taub 2008; Veron 2008). Proponents of adopting IFRS as a high-quality, global accounting standard maintain that a uniform set of international accounting standards will enhance the comparability and transparency of financial reports, and will improve the quality of the accounting information (Covrig et al. 2007; Kim et al. 2007; PwC 2007a, 2007b, 2007c; Turley 2007; Barth et al. 2008). Moreover, Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), recently suggested that the global economic crisis illustrates the urgent need for universal accounting and oversight

(Iwata 2009). However, opponents of rapid movement toward IFRS suggest that IFRS are not as well-developed as at least some forms of domestic accounting standards (DAS), including U.S. GAAP, and would provide managers more leeway to engage in earnings management (Johnson 2007b). They argue that the more “principles-based” IFRS are of lower quality than are “rules-based” standards (such as U.S. GAAP) and that IFRS are in need of improvement before being accepted as the global standard for financial reporting (Ciesielski 2007a; Herz 2007; Johnson 2007d, 2008a; Turner 2007). Moreover, the newly appointed SEC Chairman, Mary Schapiro, has expressed reservations about the IASB and about the quality of IFRS (Forgeas 2008; Cohn 2009; Leone 2009).

Jamal et al. (2008) find no conclusive evidence that financial reports prepared under U.S. GAAP are superior to reports prepared under IFRS. They suggest that, since there is no clear difference in quality, the SEC should promote competition between the two sets of standards by allowing foreign issuers to choose between U.S. GAAP and IFRS. Hopkins et al. (2008) conclude that eliminating the 20-F reconciliation for foreign issuers is premature for several reasons. First, material reconciling items exist between U.S. GAAP and IFRS. Second, U.S. institutional investors appear to prefer U.S. GAAP (i.e., U.S. institutional ownership in non-U.S. firms is higher for those firms that conform more closely to U.S. GAAP). Third, cross-country differences in implementation, legal institutions, and enforcement can create significant differences in the quality of financial reporting, even when based on a single set of standards. Finally, studies of investor perceptions after the mandatory adoption of IFRS in Europe suggest that the application of the standards remains subject to significant disparities, which are sometimes described as “local flavour” or “nostalgic accounting,” and that these disparities reduce comparability across countries (FFSA and AFG 2007).

We contribute to this debate by examining whether the use of DAS versus IFRS affects associations between current accounting earnings and future earnings and cash flows. Our focus on the association between current and future earnings is motivated by prior research suggesting that analyst forecast errors are smaller (Ashbaugh and Pincus 2001; Ernstberger et al. 2008) and that earnings are more value-relevant (Bartov et al. 2005; Ndubizu and Sanchez 2006) under IFRS than under DAS in some countries. We suggest that these differences may be due to more persistent earnings under IFRS, to increased disclosures that occur along with the adoption of IFRS (Daske and Gebhardt 2006), or to differences in the way in which analysts or investors utilize earnings numbers in their forecasts or valuation models under IFRS. We focus on the first possible explanation by examining whether current earnings under IFRS differ from current earnings under DAS in terms of their association with future earnings.

Our focus on the association between current reported earnings and future cash flows is motivated by the conceptual frameworks issued by accounting standard boards in various countries and by the IASB, which suggest that financial reporting should provide information helpful to users in predicting future cash flows (FASB 1978, Con 1; IASB, paragraph 10). Thus, a higher quality accounting system should, all else equal, produce earnings numbers that are more highly associated with future cash flows.

Using a sample of 58,832 firm-year observations drawn from 33 countries from 2002 through 2006, we conduct empirical tests that examine associations between earnings reported under IFRS and future earnings and/or cash flows relative to two control samples. The first control sample (the non-U.S. DAS sample) consists of all firms reporting under non-U.S. DAS. The second control sample (the U.S. GAAP sample) consists of all firm-year observations reporting under U.S. GAAP.

The empirical results provide no evidence of a systematic difference between IFRS and non-U.S. DAS in terms of associations between current earnings and future earnings and/or future cash flows. Furthermore, we find no systematic differences in associations between future earnings and the cash flow and/or accrual components of current earnings for IFRS and non-U.S. DAS, although accruals are marginally less significantly associated with future cash flows under IFRS than under non-U.S. DAS. When we compare IFRS and U.S. GAAP earnings, we find that current earnings are more closely associated with both future earnings and future cash flows under U.S. GAAP than under IFRS, and that this difference is primarily driven by the cash flow component of current earnings. These findings are robust to controls for cross-country factors including legal structure, investor rights, ownership equity, the importance of equity markets, and the strength of legal enforcement.

The results of our study are important for a number of reasons. First, they provide information to standard-setters and legislators around the world as they weigh the costs and benefits of transitioning to IFRS. In the U.S., the SEC's push toward IFRS prompted a Senate subcommittee hearing in October 2007. The majority of the hearing's participants, including the IASB Chairman, the FASB Chairman, and a former SEC Chief Accountant, expressed disapproval of the SEC's actions to accelerate allowing IFRS without reconciliation to U.S. GAAP before the completion of the IASB and FASB joint project aimed at improving IFRS and converging U.S. GAAP with IFRS (Ciesielski 2007a; Herz 2007; Johnson 2007c; Turner 2007). In February 2009, the SEC extended the comment period for the IFRS Road Map by two months to April 20, 2009, and SEC Chairman Shapiro indicated her intention to delay the planned transition to IFRS (Forgeas 2008; Cohn 2009; Johnson 2009a, 2009b, 2009c; Leone 2009). Our results suggest that earnings reported under IFRS are not as highly associated with future

earnings and future cash flows as are earnings reported under U.S. GAAP. We suggest this result is due to variations in the way in which IFRS are implemented and enforced across countries, with each country allowing some practices from its previous local standards to continue. In general, our results support Chairman Shapiro's decision to delay the implementation of IFRS in the U.S.

Second, our results add to the literature on analyst forecast accuracy. We find that earnings persistence is not significantly different for firms reporting under IFRS versus non-U.S. DAS. Therefore, differences in analyst forecast accuracy between IFRS and non-U.S. DAS (Ashbaugh and Pincus 2001; Ernstberger et al. 2008) are unlikely to be the result of differences in the underlying persistence of those earnings, suggesting that analysts use different models for forecasting earnings across the two reporting regimes.

Finally, our results should be of interest to investors, analysts, creditors, and other parties who use reported earnings information to form expectations about future earnings and cash flows. For example, prior research suggests that lenders charge lower interest rates, extend larger loans, and impose fewer restrictive covenants for IFRS adopters (Kim et al. 2007); however, our results show that earnings reported under IFRS are no more closely related to future earnings and future cash flows than are those reported under non-U.S. DAS. Thus, it is not clear why creditors prefer IFRS to non-U.S. DAS.

The remainder of this paper is organized as follows. Section II discusses prior literature and develops our hypotheses. Section III describes our empirical models, sample selection, and descriptive statistics. Section IV discusses the results of our empirical tests, and Section V concludes.

## II. PRIOR LITERATURE AND HYPOTHESES DEVELOPMENT

Prior research and the financial press suggest there are significant differences between earnings reported under IFRS and DAS (Harris and Muller 1999; Haverty 2006; Ciesielski 2007b; Ding et al. 2007; Henry et al. 2008).<sup>1</sup> Two differences in the overall approaches to accounting standard-setting – the “income statement” versus “balance sheet” approach and the “rules-based” versus “principles-based” approach – drive the differences in earnings reported under IFRS versus DAS (at least in some countries).

First, while standards in countries such as the U.S. and the United Kingdom (U.K.) take an income statement approach, which focuses on operating results, IFRS take a balance sheet approach, which focuses on accumulated resources and claims to those resources.<sup>2</sup> Benston et al. (2007, 230) criticizes the IFRS approach because it requires revaluations that are based on fair values which are “rarely trustworthy because they are not grounded on actual relevant market transactions.” Moreover, they suggest that the accounting reports which provide these ‘soft’ numbers will be harmful to the relevance and usefulness of accounting numbers generally because the change in economic resources and claims does not provide a measure of firm performance that is as useful as that provided by the income statement approach. According to a recent story in *La Tribune*, French critics argue that “IFRS are based on a dogmatic notion of fair value, lead to financial statements that bear little relationship to economic reality, and encourage first speculation and then panic on the markets.”<sup>3</sup>

---

<sup>1</sup> Major differences between IFRS and U.S. GAAP include standards related to the revaluation of assets, impairments and impairment reversals, revenue recognition, LIFO inventories, and consolidations (KPMG 2007; PwC 2007c).

<sup>2</sup> A 2006 Exposure Draft, issued as part of the joint IASB and FASB project to develop a common conceptual framework, more closely resembles the IASB framework than the FASB framework in that it emphasizes the balance sheet approach rather than the income statement approach.

<sup>3</sup> Veron (2008) reports that prominent French commentators blame IFRS for the financial crisis in France because the adoption of IAS30 forced banks to publish much more information about their use of derivatives.

Second, there is a commonly held view that IFRS are more principles-based while DAS, at least in some countries (and especially in the U.S.), are more rules-based (FASB 2002, 2004; Schipper 2003; Bennett et al. 2006; Johnson 2007a; PwC 2007a, 2007b, 2007c; Reilly 2007). Opponents of more principles-based standards argue that they provide more opportunities to manage earnings. For example, DAS and IFRS often differ with respect to revenue recognition. The more principles-based nature of IFRS often allows technology companies to recognize revenues much earlier than under some DAS (including U.S. GAAP). However, a recent survey by BDO Siedman LLP found that 60 percent of the technology company Chief Financial Officers surveyed agree that revenue recognition rules for technology firms are better under U.S. GAAP than under IFRS (Johnson 2008b).

Proponents of more principles-based standards argue that they allow managers more discretion to use their judgment to convey information (PwC 2007a, 2007b, 2007c). Consistent with this, a report written by the Big Four audit firms plus Grant Thornton and BDO Siedman suggests that “virtually all stakeholders” favor the idea of one set of principles-based standards and express concerns about countries, including the U.S., that rely on “overly prescriptive” rules-based standards (Leone 2008; Taub 2008).

Two committees of the American Accounting Association – the Financial Accounting Standards Committee (see Jamal et al. (2008)) and the Financial Reporting Policy Committee of the Financial Accounting and Reporting Section (see Hopkins et al. (2008)) – recently reviewed the extensive academic literature on IFRS and provided responses to two SEC Concept Releases regarding the use of IFRS by foreign firms listing in the U.S. and by U.S. firms.<sup>4</sup> Jamal et al.

---

<sup>4</sup> This extensive academic literature includes a large number of papers, addressing various aspects related to the use of IFRS for financial reporting. For example, Tarca (2004) and Francis et al. (2008) study factors leading firms to voluntarily adopt IFRS. Leuz and Verrecchia (2000), Dargenidou et al. (2006), Daske (2006), Kim and Shi (2007, 2008), Kim et al. (2007), Platikanova (2007), Daske et al. (2008), and Wu and Zhang (2008) study the economic

(2008) assert there is no conclusive evidence that financial reports prepared using U.S. GAAP are better than reports prepared using IFRS, and recommend that the SEC extend the choice of filing under IFRS or under U.S. GAAP to U.S. companies as well as to foreign registrants filing in the U.S.<sup>5</sup> Hopkins et al. (2008) conclude that the decision to eliminate the previously-required reconciliation between IFRS and U.S. GAAP for foreign registrants is premature because material differences exist between the two standards,<sup>6</sup> because information in the reconciliation is currently impounded into stock prices,<sup>7</sup> and because differential implementation and enforcement of standards across countries may reduce the quality of financial reports.

Soderstrom and Sun (2007) review the literature on IFRS adoption and accounting quality. They point out that the majority of studies examining accounting quality focus on value-relevance, information content, timeliness, and other stock price-related measures, and suggest that these studies do not provide a complete view of usefulness. Morck et al. (2000) suggest that cross-country stock price studies are problematic because country-level factors influence the way in which firm-level information is incorporated into stock prices. Similarly, Holthausen and Watts (2001) argue that tests of associations between accounting numbers and common equity valuations have limited implications or inferences for standard setting. This is due, in part, to the

---

benefits and costs of adopting IFRS. Kinnunen et al. (2000), Ashbaugh and Olsson (2002), Bartov et al. (2005), Lin and Chen (2005), LaPointe-Antunes et al. (2006), Ndubizu and Sanchez (2006), Barth et al. (2008), and Gjerde et al. (2008) study the value-relevance and/or information content of earnings under IFRS versus DAS. Harris and Muller (1999), Niskanen et al. (2000), Lin and Chen (2005), Christensen et al. (2007), Schadewitz and Vieru (2007), Chen and Sami (2008), and Henry et al. (2008) study the properties and value-relevance of reconciliations from IFRS to DAS, and Chen et al. (1999), Ashbaugh and Pincus (2001), Daske and Gebhardt (2006), Haverly (2006), LaPointe-Antunes et al. (2006), Christensen et al. (2007), Soderstrom and Sun (2007), Van der Meulen et al. (2007), and Barth et al. (2008) study the attributes of financial statements prepared using IFRS.

<sup>5</sup> In contrast, in the U.S., some parties disapprove of the SEC's decision to allow financial statements prepared under IFRS to be filed with the SEC before allowing the International Accounting Standards Board (IASB) and the FASB to fully converge U.S. standards and IFRS (Johnson 2007b).

<sup>6</sup> Consistent with this, Henry et al. (2008) find that reported net income was 59 (29) percent higher in 2004 (2005) under IFRS than under U.S. GAAP for 83 E.U. companies cross-listed in the U.S. and providing 20-F reconciliations.

<sup>7</sup> Similarly, Christensen et al. (2007) find that reconciliations from U.K. standards to IFRS are value-relevant, and Schadewitz and Vieru (2007) find that reconciliations from Finnish Accounting Standards to IFRS are value-relevant.

assumption that accounting's primary role is to directly value equity or to provide inputs to equity valuation models.

We extend the literature on the attributes of financial reports prepared under IFRS versus non-U.S. DAS and U.S. GAAP by examining whether current earnings are more or less closely associated with future earnings and cash flows for firms reporting under IFRS compared with those reporting under non-U.S. DAS or U.S. GAAP. Our results should be of interest to stakeholders (e.g., creditors, customers, suppliers, as well as investors) in making economic decisions. While some of these stakeholders are primarily interested in valuation, others are not (Holthausen and Watts 2001). For this reason, we focus directly on the relation between current earnings and future earnings and cash flows, rather than on the relation between current earnings and stock prices or changes in stock prices.

Earnings reported under IFRS may differ from earnings reported under non-U.S. DAS or U.S. GAAP in their ability to predict future earnings and cash flows because IFRS generally allows managers more flexibility to adjust assets to reflect fair market values. For example, inventory write-downs may subsequently be reversed under IAS2, fixed assets may be revalued upward or downward to reflect market values under IAS16 (with corresponding future depreciation expense differences), and write-downs of impaired long-lived assets (including intangible assets) may be reversed in later years under IAS36. These adjustments are necessarily based on estimates and are subject to management discretion. If managers use this discretion to convey private information and their estimates are accurate, earnings reported under IFRS may better predict future earnings and cash flows relative to earnings reported under non-U.S. DAS or U.S. GAAP. However, if managers use their discretion to opportunistically report earnings or if

their estimates are not accurate, earnings reported under IFRS may not predict future earnings and cash flows as well as earnings reported under non-U.S. DAS or U.S. GAAP.

We first examine the relation between current earnings and future earnings. The findings in four prior studies suggest this relation may differ for firms reporting under IFRS versus non-U.S. DAS or U.S. GAAP. First, Ashbaugh and Pincus (2001) provide evidence that analyst forecast errors are smaller after IFRS adoption and that these reductions are positively related to changes in disclosure methods and in the measurement of depreciation, leases, pensions, and research and development costs. They suggest that this improvement exists because the adoption of IFRS restricts management's choice of accounting measurement methods and leads to expanded disclosure. However, they do not test whether reductions in analyst forecast errors are due to differences in measurement methods or to increases in disclosure. Furthermore, they do not explicitly study changes in the association(s) between current earnings and future earnings (or cash flows) after firms adopt IFRS.

Second, Ernstberger et al. (2008) find that analyst forecasts are more accurate when firms report under U.S. GAAP rather than under IFRS. Furthermore, they find that analyst forecast accuracy improves for German firms switching from German GAAP to IFRS or U.S. GAAP, but not from U.S. GAAP to IFRS, or from IFRS to U.S. GAAP. However, they do not examine whether differences in analyst forecast accuracy are related to differences in the association(s) between current earnings and future earnings (or cash flows).

Third, Daske and Gebhardt (2006) find that disclosure quality scores provided by business journals increase significantly after IFRS adoptions.<sup>8</sup> Because we find no evidence of

---

<sup>8</sup> To form their disclosure quality scores, the authors use measures of the information quality of annual reports as reported in *Capital* and *Focus Money* (Germany 1996 – 2003), *Bilanz* (Switzerland 2001 – 2004), and *Trend* (Austria 1997 – 2004). To form their information quality measures, these business journals ask financial experts to rank company annual reports based on disclosures contained in the financial statements, the notes to the financial

an increased association between current earnings and future earnings and/or cash flows for IFRS firms, we suggest that the reduction in analyst forecast errors after IFRS adoption, as documented by Ashbaugh and Pincus (2001) and Ernstberger et al. (2008), may be due to increased disclosure rather than differences in measurement methods.

Finally, Barth et al. (2008) study the properties of earnings for firms reporting under IFRS versus non-U.S. DAS. They find that the variability of the change in net income (scaled by total assets) is significantly larger and that the magnitude of the negative correlation between accruals and cash flows is significantly smaller for firms reporting under IFRS than for firms reporting under non-U.S. DAS. In addition, firms reporting under IFRS recognize large losses more frequently than do firms reporting under non-U.S. DAS. They find no significant difference in the ratio of the variability of net income changes to the variability of cash flow changes or in the frequency of small positive earnings numbers across the two groups. They interpret these findings as evidence of less earnings management and more timely loss recognition for IFRS firms. Based on these results and on the higher value-relevance of IFRS earnings, they suggest that firms reporting under IFRS have higher earnings quality than those reporting under non-U.S. DAS. Note that although Barth et al. (2008) study various properties of earnings, they do not study differences in the associations between current earnings and future earnings and/or cash flows for firms reporting under IFRS versus non-U.S. DAS (or for firms reporting under IFRS versus U.S. GAAP).

In summary, both Ashbaugh and Pincus (2001) and Ernstberger et al. (2008) find that analyst forecast accuracy improves after firms adopt IFRS. In addition, Barth et al. (2008) find that earnings reported under IFRS are more value-relevant. These findings could result from a

---

statements, the report on the current state and future development of the business, and supplementary as well as voluntary information.

*higher* association between current and future earnings under IFRS, or they could be driven by increased disclosures associated with IFRS adoption (Leuz and Verrecchia 2000; Daske and Gebhardt 2006). In contrast, Benston et al. (2007) argue that the balance sheet approach taken by IFRS focuses on fair values, which reduces the relevance and usefulness of accounting numbers. This suggests that earnings reported under IFRS will be less closely associated with future earnings, as compared with earnings reported under non-U.S. DAS or U.S. GAAP. Thus, we examine whether, on average, current earnings are more or less useful for predicting future earnings under IFRS, as compared to non-U.S. DAS or U.S. GAAP, but we make no directional predictions.

We also examine the relation between current earnings and future cash flows. The conceptual frameworks of the U.S. FASB, the U.K. FASB, and the IASB uniformly suggest that financial reports should provide information helpful to users in evaluating the firm's ability to generate future cash flows. For example, the U.S. FASB's conceptual framework states that financial reporting should provide information helpful to users in assessing the amounts, timing, and uncertainty of prospective net cash inflows (FASB 1978, Con 1). It further states that the primary focus of financial reporting is on information about an enterprise's performance provided by earnings components because information about earnings is a better indicator of firm performance than is information about current cash receipts and payments (FASB 1978, Con 1).<sup>9</sup> Similarly, in the U.K., the Accounting Standards Board states that the purpose of financial reporting is to provide information to investors that is useful in evaluating the entity's ability to generate cash flow, including the timing and certainty of cash flow generation (ASB 1999). The IASB's conceptual framework states that financial statements should provide

---

<sup>9</sup> Consistent with this, Dechow (1994) finds that earnings is a better measure of firm performance, as reflected in stock returns, than are cash flows.

information helpful to users in evaluating an enterprise's ability to generate cash and cash equivalents, and should provide information about the timing and certainty of those future cash flows (IASB, paragraph 10). Moreover, the IASB's framework states that the objective of financial reporting is to provide information about the financial position, performance, and changes in financial position of an enterprise (IASB, paragraphs 12 – 14).

Critics suggest that managers have more discretion to manage earnings under IFRS. However, Badertscher et al. (2007) show that the motivation for managing earnings is a determinant of the relation between current earnings and future cash flows.<sup>10</sup> Thus, increased discretion under IFRS may result, on average, in a higher or lower association between current earnings and future cash flows. For this reason, we examine whether current earnings reported under IFRS are, on average, more or less closely associated with future cash flows than are earnings reported under non-U.S. DAS or U.S. GAAP, but again make no directional predictions.

### **III. EMPIRICAL MODELS, SAMPLE SELECTION, AND DESCRIPTIVE STATISTICS**

#### **Empirical Models**

We test for differences in associations between current earnings and future earnings and/or cash flows across reporting regimes using the following seemingly unrelated regression models (country and firm subscripts are suppressed):<sup>11</sup>

---

<sup>10</sup> Specifically, Badertscher et al. (2007) divide a sample of firms that restated earnings into those firms that appear to have managed earnings for opportunistic reasons versus those that appear to have managed earnings for informational reasons. They find that the originally reported earnings of firms that managed earnings opportunistically are less predictive of future cash flows than are the restated earnings, but the originally reported earnings of firms that managed earnings for informational reasons are more predictive of future cash flows than are the restated earnings.

<sup>11</sup> We assess the statistical significance of all of our models using Roger's standard errors, clustering by year, which adjusts for heteroskedasticity and cross-sectional correlation.

$$\begin{aligned} \text{EARN}_{t+1} = & \text{IFRS} \times [\alpha_0 + \alpha_1 \text{EARN}_t + \alpha_2 \text{LOSS}_t + \alpha_3 \text{EARN} \times \text{LOSS} + \alpha_{4-8} \text{CONTROL}] \\ & + \text{DAS/GAAP} \times [\gamma_0 + \gamma_1 \text{EARN}_t + \gamma_2 \text{LOSS}_t + \gamma_3 \text{EARN} \times \text{LOSS} \\ & + \gamma_{4-8} \text{CONTROL}] + \theta_{\text{country}} + \varepsilon_t \end{aligned} \quad (1)$$

$$\begin{aligned} \text{CFO}_{t+1} = & \text{IFRS} \times [\beta_0 + \beta_1 \text{EARN}_t + \beta_2 \text{LOSS}_t + \beta_3 \text{EARN} \times \text{LOSS} + \beta_{4-8} \text{CONTROL}] \\ & + \text{DAS/GAAP} \times [\omega_0 + \omega_1 \text{EARN}_t + \omega_2 \text{LOSS}_t + \omega_3 \text{EARN} \times \text{LOSS} \\ & + \omega_{4-8} \text{CONTROL}] + \psi_{\text{country}} + \varepsilon_t \end{aligned} \quad (2)$$

where:

EARN = net income before extraordinary items (Compustat Global data item # 32);

CFO = cash flows from operations, measured as EARN – accruals, where accruals are calculated as the change in noncash current assets (Item #75 – Item #60) less the change in current liabilities (Item #104) plus the change in the current portion of long-term debt (Item #94) plus depreciation (Item #11), following Pincus et al. (2007);

LOSS = an indicator set to one if EARN is negative, zero otherwise;

IFRS = an indicator set to one for firms in the IFRS sample, zero otherwise;

DAS = an indicator set to one for firms in the non-U.S. DAS sample, zero otherwise;

GAAP = an indicator set to one for firms in the U.S. GAAP sample, zero otherwise;

$\theta_{\text{country}}$  = country fixed effects in the future earnings model;<sup>12</sup>

$\psi_{\text{country}}$  = country fixed effects in the future cash flows model;

and

CONTROL = one of five country-level institutional and accounting structure variables, as explained below.

We scale EARN and CFO by average total assets (Item #89). We include LOSS and the interaction EARN x LOSS in our regressions to control for the difference in earnings persistence

---

<sup>12</sup> We follow Hope (2003) in including country indicator variables to control for fixed cross-country differences.

and for a difference in the association between earnings and future cash flows across profit and loss firms.

CONTROL is one of five country-level variables which control for cross-country differences in institutional and accounting structures. Specifically, the CONTROLS are:

CODELAW = an indicator set to one for firms in code-law countries, and zero for firms in common law countries, as reported by La Porta et al. (1998);

INVRIGHTS = a proxy for investor rights that ranges from 0 to 5, as reported by La Porta et al. (1998);

OWNCON = a proxy for ownership concentration, measured as the median of the percentage of shares owned by the three largest stockholders in the ten largest privately owned firms, as reported by La Porta et al. (1998);

IMPEQUITY = a proxy for the importance of the equity markets, measured as the mean rank of External Capital / Gross National Product, Domestic Firms / Population, and Initial Public Offerings / Population, as reported by La Porta et al. (1997);

and

LEGENFORCE = a proxy for the strength of legal enforcement, measured as the mean score of the efficiency of judicial system, assessment of the rule of law, and a corruption index, as reported in La Porta et al. (1998).

CODELAW is a code law legal tradition indicator variable. According to Ball et al. (2000), a “stakeholder model” of corporate governance exists in code-law countries. Here, the influence of politics on accounting is stronger. In contrast, a “shareholder model” of corporate governance exists in common-law countries. Here, accounting practices are typically determined in the private sector. INVRIGHT is a proxy for the strength of investor rights. Managers are less able to exercise discretion over reported earnings when investor rights are stronger. This can influence the association between current earnings and future performance (La Porta et al. 1998; Hung 2001; Pincus et al. 2007). OWNCON is a proxy for ownership concentration. Watts and Zimmerman (1986, 1990) suggest that ownership structures affect reported earnings.

IMPEQUITY is a proxy for the importance of the equity markets. We include this variable to control for the possibility that reported earnings are more closely associated with future earnings and/or cash flows in countries where equity is a more important source of financing (Pincus et al. 2007). Finally, LEGENFORCE is a proxy for legal enforcement and is included because stronger legal enforcement reduces the ability of managers to manipulate earnings (Pincus et al. 2007).

We estimate models (1) and (2) using seemingly unrelated regression (SUR), which allows us to test for statistically significant differences in the coefficients. The coefficients on EARN estimate earnings persistence in model (1) and the association between earnings and future cash flows in model (2) for firms that report non-negative earnings in year  $t$ . Thus, we are interested in whether the coefficients on EARN are equal for IFRS and non-U.S. DAS firms or U.S. GAAP firms (i.e., we test whether  $\alpha_1 = \gamma_1$  for model (1) and whether  $\beta_1 = \omega_1$  for model (2)). If  $\alpha_1$  (or  $\beta_1$ ) is significantly *greater than*  $\gamma_1$  (or  $\omega_1$ ), this suggests that current earnings are more closely associated with future earnings (or cash flows) for firms reporting under IFRS than for firms reporting under non-U.S. DAS or U.S. GAAP when those firms report non-negative earnings. Similarly, if  $\alpha_1$  (or  $\beta_1$ ) is significantly *less than*  $\gamma_1$  (or  $\omega_1$ ), this suggests that current earnings are less closely associated with future earnings (or cash flows) for firms reporting under IFRS than for firms reporting under non-U.S. DAS or U.S. GAAP when those firms report non-negative earnings.

We are also interested in the summed coefficients on EARN and on the interaction term EARN x LOSS, which estimate earnings persistence and the association between earnings and future cash flows respectively for firms that report losses in year  $t$ . Thus, we perform similar tests of equality across reporting standards to investigate the associations between current

earnings and future earnings and/or cash flows for loss firms (i.e., we test whether  $\alpha_1 + \alpha_2 = \gamma_1 + \gamma_2$  for model (1) and whether  $\beta_1 + \beta_2 = \omega_1 + \omega_2$  for model (2)).

In an additional set of tests, we disaggregate current period earnings into its cash flow and accrual components, and interact each component with the LOSS indicator variable. This disaggregation allows us to investigate whether inferences from models (1) and (2) are attributable to the cash flow and/or accrual components of current earnings. We follow Pincus et al. (2007) and define accruals as EARN minus CFO.

### **Sample Selection**

To select our sample, we obtain all firm-year observations from the Compustat Global Industrial/Commercial file from 2002 through 2008 with sufficient data to calculate our accounting variables.<sup>13</sup> We begin our sample in 2002 to correspond with the European Parliament and Council's endorsement of IFRS, which required E.U. firms to prepare their financial statements in conformity with IFRS starting in fiscal 2005. We impose four additional data requirements. First, we follow Bartov et al. (2005) and delete observations that do not provide fully consolidated financial data. Second, we delete any observations where the firm changed from domestic standards to IFRS in year  $t$  or year  $t-1$ .<sup>14</sup> Third, we delete observations in the top or bottom  $\frac{1}{2}$  percent of the distributions of our continuous accounting variables in each year to remove potential outliers. Finally, we require countries to have at least 40 usable observations each year with sufficient data to be included in the sample.<sup>15</sup>

---

<sup>13</sup> Since the dependent variables in models (1) and (2) are future earnings and future cash flows, respectively, the dependent variables are from 2003 through 2008.

<sup>14</sup> Our empirical tests require two years of data so this requirement ensures that the standards used are consistent between years  $t$  and  $t+1$ .

<sup>15</sup> We require 40 usable observations in a year to ensure that our results are not driven by extremely small samples in particular countries. Extant research requires that 20, 60, 100, or 300 usable observations be available from a country over the entire sample period for that country to be included in their samples (e.g., Alford et al. 1993; Ali and Hwang 2000; Hung 2001; Bhattacharya et al. 2003; Leuz et al. 2003).

Our proxies for country-level institutional and accounting structures are based on La Porta et al. (1997, 1998). We require that data on the legal origin, investor rights, ownership concentration, the importance of the equity market, and the strength of the legal enforcement be available for each country in the sample. These restrictions result in a final sample of 58,832 firm-year observations drawn from 33 countries. Table 1 presents a list of the countries in our sample and partitions on whether the country allows firms to report under IFRS. Table 1 also provides the number of sample observations from each country. The majority of countries included in our sample allow the use of IFRS (25 versus 8); however, more observations are drawn from countries that do not allow IFRS (31,601) than from countries that allow IFRS (27,231). Furthermore, for those observations drawn from countries that do not allow IFRS (31,601) more observations are drawn from countries other than the U.S. (20,243) than from the U.S. (11,358).

### **Sub-sample Construction**

We use the Compustat Global accounting standard variable (data item = ASTD) to classify observations into two groups. Consistent with Daske et al. (2008), the IFRS group consists of observations with ASTD codes of DI, DA, or DT. The non-U.S. DAS group consists of observations with ASTD codes of DD, DO, DR, DS, MI, or LJ. The U.S. GAAP group consists of observations with ASTD codes of DU, MU, or US. Our tests investigate the associations between current accounting earnings and future earnings and/or cash flows for IFRS versus non-U.S. DAS firms and for IFRS versus U.S. GAAP firms.

## **Descriptive Statistics**

In Table 2, Panel A, we present descriptive statistics for the test variables in models (1) and (2) for our full sample. Approximately 10 percent of all observations report under IFRS (so 20 percent of firm-year observations from countries that allow IFRS report under IFRS) and 27 percent of sample observations report a loss. In Panel B, we present Spearman and Pearson correlations. The correlations between current earnings and future earnings and between current earnings and future cash flows are positive and significant ( $p < 0.01$ ).

In Table 3, we present descriptive statistics (i.e., means and medians) by reporting regime and test for differences across reporting regimes. We find that observations reported under IFRS have significantly higher mean and median future earnings, future cash flows, current earnings, and current cash flows but significantly lower mean and median accruals than do observations reported under non-U.S. DAS or U.S. GAAP. We also find that firms reporting under IFRS have a significantly lower incidence of losses than either non-U.S. DAS or U.S. GAAP. Furthermore, we find that mean and median current earnings, cash flows, and accruals reported under non-U.S. DAS tend to fall between those reported under IFRS and U.S. GAAP, while future earnings are not significantly different.

## **IV. EMPIRICAL RESULTS**

### **IFRS Versus Non-U.S. DAS**

In this subsection, we compare the usefulness of current earnings and its components for predicting future earnings and cash flows for the IFRS and non-U.S. DAS samples. We include all available firm-years reporting under IFRS or non-U.S. DAS ( $N = 46,886$ ) in the analyses that follow. Table 4, Panel A presents the estimation results for model (1), which measures earnings

persistence. The coefficients for earnings persistence (EARN) are positive and significant for earnings reported under both IFRS and non-U.S. DAS and these coefficients are not significantly different across the two samples. Earnings persistence is also lower for loss firms than for profitable firms for both samples ( $EARN \times LOSS < 0$ ); however, the persistence of reported losses ( $EARN + EARN \times LOSS$ ) is not significantly different for observations reported under IFRS versus non-U.S. DAS. Thus, we find no evidence that current earnings are more or less persistent under IFRS than under non-U.S. DAS.

In Table 4, Panel B, we disaggregate current earnings into its cash flow and accrual components. We find that the associations between current cash flows and accruals and future earnings are significantly positive under both IFRS and non-U.S. DAS. Furthermore, these associations are significantly less positive for loss firms. Finally, the associations between current cash flows and future earnings are not significantly different across the two reporting regimes, although the association between current accruals and future earnings is somewhat less positive for loss firms reporting under IFRS versus non-U.S. DAS.

Table 5, Panel A presents the estimation results for model (2), which tests the associations between current earnings and future cash flows. As in the earnings model, we find that the association between current earnings and future cash flows is significant and positive under both reporting regimes, and the associations are not significantly different across the two reporting regimes. Moreover, the association between current earnings and future cash flows is not significantly different for loss versus profit firms reporting under IFRS or for loss firms reporting under IFRS versus non-U.S. DAS. However, the association between current earnings and future cash flows is lower for loss firms reporting under non-U.S. DAS than for profit firms reporting under non-U.S. DAS.

Table 5, Panel B presents the model with current earnings disaggregated into its cash flow and accrual components. Here, we find that current cash flows and accruals are both significantly positively associated with future cash flows under both IFRS and non-U.S. DAS. While we find no significant difference in the association between current cash flows and future cash flows or in the association between current accruals and future cash flows for profit firms across the two regimes, the association between current accruals and future cash flows is marginally significantly lower for loss firms reporting under IFRS than under non-U.S. DAS.

Together, the results presented in Tables 4 and 5 suggest that earnings and earnings components reported under IFRS are generally no more or less closely associated with future earnings and/or future cash flows than earnings reported under non-U.S. DAS.

### **IFRS Versus U.S. GAAP**

We now investigate whether earnings and its components are more or less closely associated with future earnings or future cash flows under IFRS versus U.S. GAAP. These comparisons are especially important given that foreign firms are no longer required to reconcile earnings reported under IFRS to U.S. GAAP and because U.S. firms may be transitioning from U.S. GAAP to IFRS over the next few years. Here, we compare the associations between current earnings (or earnings components) and future earnings or cash flows for the IFRS and U.S. GAAP samples. The observations included in these analyses are all observations reported under IFRS (regardless of the country of origin) and all observations reported under U.S. GAAP (regardless of the country of origin), for the IFRS and U.S. GAAP samples respectively (N = 17,670).

Table 6, Panel A presents the results for model (1), which compares the persistence of earnings for observations reported under IFRS versus U.S. GAAP. The earnings persistence parameters are significantly positive for both samples but do not differ across the two reporting regimes. However, losses are significantly less persistent than profits under IFRS (consistent with Table 4, Panel A) and the persistence of losses is significantly lower under IFRS versus U.S. GAAP.

When current earnings are decomposed into cash flow and accrual components, in Table 6, Panel B, we find that associations between future earnings and current cash flows and/or accruals are not significantly different for profitable firms reporting under IFRS versus U.S. GAAP, but both associations are lower for loss firms reporting under IFRS versus GAAP. For firms reporting under U.S. GAAP, accruals have a significantly lower association with future earnings for loss firms compared to profitable firms, but there is no difference in the association between current cash flows and future earnings for loss firms compared to profitable firms. However, under IFRS, both cash flows and accruals have lower associations with future earnings for firms reporting current losses than for firms reporting current profits (consistent with Table 4, Panel B).

Table 7, Panel A reveals no significant difference in the association between current earnings and future cash flows for profitable firms reporting under IFRS versus U.S. GAAP. However, the association between current earnings and future cash flows is significantly lower for loss firms reporting under IFRS versus U.S. GAAP.

When current earnings are decomposed into cash flow and accruals components, in Table 7, Panel B, we find that the association between current and future cash flows is lower for firms reporting under IFRS versus U.S. GAAP. However, the association between current accruals

and future cash flows is not significantly different across the two regimes. The higher association between current losses and future earnings and/or cash flows may be due to more timely loss recognition by U.S. GAAP firms, consistent with Table 3, which suggests that a larger proportion of firms reporting under U.S. GAAP report current losses. Thus, for loss firms, we find that earnings are not as closely associated with future earnings and future cash flows reported under IFRS versus U.S. GAAP. In sum, we find no evidence that IFRS outperforms U.S. GAAP or non-U.S. DAS in terms of associations between current earnings and future earnings and/or cash flows.

## **V. CONCLUSION**

Motivated by the current debate regarding acceptance of IFRS as a high-quality, global accounting standard, we investigate whether the use of domestic accounting standards (DAS) versus IFRS is associated with differences in the associations between current earnings (or earnings components) and future earnings or cash flows. We use a sample of firm-year observations from 33 countries to examine the associations between current earnings and future earnings or cash flows under IFRS relative to two DAS control samples consisting of (1) all non-U.S. firms reporting under their local domestic standards (the non-U.S. DAS sample) and (2) all firms reporting under U.S. GAAP (the U.S. GAAP sample). We find no evidence of a systematic difference between IFRS and non-U.S. DAS in terms of associations between current earnings and future earnings and/or future cash flows. However, we find that losses reported under IFRS are less persistent than losses reported under U.S. GAAP. This difference in persistence is driven by higher associations between future earnings and both the cash flow and accrual components for firms reporting under U.S. GAAP versus IFRS. Furthermore, future

cash flows are more closely associated with current losses for observations reported under U.S. GAAP versus IFRS. These differences suggest that, for loss firms, current earnings and earnings components are more informative about future earnings and future cash flows under U.S. GAAP than under IFRS. These findings are robust to controls for cross-country factors including legal structure, investor rights, ownership equity, the importance of equity markets, and the strength of legal enforcement.

Our results provide useful information to U.S. standard-setters as they consider the costs and benefits of adopting IFRS because they imply that accounting earnings prepared under IFRS tell us less about future earnings or cash flows than accounting earnings prepared under U.S. GAAP. In addition, our results suggest that differences in associations between current and future earnings cannot explain the lower analyst forecast errors (Ashbaugh and Pincus 2001, Ernstberger et al. 2008) or greater value-relevance of earnings (Bartov et al. 2005, Ndubizu and Sanchez 2006) under IFRS versus DAS documented in some countries.

## References

- Accounting Standards Board (ASB). 1999. Statement of Principles for Financial Reporting. (October). London, U.K.
- Alford, A., J. Jones, R. Leftwich, and M. Zmijewski. 1993. Relative informativeness of accounting disclosures in different countries. *Journal of Accounting Research* 31: 183–233.
- Ali, A., and L. Hwang. 2000. Country-specific factors related to financial reporting and the value relevance of accounting data. *Journal of Accounting Research* 38: 1–21.
- Ashbaugh, H., and P. Olsson. 2002. An exploratory study of the valuation properties of cross-listed firms' IAS and U.S. GAAP earnings and book values. *The Accounting Review* 77: 107–126.
- \_\_\_\_\_, and M. Pincus. 2001. Domestic accounting standards, international accounting standards, and the predictability of earnings. *Journal of Accounting Research* 39: 417–434.
- Badertscher, B., D. W. Collins, and T. Z. Lys. 2007. Earnings management and the predictive ability of accruals with respect to future cash flows. Working paper, University of Notre Dame, University of Iowa, and Northwestern University.
- Ball, R., S. Kothari, and A. Robin. 2000. The effect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economics* 29: 1–51.
- Barth, M. E., W. R. Landsman, and M. H. Lang. 2008. International accounting standards and accounting quality. *Journal of Accounting Research* 46: 1–32.
- Bartov, E., S. R. Goldberg, and M. Kim. 2005. Comparative value relevance among German, U.S., and International Accounting Standards: A German stock market perspective. *Journal of Accounting, Auditing & Finance* 20: 95–119.
- Bennett, B., M. Bradbury, and H. Prangnell. 2006. Rules, principles and judgments in accounting standards. *Abacus* 42: 189–204.
- Benston, G. J., D. R. Carmichael, J. S. Demski, B. G. Dharan, K. Jamal, R. Laux, S. Rajgopal, and G. Vrana. 2007. The FASB's Conceptual Framework for Financial Reporting: A critical analysis. *Accounting Horizons* 21: 229–238.
- Bhattacharya, U., H. Daouk, and M. Welker. 2003. The world price of earnings opacity. *The Accounting Review* 78: 641–678.
- Chen, C. J. P., F. A. Gul, and X. Su. 1999. A comparison of reported earnings under Chinese GAAP vs. IAS: Evidence from the Shanghai Stock Exchange. *Accounting Horizons* 13: 91–111.

Chen, L. H., and H. Sami. 2008. Trading volume reaction to the earnings reconciliation from IAS to U.S. GAAP. *Contemporary Accounting Research* 25: 15–53.

Christensen, H. B., E. Lee, and M. Walker. 2007. Do IFRS/UK-GAAP reconciliations convey new information? Working paper, Manchester Business School.

Ciesielski, J. 2007a. International Accounting Standards: Opportunities, challenges and global convergence. Testimony before the Subcommittee on Securities, Insurance, and Investment, Committee on Banking, Housing, and Urban Affairs, U.S. Senate (October 24).

\_\_\_\_\_. 2007b. It's not a small world, after all: The SEC goes international. *The Analyst's Accounting Observer* 16(11).

Cohn, M. 2009. IFRS roadmap slams into reverse. *WebCPA* (March 11).

Covrig, V. M., M. L. DeFond, and M. Hung. 2007. Home bias, foreign mutual fund holdings, and the voluntary adoption of International Accounting Standards. *Journal of Accounting Research* 45: 41–70.

Dargenidou, C., S. McLeay, and I. Raonic. 2006. Expected earnings growth and the cost of capital: An analysis of accounting regime change in the European financial market. *Abacus* 42: 388–414.

Daske, H. 2006. Economic benefits of adopting IFRS or US GAAP: Has the expected cost of equity capital really decreased? *Journal of Business Finance & Accounting* 33: 329–373.

\_\_\_\_\_, and G. Gebhardt. 2006. International financial reporting standards and expert's perceptions of disclosure quality. *Abacus* 42: 461–497.

\_\_\_\_\_, L. Hail, C. Leuz, and R. Verdi. 2008. Mandatory IFRS reporting around the world: Early evidence on the economic consequences. *Journal of Accounting Research* 46: 1085–1142.

Dechow, P. 1994. Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals. *Journal of Accounting and Economics* 18: 3–42.

Ding, Y., O. K. Hope, T. Jeanjean, and H. Stolowy. 2007. Differences between domestic accounting standards and IAS: Measurement, determinants and implications. *Journal of Accounting & Public Policy* 26: 1–38.

Ernstberger, J., S. Krotter, and C. Stadler. 2008. Analysts' forecast accuracy in Germany: The effect of different accounting principles and changes of accounting principles. Working paper, University of Regensburg and University of London.

Fédération Française des Sociétés d'Assurances (FFSA) and Association Française de la Gestion Financière (AFG). 2007. Investor perspectives on IFRS implementation: Collection of essays (December).

Financial Accounting Standards Board (FASB). 1978. Objectives of financial reporting by business enterprises. *Statement of Financial Accounting Concepts No. 1*. Stamford, CT.

\_\_\_\_\_. 2002. Principles-based approach to U.S. standard setting. Proposal (October). Stamford, CT.

\_\_\_\_\_. 2004. Response to SEC study on the adoption of a principles-based accounting system. (July) Stamford, CT.

Forgeas, R. 2008. SEC's leap toward IFRS: Has the momentum gone? AICPA. [www.cpa2biz.com](http://www.cpa2biz.com) (February 23).

Francis, J. R., I. K. Khurana, X. Martin, X., and R. Pereira. 2008. The role of firm-specific incentives and country factors in explaining voluntary IAS adoptions: Evidence from private firms. *European Accounting Review*: 1–30.

Gjerde, O., K. H. Knivsfla, and F. Sættem. 2008. The value-relevance of adopting IFRS: Evidence from 145 NGAAP restatements. Working paper, Norwegian School of Economics and Business Administration.

Harris, M. S., and K. A. Muller, III. 1999. The market valuation of IAS versus US-GAAP accounting measures using Form 20-F reconciliations. *Journal of Accounting and Economics* 26: 285–312.

Haverty, J. L. 2006. Are IFRS and U.S. GAAP converging? Some evidence from People's Republic of China companies listed on the New York Stock Exchange. *Journal of International Accounting, Auditing and Taxation* 15: 48–71.

Henry, E., S. Lin, and Y. Yang. 2008. The European-U.S. GAAP gap: IFRS to U.S. GAAP Form 20-F reconciliations. Working paper, University of Miami and Florida International University.

Herz, R. 2007. International Accounting Standards: Opportunities, challenges and global convergence. Testimony before the Subcommittee on Securities, Insurance, and Investment, Committee on Banking, Housing, and Urban Affairs, U.S. Senate (October 24).

Holthausen, R. W., and R. L. Watts. 2001. The relevance of the value-relevance literature for financial accounting standard setting. *Journal of Accounting and Economics* 31: 3–75.

Hope, O. K. 2003. Disclosure practices, enforcement of accounting standards, and analyst forecast accuracy: An international study. *Journal of Accounting Research* 41: 235–272.

Hopkins, P. E., C. A. Botosan, M. T. Bradshaw, C. M. Callahan, J. T. Ciesielski, D. B. Farber, M. J. Kohlbeck, L. D. Hodder, B. Laux, B., T. L. Stober, P. Stocken, and T. L. Yohn. 2008. Response to the SEC Release “Acceptance from foreign private issuers of financial statements prepared in accordance with international financial reporting standards without reconciliation to U.S. GAAP.” American Accounting Association’s Financial Accounting and Reporting Section of the Financial Reporting Policy Committee. *Accounting Horizons* 22: 223–240.

Hung, M. 2001. Accounting standards and value relevance of financial statements: An international analysis. *Journal of Accounting and Economics* 30: 401–420.

International Accounting Standards Board (IASB). Framework for the Preparation and Presentation of Financial Statements.

Iwata, E. 2009. U.S. considers costly switch to international accounting rules. *USA Today* (May 1).

Jamal, K., G. J. Benston, D. R. Carmichael, T. E. Christensen, R. H. Colson, S. Moehrle, S. Rajgopal, T. Stober, S. Sunder, and R. Watts. 2008. A perspective on the SEC’s proposal to accept financial statements prepared in accordance with International Financial Reporting Standards (IFRS) without reconciliation to U.S. GAAP. American Accounting Association’s Financial Accounting Standards Committee. *Accounting Horizons* 22: 241–248.

Johnson, S. 2007a. Auditor: Convergence could spur revenue wreck. *CFO.com* (August 20).

\_\_\_\_\_. 2007b. PCAOB told to plan for global standards: Does GAAP have staying power? *CFO.com* (October 19).

\_\_\_\_\_. 2007c. Senate pokes holes in SEC’s IFRS push. *CFO.com* (October 25).

\_\_\_\_\_. 2007d. Is FASB fading away? *CFO.com* (November 14).

\_\_\_\_\_. 2008a. Slow death for GAAP: Cox. *CFO.com* (January 22).

\_\_\_\_\_. 2008b. The revenue-recognition rules paradox. *CFO.com* (February 6).

\_\_\_\_\_. 2009a. Mary Shapiro vows to be tough enforcer. *CFO.com* (January 15).

\_\_\_\_\_. 2009b. Shapiro distances herself from Cox. *CFO.com* (January 26).

\_\_\_\_\_. 2009c. SEC pushed back IFRS roadmap. *CFO.com* (January 15).

Kim, J-B., and H. Shi. 2007. International Financial Reporting Standards, institutional infrastructures and costs of equity capital around the world. Working paper, Concordia University and The Hong Kong Polytechnic University.

\_\_\_\_\_, and \_\_\_\_\_. 2008. International Financial Reporting Standards, analyst following, institutional infrastructure, and stock price synchronicity around the world. Working paper, The Hong Kong Polytechnic University.

\_\_\_\_\_, J. S. L. Tsui, and C. H. Yi. 2007. The voluntary adoption of international accounting standards and loan contracting around the world. Working paper, The Hong Kong Polytechnic University.

Kinnunen, J., J. Niskanen, and E. Kasanen. 2000. To whom are IAS earnings informative? Domestic versus foreign shareholders' perspectives. *The European Accounting Review* 9: 499–517.

KPMG LLP (KPMG). 2007. SEC seeks input on allowing domestic companies to use IFRS. *Defining Issues* (September).

La Porta, R., F. Lopez-De-Silanes, A. Shleifer, and R. W. Vishny. 1997. Legal determinants of external finance. *The Journal of Finance* 52: 1131–1150.

\_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_. 1998. Law and finance. *Journal of Political Economy* 106: 1113–1155.

LaPointe-Antunes, P., D. Cormier, M. Magnon, and S. Gay-Angers. 2006. On the relationship between voluntary disclosure, earnings smoothing and the value-relevance of earnings: The Case of Switzerland. *The European Accounting Review* 15: 465–505.

Leone, M. 2008. Audit firm bigs cite lust for global standards. *CFO.com* (January 16).

\_\_\_\_\_. 2009. Will a tortoise pace win the global accounting race? *CFO.com* (January 23).

Leuz, C., and R. E. Verrecchia. 2000. The economic consequences of increased disclosure. *Journal of Accounting Research* 38: 91–124.

Leuz, C., D. Nanda, and P. D. Wysocki. 2003. Earnings management and investor protection: an international comparison. *Journal of Financial Economics* 69: 505–527.

Lin, Z. L., and F. Chen. 2005. Value relevance of international accounting standards harmonization: Evidence from A- and B-share markets in China. *Journal of International Accounting, Auditing and Taxation* 14: 79–103.

Morck, R., B. Yeung, and W. Yu. 2000. The information content of stock markets: Why do emerging markets have synchronous stock price movements? *Journal of Financial Economics* 58: 215–260.

Ndubizu, G. A., and M. H. Sanchez. 2006. The valuation properties of earnings and book value prepared under US GAAP in Chile and IAS in Peru. *Journal of Accounting and Public Policy* 25: 140–170.

- Niskanen, J., J. Kinnunen, and K. Kasanen. 2000. The value-relevance of IAS reconciliation components: Empirical evidence from Finland. *Journal of Accounting and Public Policy* 19: 119–137.
- Pincus, M., S. Rajgopal, and M. Venkatachalam. 2007. The accrual anomaly: International evidence. *The Accounting Review* 82: 169–203.
- Platikanova, P. 2007. Market liquidity effects of the IFRS introduction in Europe. Working paper, University Pompeu Fabra.
- PricewaterhouseCoopers (PwC). 2007a. 10 minutes on IFRS. (October).
- \_\_\_\_\_. 2007b. IFRS: The right step for U.S. Business. White Paper.
- \_\_\_\_\_. 2007c. Similarities and differences: A comparison of IFRS and U.S. GAAP. (October).
- Reilly, D. 2007. What’s better in accounting, rules or ‘feel’? *The Wall Street Journal* (April 30), C1.
- Schadewitz, H., and M. Vieru. 2007. How markets value and response to IFRS reconciliations adjustments in Finland? Working paper, Turku School of Economics and University of Oulu.
- Schipper, K. 2003. Principles-based accounting standards. *Accounting Horizons* 17: 61–72.
- Soderstrom, N. S., and K. J. Sun. 2007. IFRS adoption and accounting quality: A review. *European Accounting Review* 16: 675–702.
- Tarca, A. 2004. International convergence of accounting practices: Choosing between IAS and U.S. GAAP. *Journal of International Financial Management and Accounting* 15: 60–91.
- Taub, S. 2008. IFRS gets a push from accounting giants. *CFO.com* (January 16).
- Turley, J. 2007. Mind the GAAP. *The Wall Street Journal* (November 9).
- Turner, L. 2007. International Accounting Standards: Opportunities, challenges and global Convergence. Testimony before the Subcommittee on Securities, Insurance, and Investment, Committee on Banking, Housing, and Urban Affairs, U.S. Senate (October 24).
- Van der Meulen, S., A. Gaeremynck, and M. Willekens. 2007. Attribute differences between U.S. GAAP and IFRS earnings: An exploratory study. *The International Journal of Accounting* 42: 123–142.
- Veron, N. 2008. Can accounting standards be scapegoated for the turmoil? *La Tribune* (January 21).
- Watts, R. L., and J. L. Zimmerman. 1986. *Positive Accounting Theory*. Prentice-Hall, Englewood Cliffs, NJ.

\_\_\_\_\_, and \_\_\_\_\_. 1990. Positive accounting theory: A ten year perspective. *The Accounting Review* 65: 131–156.

Wu, J. S., and I. X. Zhang. 2008. The adoption of international accounting standards and firm internal performance evaluation. Working paper, University of Rochester and University of Minnesota.

**TABLE 1**  
**Sample Countries and Reporting Practices Under IFRS**

<i>Countries Allowing IFRS</i>		<i>Countries Not Allowing IFRS</i>	
<b>Country</b>	<b>N</b>	<b>Country</b>	<b>N</b>
Australia	3,939	Canada	1,855
Austria	204	Chile	391
Belgium	275	India	555
Brazil	482	Ireland	84
Denmark	380	Japan	12,917
Finland	366	New Zealand	342
France	1,847	Taiwan	4,099
Germany	2,004	U.S.	11,358
Greece	257	<b>Total</b>	<b>31,601</b>
Hong Kong	589		
Indonesia	834		
Italy	713		
Korea	1,059		
Malaysia	3,018		
Mexico	293		
Netherlands	440		
Norway	382		
Philippines	331		
Singapore	1,750		
South Africa	590		
Spain	408		
Sweden	776		
Switzerland	736		
Thailand	1,291		
U.K.	4,267		
<b>Total</b>	<b>27,231</b>		

**TABLE 2**  
**Descriptive Statistics and Correlations**

**Panel A: Descriptive Statistics**

Variable	N	Mean	Std Dev	Median	Minimum	Maximum
EARN <sub>t+1</sub>	58,832	0.006	0.158	0.032	-1.507	0.411
CFO <sub>t+1</sub>	58,832	0.040	0.168	0.062	-1.556	0.572
EARN <sub>t</sub>	58,832	0.000	0.159	0.028	-1.580	0.430
CFO <sub>t</sub>	58,331	0.039	0.184	0.061	-7.415	1.638
ACCR <sub>t</sub>	58,331	-0.038	0.122	-0.036	-1.689	6.459
LOSS <sub>t</sub>	58,311	27%				
IFRS	5,724	10%				
GAAP	11,946	20%				
DAS	41,162	70%				

**Panel B: Pearson (Above the Diagonal) and Spearman (Below the Diagonal) Correlations**

	EARN <sub>t+1</sub>	CFO <sub>t+1</sub>	EARN <sub>t</sub>	CFO <sub>t</sub>	ACCR <sub>t</sub>	LOSS <sub>t</sub>	IFRS	GAAP	DAS
EARN <sub>t+1</sub>		<b>0.801</b>	<b>0.673</b>	<b>0.542</b>	<b>0.059</b>	<b>-0.484</b>	<b>0.047</b>	<b>-0.003</b>	<b>-0.028</b>
CFO <sub>t+1</sub>	<b>0.659</b>		<b>0.577</b>	<b>0.474</b>	<b>0.036</b>	<b>-0.395</b>	<b>0.049</b>	<b>0.010</b>	<b>-0.041</b>
EARN <sub>t</sub>	<b>0.729</b>	<b>0.492</b>		<b>0.755</b>	<b>0.165</b>	<b>-0.638</b>	<b>0.046</b>	<b>-0.016</b>	<b>-0.016</b>
CFO <sub>t</sub>	<b>0.523</b>	<b>0.447</b>	<b>0.647</b>		<b>-0.523</b>	<b>-0.456</b>	<b>0.063</b>	<b>0.004</b>	<b>-0.044</b>
ACCR <sub>t</sub>	<b>0.071</b>	<b>-0.050</b>	<b>0.171</b>	<b>-0.511</b>		<b>-0.143</b>	<b>-0.035</b>	<b>-0.026</b>	<b>0.045</b>
LOSS <sub>t</sub>	<b>-0.533</b>	<b>-0.375</b>	<b>-0.769</b>	<b>-0.508</b>			<b>-0.041</b>	<b>0.028</b>	<b>0.002</b>
IFRS	<b>0.066</b>	<b>0.060</b>	<b>0.065</b>	<b>0.086</b>	<b>-0.039</b>	<b>-0.041</b>		<b>-0.166</b>	<b>-0.501</b>
GAAP	<b>0.044</b>	<b>0.047</b>	<b>0.033</b>	<b>0.045</b>	<b>-0.047</b>	<b>0.028</b>	<b>-0.166</b>		<b>-0.770</b>
DAS	<b>-0.081</b>	<b>-0.080</b>	<b>-0.071</b>	<b>-0.096</b>	<b>0.066</b>	<b>0.002</b>	<b>-0.501</b>	<b>-0.770</b>	

*Notes:*

**Bolded** text indicates that the correlation is significant at  $p < 0.01$ ;

EARN = net income before extraordinary items (Item # 32);

CFO = cash flows from operations;

ACCR = the change in noncash current assets (Item #75 – Item #60) less the change in current liabilities (Item #104) plus the change in the current portion of long-term debt (Item #94) plus depreciation (Item #11);

IFRS = one for firms in the IFRS sample, zero otherwise;

GAAP= one for firms in the GAAP sample, zero otherwise;

DAS= one for firms in the GAAP sample, zero otherwise.

**TABLE 3**  
**Univariate Comparisons between Observations Reporting Under IFRS Versus Non-US Domestic Accounting Standards (Non-U.S. DAS) and Under IFRS Versus US Domestic Accounting Standards (U.S. GAAP)**

	IFRS	Non-U.S. DAS	U.S. GAAP	(IFRS vs. non-U.S. DAS)	(IFRS vs. U.S. GAAP)	(Non-U.S. DAS vs. U.S. GAAP)
N	5,724	41,162	11,946			
EARN <sub>t+1</sub>						
Mean	0.028	0.003	0.005	<b>(11.71)</b>	<b>(9.33)</b>	(1.19)
(t-stat)						
Median	0.045	0.028	0.040	<b>(18.36)</b>	<b>(6.10)</b>	<b>(13.26)</b>
(Z-stat)						
CFO <sub>t+1</sub>						
Mean	0.065	0.035	0.043	<b>(12.59)</b>	<b>(8.40)</b>	<b>(4.44)</b>
(t-stat)						
Median	0.080	0.057	0.073	<b>(16.79)</b>	<b>(5.64)</b>	<b>(13.93)</b>
(Z-stat)						
EARN <sub>t</sub>						
Mean	0.023	-0.001	-0.005	<b>(10.88)</b>	<b>(10.39)</b>	<i>(-1.97)</i>
(t-stat)						
Median	0.042	0.025	0.036	<b>(17.71)</b>	<b>(7.28)</b>	<b>(10.47)</b>
(Z-stat)						
CFO <sub>t</sub>						
Mean	0.074	0.033	0.040	<b>(15.52)</b>	<b>(12.23)</b>	<b>(3.45)</b>
(t-stat)						
Median	0.086	0.054	0.073	<b>(22.94)</b>	<b>(10.91)</b>	<b>(14.69)</b>
(Z-stat)						
ACCR <sub>t</sub>						
Mean	-0.051	-0.035	-0.044	<b>(-9.00)</b>	<b>(-4.16)</b>	<b>(-7.68)</b>
(t-stat)						
Median	-0.043	-0.033	-0.041	<b>(-11.15)</b>	<i>(-2.51)</i>	<b>(-13.23)</b>
(Z-stat)						
LOSS <sub>t</sub>						
Mean	21%	27%	29%	<b>(-8.97)</b>	<b>(-11.27)</b>	<b>(-5.23)</b>
(t-stat)						

*Notes:*

All variables are defined as in table 2;

IFRS = the IFRS sample; non-U.S. DAS = the non-U.S. Domestic Accounting Standards sample; U.S. GAAP = the U.S. Domestic Accounting Standards sample;

**Bolded** (*italicized*) t-statistics and Z-statistics are significantly different at < 0.01 (<0.05) or better.

**TABLE 4**  
**Tests of Associations between Current Earnings and Future Earnings for Observations Reporting Under IFRS Versus Non-U.S. Domestic Accounting Standards (Non-U.S. DAS)**

**Panel A: Associations between Current Earnings and Future Earnings**

	IFRS Sample		Non-U.S. DAS Sample		
	<b>Coef</b>	<b>t-stat</b>	<b>Coef</b>	<b>t-stat</b>	
IFRS	-0.046	-6.16			
DAS			-0.066	-16.41	***
EARN	0.700	27.11	0.732	34.48	***
LOSS	-0.032	-4.86	-0.028	-11.30	***
EARN x LOSS	-0.233	-2.74	-0.196	-4.70	***
CODELAW	0.060	9.04	0.082	7.69	***
INVRIGHTS	-0.001	-0.35	-0.008	-1.82	
OWNCON	0.097	2.56	0.160	7.13	***
IMPEQUITY	0.002	1.35	0.002	1.57	
LEGENFORCE	-0.017	-3.51	-0.013	-2.55	*
Adjusted R <sup>2</sup>	0.445				
N	46,886				
<i>Test of Coefficient Equality</i>					
	<b>Diff</b>	<b>t-stat</b>			
EARN	-0.032	-0.99			
EARN x LOSS	-0.037	-0.61			
EARN + EARN x LOSS	-0.069	-1.34			

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.

**Panel B: Associations between Current Earnings Components and Future Earnings**

	IFRS Sample			Non-U.S.DAS Sample		
	Coef	t-stat		Coef	t-stat	
IFRS	-0.456	-6.65	***			
DAS				-0.667	-13.10	***
CFO	0.704	27.62	***	0.744	33.28	***
ACCR	0.666	27.26	***	0.682	35.60	***
LOSS	-0.041	-5.53	***	-0.029	-13.74	***
CFO x LOSS	-0.212	-2.97	**	-0.202	-4.67	***
ACCR x LOSS	-0.348	-4.46	**	-0.201	-5.23	***
CODELAW	0.065	9.69	***	0.084	7.57	***
INVRIGHTS	-0.002	-0.75		-0.008	-1.82	
OWNCON	0.095	2.41	*	0.153	6.98	***
IMPEQUITY	0.002	1.61		0.002	1.87	
LEGENFORCE	-0.018	-3.44	**	-0.014	-2.74	*
Adjusted R <sup>2</sup>	0.447					
N	46,407					
<i>Test of Coefficient Equality</i>						
	<b>Diff</b>	<b>t-stat</b>				
CFO	-0.040	-1.10				
CFO x LOSS	-0.009	-0.18				
CFO + CFO x LOSS	-0.049	-1.33				
ACCR	-0.016	-0.55				
ACCR x LOSS	-0.147	-2.09				
ACCR + ACCR x LOSS	-0.163	-2.63	*			

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.

**TABLE 5**

**Tests of Associations between Current Earnings and Future Cash Flows for Observations Reporting Under IFRS Versus Non-U.S. Domestic Accounting Standards (Non-U.S. DAS)**

**Panel A: Associations between Current Earnings and Future Cash Flows**

	IFRS Sample			Non-U.S. DAS Sample		
	Coef	t-stat		Coef	t-stat	
IFRS	-0.018	-1.72				
DAS				-0.034	-2.91	**
EARN	0.548	20.64	***	0.611	28.04	***
LOSS	-0.007	-1.86		-0.017	-12.02	***
EARN x LOSS	-0.060	-0.99		-0.085	-2.59	*
CODELAW	0.000	0.00		0.049	3.53	**
INVRIGHTS	0.006	0.95		-0.007	-2.25	*
OWNCON	0.122	1.37		0.218	4.63	***
IMPEQUITY	-0.003	-1.34		-0.003	-3.25	**
LEGENFORCE	-0.007	-0.67		-0.002	-0.35	
Adjusted R <sup>2</sup>	0.348					
N	46,886					
<i>Test of Coefficient Equality</i>						
	<b>Diff</b>	<b>t-stat</b>				
EARN	-0.063	-1.51				
EARN x LOSS	0.025	0.48				
EARN + EARN x LOSS	-0.038	-1.55				

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.

**Panel B: Associations between Current Earnings Components and Future Cash Flows**

	IFRS Sample			Non-U.S. DAS Sample		
	Coef	t-stat		Coef	t-stat	
IFRS	-0.021	-1.74				
DAS				-0.036	-3.10	**
CFO	0.558	16.42	***	0.623	25.61	***
ACCR	0.495	23.66	***	0.543	22.74	***
LOSS	-0.010	-2.14	*	-0.015	-9.63	***
CFO x LOSS	-0.052	-0.91		-0.096	-2.42	*
ACCR x LOSS	-0.100	-1.52		-0.043	-2.05	
CODELAW	0.006	0.31		0.051	3.69	**
INVRIGHTS	0.005	0.79		-0.008	-2.38	*
OWNCON	0.121	1.29		0.211	4.17	**
IMPEQUITY	-0.003	-1.19		-0.002	-3.05	**
LEGENFORCE	-0.009	-0.77		-0.003	-0.57	
Adjusted R <sup>2</sup>	0.350					
N	46,407					
<i>Test of Coefficient Equality</i>						
	<b>Diff</b>	<b>t-stat</b>				
CFO	-0.065	-1.23				
CFO x LOSS	0.043	0.69				
CFO + CFO x LOSS	-0.022	-1.00				
ACCR	-0.048	-1.48				
ACCR x LOSS	-0.057	-1.00				
ACCR + ACCR x LOSS	-0.105	-2.85	*			

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.

**TABLE 6**  
**Tests of Associations between Current Earnings and Future Earnings for Observations Reporting Under IFRS Versus U.S. GAAP**

**Panel A: Associations between Current Earnings and Future Earnings**

	IFRS Sample			U.S. GAAP Sample		
	<b>Coef</b>	<b>t-stat</b>		<b>Coef</b>	<b>t-stat</b>	
IFRS	-0.002	-0.12				
GAAP				0.012	6.21	***
EARN	0.703	26.54	***	0.708	24.34	***
LOSS	-0.032	-4.73	***	-0.021	-3.09	**
EARN x LOSS	-0.233	-2.71	**	-0.032	-0.47	
CODELAW	-0.080	-0.51		-0.075	-0.44	
INVRIGHTS	0.010	0.59		0.008	0.43	
OWNCON	0.101	0.54		0.106	0.53	
IMPEQUITY	-0.007	-0.57		-0.006	-0.57	
LEGENFORCE	0.019	0.39		0.018	0.41	
Adjusted R <sup>2</sup>	0.522					
N	17,670					
<i>Test of Coefficient Equality</i>	<b>Diff</b>	<b>t-stat</b>				
EARN	-0.004	-0.10				
EARN x LOSS	-0.201	-6.73	***			
EARN + EARN x LOSS	-0.205	-5.05	***			

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.

**Panel B: Associations between Current Earnings Components and Future Earnings**

	IFRS Sample			U.S. GAAP Sample		
	Coef	t-stat		Coef	t-stat	
IFRS	0.003	0.18				
GAAP				0.009	4.67	***
CFO	0.706	27.43	***	0.717	26.20	***
ACCR	0.668	27.07	***	0.646	20.08	***
LOSS	-0.041	-5.45	**	-0.028	-3.98	**
CFO x LOSS	-0.209	-2.94	**	-0.026	-0.39	
ACCR x LOSS	-0.347	-4.41	**	-0.143	-4.58	**
CODELAW	-0.124	-0.78		-0.114	-0.66	
INVRIGHTS	0.013	0.85		0.010	0.53	
OWNCON	0.137	0.67		0.152	0.72	
IMPEQUITY	-0.010	-0.82		-0.010	-0.81	
LEGENFORCE	0.031	0.64		0.032	0.65	
Adjusted R <sup>2</sup>	0.528					
N	17,636					
<i>Test of Coefficient Equality</i>						
	<b>Diff</b>	<b>t-stat</b>				
CFO	-0.011	-0.27				
CFO x LOSS	-0.183	-6.90	***			
CFO + CFO x LOSS	-0.194	-7.05	***			
ACCR	0.022	0.48				
ACCR x LOSS	-0.204	-4.11	**			
ACCR + ACCR x LOSS	-0.182	-2.78	**			

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.

**TABLE 7**  
**Tests of Associations between Current Earnings and Future Cash Flows for Observations Reporting Under IFRS Versus Under U.S. GAAP**

**Panel A: Associations between Current Earnings and Future Cash Flows**

	IFRS Sample			U.S. GAAP Sample		
	<b>Coef</b>	<b>t-stat</b>		<b>Coef</b>	<b>t-stat</b>	
IFRS	0.013	0.56				
GAAP				0.048	28.32	***
EARN	0.558	19.78	***	0.646	27.46	***
LOSS	-0.006	-1.45		-0.009	-2.37	*
EARN x LOSS	-0.065	-1.05		0.009	0.14	
CODELAW	-0.121	-0.76		-0.085	-0.48	
INVRIGHTS	0.029	1.62		0.001	0.04	
OWNCON	0.122	0.51		0.209	1.06	
IMPEQUITY	-0.008	-0.63		-0.009	-0.72	
LEGENFORCE	0.019	0.38		0.007	0.16	
Adjusted R <sup>2</sup>	0.466					
N	17,670					
<i>Test of Coefficient Equality</i>						
	<b>Diff</b>	<b>t-stat</b>				
EARN	-0.088	-1.98				
EARN x LOSS	-0.074	-2.22	*			
EARN + EARN x LOSS	-0.163	-7.97	***			

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.

**Panel B: Associations between Current Earnings Components and Future Cash Flows**

	IFRS Sample			U.S. GAAP Sample		
	Coef	t-stat		Coef	t-stat	
IFRS	0.018	0.70				
GAAP				0.038	22.24	***
CFO	0.567	15.65	***	0.679	34.00	***
ACCR	0.505	22.43	***	0.446	20.00	***
LOSS	-0.009	-1.94		-0.012	-3.13	**
CFO x LOSS	-0.055	-0.92		-0.008	-0.14	
ACCR x LOSS	-0.106	-1.65		-0.012	-0.17	
CODELAW	-0.142	-0.80		-0.100	-0.52	
INVRIGHTS	0.030	1.54		0.002	0.07	
OWNCON	0.131	0.48		0.215	0.98	
IMPEQUITY	-0.009	-0.65		-0.010	-0.71	
LEGENFORCE	0.025	0.44		0.015	0.27	
Adjusted R <sup>2</sup>	0.476					
N	17,636					
<i>Test of Coefficient Equality</i>						
	<b>Diff</b>	<b>t-stat</b>				
CFO	-0.112	-2.21	*			
CFO x LOSS	-0.047	-1.02				
CFO + CFO x LOSS	-0.159	-10.33	***			
ACCR	0.059	1.91				
ACCR x LOSS	-0.094	-2.67	*			
ACCR + ACCR x LOSS	-0.036	-0.80				

*Notes:*

All variables are defined as in table 2;

\*\*\*, \*\*, and \* indicate significant at 1%, 5%, and 10% respectively.