ABSTRACT

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This dissertation investigates the economic impact of global accounting harmonization. Particularly I focus on its influence on macro level cross-border M&A investments. I posit that mandatory IFRS adoption lowers the systemic information noise embedded in countries' accounting standards. This reduces the associated information processing costs and enhances the economic role accounting standards play on cross-border M&A flows. After mandatory IFRS adoption, a 1% increase in accounting standards disparity suppresses bilateral M&A flows by around 2%; decrease in accounting standards disparity helps promote bilateral M&A flows when paired countries' governance infrastructure gap is relatively wider. I do not find these associations significant prior to mandatory IFRS adoption. Overall, this dissertation documents an evolving economic role accounting standards play on bilateral cross-border M&A flows, and supports International Accounting Standards Board's advocacy in adopting a uniform set of accounting standards globally. Moreover, it further analyses the current adoption demand for IFRS from the U.S. firms.

INTERNATIONAL FINANCIAL REPORTING STANDARDS
AND CROSS-BORDER MERGERS AND ACQUISITIONS

By

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Mergers and Acquisitions

Chapter 1: Introduction

Cross-border mergers and acquisitions (M&As) are a major component of global trade flows that contribute tremendously to the economic strength of the participating countries (Wang and Wong 2009). This paper focuses on studying how accounting standards and mandatory International Financial Reporting Standards (IFRS) adoption influence macro level bilateral cross-border M&A flows.

The economic scale of cross-border M&As is highly significant. According to the World Development Indicators Database (2008), the aggregate level of cross-border M&As from 1990 to 2008 accounts for around 62% of global foreign direct investment (FDI) flows. In the latest decade (2000-2009), there were more than 270,000 deals globally with an aggregated value over $20 trillion (Thomas SDC database). Anecdotally, a single cross-border M&A transaction sometimes may even cause the domestic-to-foreign currency rate of the target firm's country to increase by 1% (Lehman Brothers 2000). In a cross-border transaction, an acquiring firm uses cross-border M&A as a major strategic tool for growth (Cartwright and Cooper 1993). It seeks to achieve more efficient resource allocation by incorporating the real assets of another firm and harvesting from the

potential production synergy (Davis and Skaife 2008). This capital asset reallocation process can help diversify acquiring firms' idiosyncratic risk (Rossi and Volpin 2004). In reality however, barriers such as between-country information asymmetry, institutional disparity and geographical disparity can greatly lower the takeover likelihood and volume of cross-border M&As, distorting global capital flows (Das and Sengupta 2001, Bris et al. 2008, Rossi and Volpin 2004, Starks and Wei 2005, Martynova and Renneboog 2008, Davis and Skaife 2008).

It is normally hard to attribute the full extent of any association observed in macro level economic activities (e.g. cross-border M&As) solely to accounting standards, due to potentially correlated institutional factors and reporting incentives (Hail et al. 2010). However, the recent mandating of IFRS as the basis for financial reporting provides a natural experiment to test the role accounting standards play on facilitating cross-border economic activities (Deloitte 2009). Given this setting, Marquez-Ramos (2008) documents the effect of IFRS adoption on FDI in EU countries. Chen et al. (2010) study the facilitating role of accounting standard convergence for FDI between partner countries. Yu (2010) explores international mutual fund portfolios and the role of accounting standards. In the realm of cross-border M&As, although Davis and Skaife (2008) provide evidence to show that non-U.S. firms engaging in IFRS are more likely to be targets in M&As on a transaction level, no other study directly exams the economic role that accounting standards play on macro level cross-border M&A flows following

the global accounting harmonization process[1]. Given the previous evidence that some countries adopted IFRS just to serve a labeling purpose (Daske et al., 2007a), whether the effect of adopting IFRS is of real economic significance to the adopting country remains a heatedly debated topic (Ball et al., 2000; Leuz, 2003; Armstrong et al., 2008; Hail et al. 2010). For that reason, I am motivated to explore the following research question in my study:

Does mandatory IFRS adoption enhance the economic role that accounting standards play on bilateral production-seeking investment flows, such as cross-border M&As?

The association between global accounting standards disparity and cross-border equity holders' investments has been documented by Yu (2010). She shows both theoretically and empirically that accounting standards disparity between countries is a source of information cost faced by foreign equity investors and influences cross-border investment flows. The reason is that local accounting standards may add additional systemic idiosyncratic noise in information signals that foreign investors employ to make investment decisions. Beneish and Yohn (2008) further analyze three major channels through which accounting standards disparity may influence the information cost. Based on their classification, I posit that foreign acquirers will encounter information processing

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[1] On January 1 2005, all EU countries mandatorily adopted IFRS as their major accounting standards. According to Yu (2010), prior to mandatory IFRS adoption, most countries announcing voluntary IFRS adoption had less than 5% of market capitalization in their stock exchanges. This gives statistical evidence to show that global accounting standards heterogeneity was unlikely to be systemically reduced prior to 2005, given that respective countries were at different transition stages. Figure 1a shows the accounting harmonization process since 1976. The systemic change in global accounting standards disparity is hypothesized to take place following 2005 mandatory IFRS adoption.

friction in a cross-border M&A transaction. This is partially due to the embedded systematic information noise in accounting standards disparity. Consequently, foreign acquirers incur more information processing costs when the degree of the systemic information noise is higher.

In line with the information noise/cost conceptual framework[2], I hypothesize that the 2005 mandatory IFRS adoption may introduce a structural change that represents the overall reduction in participating countries' systemic accounting information noise. Consequently the associated information processing costs for foreign acquirers may be reduced to a new level lower than a potential critical cost threshold, inducing foreign investors to rely more on accounting information when making investment decisions. On a macro level, this may change the economic role accounting standards play on bilateral cross-border M&A flows (Aggarwal et al. 2005; Leuz et al. 2008a). I conjecture that in post 2005 mandatory IFRS adoption period, foreign acquirers put more weight on accounting information signals sent by the target country's accounting system instead of alternative governance information sources. Thus a deviation from using the strategy of adopting IFRS will create information disadvantages to foreign acquirers and result in negative impact on the respective paired countries' bilateral cross-border M&A flows. This economically significant association may not be present prior to the 2005 mandatory

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[2] I further provide a potential rationale for why harmonizing accounting standards may reduce systemic idiosyncratic noise for the participating countries in Appendix A. Based on a Bertrand competition game model, I show that participating countries' accounting standards setters may have homogeneous incentives to harmonize their accounting standards by self-selecting a set of standards with the lowest level of systemic idiosyncratic information noise. This eventually leads to a Nash equilibrium when all participating countries select a common set of high quality accounting standards (such as IFRS).

IFRS adoption — at least for a critical period when participating countries' systemic accounting information noise remains at a high level that deters foreign acquirers from making judgments based on accounting information.

I then empirically examine the degree of the economic impact accounting standards have on country level bilateral cross-border M&A flows for pre and post mandatory IFRS adoption periods[3]. I build my study on Marquez-Ramos (2008), Chen et al.(2010) and Yu (2010), and advance this literature in the following ways: (1) I measure accounting standards disparity change for 49 cross-border M&A participating countries before-and-after mandatory IFRS adoption (Bae et al. 2008); (2) I examine the economic role of accounting standards on country-level bilateral cross-border M&A flows using a gravity model (Head et al. 2010); (3) I investigate the role of accounting standards interacting with countries' governance infrastructure gap; (4) I base my sample on a large pool covering over 95% of global cross-border M&A flows for 49 major countries from 2000-2009 involving both developed and developing economies.

As a result of the above mentioned approaches, I am able to more thoroughly test the effect of accounting standards disparity on cross-border M&A flows before-and-after mandatory IFRS adoption. I document that a structural change of between-country accounting disparity takes place due to mandatory IFRS adoption. Two new

3 Gordon et al. (2012) also looked at the macroeconomic impact of IFRS. However, the focus of their study was on the overall impact of adopting IRFRs on the total Foreign Direct Investment (FDI) inflows to each country, with an emphasis on distinguishing between developing vs. developed countries. Their findings provide strong support for the argument that developing countries have the most to gain in terms of FDI from adoping IFRS.

economically significant results appear after the mandatory IFRS adoption. First, accounting standards disparity in post mandatory adoption period is significantly negatively associated with cross-border M&A flows. My analysis shows that on average a 1% increase in between-country accounting standards disparity suppresses bilateral cross-border M&A flows by 2%. Second, lowering accounting standards disparity helps promote bilateral cross-border M&A flows when paired countries' governance infrastructure gap creates information disadvantages to foreign acquirers. Both the associations are present in M&A flows with over 50% post-merger ownership by the acquirers and are not consistently significant prior to mandatory IFRS adoption. These findings are robust to sub-samples excluding the United States, modified accounting standards disparity measure, different institutional measure and different econometric specification.

Overall, I contribute to the literature by documenting the enhanced economic role that accounting standards play on bilateral cross-border M&A flows following the IFRS harmonization process. The findings from my study provide robust evidence to support the advocacy of harmonizing global accounting standards initiated by International Accounting Standards Board. By showing the increasing economic importance of accounting standards in facilitating global business, this paper sheds light on non-IFRS countries that plan to expand their production opportunity sets – Joining the global accounting community by adopting IFRS can eventually help promote their bilateral cross-border M&A flows.

The rest of the paper is organized as follows. In Chapter 2, I review the institutional background and relevant literature, provide a conceptual framework, and develop the major sets of hypotheses. In Chapter 3, I describe the sample statistics and measures constructs. In Chapter 4, I analyze the empirically results and present the robustness tests. In Chapter 5, I conclude.

Chapter 2: Background and Hypothesis Development

Section 1: Institutional Background: Global Accounting Harmonization Timeline

In 1967, Accountants International Study Group was created by the professional accounting bodies from the United States, United Kingdom, and Canada. This was the precursor to the International Accounting Standards Board (IASB) that has authority over developing a set of accounting standards. In 1973, the International Accounting Standards Committee (IASC) was formed with volunteers who met three times a year to discuss the accounting standards they developed, namely, International Accounting Standards (IAS). Later, IAS No1 to No41 were issued, however only to a limited group in Europe. In 2000, the IASC was restructured into the IASB, issuing International Financial Reporting Standards (IFRS) that sit alongside or replace IAS. Starting from there, global accounting harmonization gained momentum. In 2002, EU countries announced plans to adopt IFRS in 2005. Meanwhile the IASB and the Financial

Accounting Standards Board (FASB) issued the Norwalk Agreement, a significant landmark in the history of IFRS.

In a press release of the agreement, Robert H. Herz, Chairman of FASB announced "The FASB is committed to working toward the goal of producing high quality reporting standards worldwide to support healthy global capital markets." Following the Norwalk Agreement, Australia, New Zealand and Hong Kong committed to adopt IFRS, further introducing IFRS to other key financial centers of the world. The accounting setting authorities in all EU countries (plus non-EU countries previously announced commitment to adopt IFRS) mandated the use of IFRS for publicly listed firms' financial reporting statements beginning on January 1, 2005. Figure 1a shows the timeline of global accounting harmonization.

[Insert Figure 1a]

Section 2: Accounting Harmonization and Cross-Border M&As

Heated debate centers on the question of whether harmonizing accounting standards results in good or bad economic consequences for global capital market. According to a capital-market based view as pointed out by Hail et al (2010), one of the major benefits of adopting a single set of internationally accredited accounting standards is to improve accounting information reliability and relevance. This results in an increase in capital market's liquidity and lowering the cost of equity for the adopters (Ball et al. 2000, Leuz

2003, Armstrong et al. 2008). However, Daske et al. (2007a) separate firms into "label" and "serious" adopters and discover that the "serious" adopters experience stronger positive effects on the cost of capital and market liquidity.

Given the large body of literature examining the economic consequences of IFRS on capital markets, only a few papers in the accounting literature focus on the effect of IFRS adoption on international investments. Firms and investors weigh the benefits and costs when making cross-border investment decisions. For example, to lower their information costs, investors tend to prefer information in a familiar form (Leuz and Verrechia 2000). Disclosure rules providing higher quality information are favored by foreign investors with little access to local private information (Leuz et al. 2009).

The recent harmonization wave of global accounting standards enables foreign firms to gain profits when the cost of acquiring financial expertise is lowered (Barth et al. 1999). In Europe, the accounting harmonization process reduces information cost and lowers information friction between countries (Ramos 2008). Consequently, international trade and FDI flows are significantly increased for transitional economies, which improve upon their local GAAP by adopting IFRS. Yu (2010) shows that home-bias in international mutual fund portfolios holdings is lowered because of global accounting harmonization. Harmonizing accounting standards increases cross-border holdings by reducing the information processing cost of foreign investors and indirectly reducing the effect of other barriers on cross-border investments such as geographic disparity. Chen et al.

(2010) further provide empirical results showing that the effect of reduced information processing cost is even stronger for paired countries whose accounting systems show greater pre-convergence disparity[4].

Section 3: Cross-Border M&As and Corporate Governance

The cross-border M&A literature in the international finance field mainly focuses on corporate governance issues. Firms gain private control benefits by channeling their corporate assets toward best possible use abroad (Goergen and Renneboog 2008). Although frictions such as transaction costs, information asymmetries and agency conflicts can prevent efficient transfer of control, cross-border M&As are still preferred by firms that expect to gain major benefits by investing abroad (Rossi and Volpin 2004). The following are the key papers in the literature that show the mixed results of corporate governance effects on cross-border M&A transactions.

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[4] According to Graham and Spaulding (2004), cross-border M&A is part of FDI. In addition, green field and mutual fund portfolio investments are also components of countries' FDI (World Bank Indicators 2008). The reasons to study cross-border M&A investments in particular given the prior literature (Chen et al. 2010; Marquez-Ramos 2008) are: First, the economic scale of cross-border M&A investments is highly significant. More than 60% of FDI in the most recent decade were cross-border M&A transactions. This fact suggests cross-border M&As are the most important component in countries' bilateral trade that deserves separate attention. Second, the degree of policy influence on the three above mentioned types of cross-border investments is different. In the case of green field investments, the exporting firm largely conforms to the target country's local policies (Wells 1992). In the case of mutual fund investments, the foreign investors mostly rely on the target firms' financial statements to make cash flow decisions without expanding production-seeking investments in the target firm (Yu 2010). Cross-border M&As are the only type of FDI that are heavily influenced by both countries' policies and regulations meanwhile involving real business operations. To examine the effect of accounting standards policy on cross-border production-seeking investments accordingly, I tease out the other two major components of FDI and focus mainly on cross-border M&A investments in this study.

On the target firm's side, in the case of full acquisition, target firms adopt the nationality of acquiring firms. This enables them to adopt a better corporate governance system immediately (Bris and Cabolis 2008). Rossi and Volpin (2004) show that targets with weaker corporate governance standards are considered attractive takeover targets. In contrast, Martynova and Renneboog (2008) show that target firms shareholder protection is positively correlated with the target's cumulative abnormal returns (CAR). Bris et al. (2008) show an insignificant relation between the target's corporate governance and its industry Tobin's q.

On the acquiring firm's side, Kuipers et al. (2009) find that acquirers with better corporate governance quality tend to have positive CAR post-merger. The target firm's Tobin's q is also positively impacted by acquirers with better corporate governance (Bris et al. 2008). Contradictory evidence comes from Bris and Cabolis (2008), which argues that acquirers with better corporate governance suffer from negative Tobin's q after merging. Starks and Wei (2005) also find a significant negative relation between acquirers' corporate governance systems and takeover premium/CAR. Martynova and Renneboog (2008) and Bris et al. (2008) both show that the relation between acquirers' corporate governance quality and CAR of both acquirers and targets are insignificant.

To conclude, although prior literature documents the valuation effect of corporate governance on cross-border M&A transactions, the economic association between corporate governance gap and cross-border M&A flows seems unclear given the mixed

results. However, firm level evidence at least suggests that foreign investors may have incentives to seek important value-relevant information signals about the target firm through its governance system ex ante making cross-border investment decisions. Anecdotal evidence also supports this contention. Peter Clapman, Senior Vice-president and Chief Counsel for Corporate Governance, TIAA-CREF once commented in 2000: "*I think that for active investors like us, corporate governance is built into the analytic process of assessing deals and will figure ultimately in the decision as to whether premiums have to be paid for a company. I think this is a global investor issue. When global investors look at deals, particularly cross-border deals, they will often factor corporate governance issues into the equation, and these may have a practical effect on price and value.*" Based on this, I conjecture that on a macro level when the governance infrastructure gap between paired countries is widened, foreign investors may encounter information disadvantages in interpreting the value-relevant information signals generated by the target's country's governance system.

Section 4: Conceptual Framework

The association between accounting standards disparity and cross-border equity holders' investments is documented by Yu (2010). She shows theoretically and empirically that accounting standards disparity between countries is a source of information cost faced by foreign equity investors that influences cross-border investment flows. The reason is that local accounting standards setting authority permits policy discretion that contributes a level of idiosyncratic systemic noise to global accounting system as a whole. This may

increase the risk of wrongly interpreting the accounting information signals for foreign

investors (Leuz 2006, PWC 2011)[5]. To compensate for the increased risk of wrongly

interpreting the true information signals, foreign acquirers may incur more information

processing costs to secure their information quality. Empirically, evidence from previous

literature has been provided to validate this information cost hypothesis (Yu 2010, Chen

et al. 2010). Beneish and Yohn (2008) further categorize three major channels through

which the information cost induced by accounting disparity comes from: (1) information

processing friction, (2) uncertainty of financial reporting quality, and (3) uncertainty

about the distribution of future cash flows.

In this paper I posit that cross-border M&A investments decisions are largely influenced

by information costs through information processing friction (Channel 1). Information

processing costs arise when management from acquiring firms try to familiarize

themselves with the financial statements of the target companies, interpreting the results,

and being able to compare the financial statements across companies for investing

decisions. The friction in information processing is more severe when decision makers

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[5] I define systemic idiosyncratic noise mathematically to be the standard error of a random information signal produced by a country's accounting system. This additional risk can arise from investors having a murky understanding of the business in foreign countries. For example, the U.S. GAAP allows LIFO for inventory valuation whereas IFRS does not permit using LIFO. Being a foreign acquirer from the U.K., she might infer wrongly from the inventory information provided by a target firm from the U.S., even if the U.S. target firm does not manipulate any inventory number but simply follows the U.S. standards. To the U.K. acquirer, this misinterpretation is due to the lack of knowledge of the accounting standards disparity between the U.S. and the U.K. To overcome this disparity, the U.K. investors have to incur more information processing costs to understand the true information signal sent by the U.S. target firm. I regard this risk of wrongly interpreting any accounting information signal solely due to two countries' accounting standards disparity as being caused by the systemic idiosyncratic noise, embedded in two countries' accounting systems. Presumably, the higher degree of accounting standards disparity between two countries, the higher level of systemic noise foreign investors face when making investment decisions in the other country. More specifications of systemic standards disparity are detailed in Horton et al. (2007).

compile financial statements using different accounting standards (Gehrig 1993). To avoid information processing friction, investors from EU countries tend to increase their ownership in companies that adopt international accounting standards (Covrig et al. 2007). This shows that IFRS is a set of accounting standards preferred by investors when information processing costs become a concern to foreign investors.

To guide my hypothesis development, I supplement previous analysis with a stylized analytical model based on game theory that provides a potential rationale why harmonizing accounting standards can give rise to a lowered level of accounting standards systemic noise. The model in Appendix A incorporates Yu (2010)'s analytical model's assumptions and the information cost hypothesis developed by Beneish and Yohn (2008).

One of the motivations for countries to adopt IFRS is to attract foreign capital flows by reducing information barriers (IASB 2010)[6]. Based on a Bertrand competition model, I show that in order to compete to be the most informationally attractive to foreign acquirers, the target countries' accounting standards bodies have homogeneous incentives to self-select a set of accounting standards that have the lowest degree of systemic idiosyncratic noise[7]. At the Nash equilibrium, all target countries select the lowest

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[6] Detailed mathematical derivation and analysis are provided in Appendix A.

[7] This is consistent with the objective of financial reporting outlined in IASB's Conceptual Framework of Financial Reporting: "*The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. General purpose financial reports*

possible systemic noise in their standards, equivalently, harmonizing the accounting standards [8]. Intuitively, this analytical result indicates that harmonizing accounting standards by adopting IFRS, assuming it provides a good proxy for the set of standards that generate the lowest possible systemic noise, is the best strategy for all participating countries. Moreover, at harmonized accounting regime (i.e., after mandatory IFRS adoption for major countries), any deviation from the Nash strategy of adopting common accounting standards is sub-optimal to the respective country and discourages between-country investment flows. This predicts a negative economic association between accounting standards disparity and cross-border M&A flows post mandatory IFRS adoption.

Section 5: Hypothesis Development

In reality, accounting harmonization process is not a once-and-for-all event. Therefore the economic role accounting standards plays on cross-border M&A flows following the harmonization process may evolve in line with the harmonization process, instead of a dramatic change at the beginning stage. Given the timeline of mandatory IFRS adoption, the harmonization process mainly spans from 2000-2005 pre mandatory IFRS adoption

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are not designed to show the value of a reporting entity; but they provide information to help estimate the value of the reporting entity."

[8] Ramanna and Sletten (2011) test the hypothesis that perceived network benefits explain part of countries' quick shift to adopt IFRS between 2003 and 2008 and argue that the benefits come from lowered transaction cost for foreign investors. This partially validates the information processing cost hypothesis of this paper. The fact that network benefits exist post 2005 IFRS adoption strengthens the idea that foreign investors face less information processing cost during that period due to externality. I provide a further analysis based on game theory to show the potential systemic noise driver of such cost and how countries' accounting standards setters react to competition by self-selecting an optimal level of the noise driver. This analytical framework reconciles both pre and post IFRS period evidence shown in this paper.

regime to post 2005 mandatory IFRS adoption accounting regime. I conjecture that prior to 2005, the aggregated systemic information noise of all participating countries is at a critical mass that foreign acquirers may rely less on the accounting system of the target country in the process of decision-making[9]. Consequently, accounting disparity may not economically influence cross-border M&A flows on a large scale. However after the mandatory IFRS adoption [10], I suspect that the participating countries' systemic information noise is greatly reduced due to mandatory IFRS adoption. This may translate into a level of average information processing cost faced by foreign acquirers lower than a potential critical cost threshold, enabling accounting system to be one major cost effective information source foreign acquirers rely on to make cross-border M&A investment decisions[11]. Consequently, at the regime with more and have a significant negative economic impact on the country's ability to attract cross-border M&A flows. Based on this contention, I arrive at the following set of hypotheses in their null form:

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[9] One explanation for the high degree of systemic information noise is due to the fact that each country was at different IFRS convergence stage prior to 2005. Between 2000 and 2004, countries concurrently use accounting standards such as local GAAP, IFRS on a voluntary basis, and modified local GAAP converging with IFRS. This temporarily creates a critical noise mass that may largely deter foreign acquirers' reliance on the information signals produced by target country's accounting system (Delloitte 2011).

[10] Horton et al. (2011) examine effects of IFRS on analyst forecasts accuracy, following disagreements and volatility for revisions. They document a learning curve during IFRS adoption and show that during the mandatory transition period to IFRS in 2005 to 2007, those firms that are voluntarily adopting IFRS have the largest improvement in the transition period. This finding supports the existence of a structural change in accounting standards' role, as proposed in this paper.

[11] Horton and Serafeim (2007) also study the systemic components embedded in IFRS and local UK GAAP. They provide evidence from the U.K. to show that IFRS reveals timely value relevant information and the accounting information provided by IFRS change investors' beliefs about stock price and consequently generates trading activity. This evidence supports the author's view regarding the potential shift in foreign acquirers' view towards the decision usefulness of accounting information in post mandatory IFRS adoption period, due to systemic change in accounting standards disparity.

H01a: Accounting standards disparity, on average, does not influence bilateral cross-border M&A flows pre mandatory IFRS adoption.

H01b: Accounting standards disparity, on average, does not influence bilateral cross-border M&A flows post mandatory IFRS adoption.

Further, as noted earlier in the literature review section, I conjecture that with wider between-country governance infrastructure gap, foreign acquirers may encounter higher information processing costs driven by the governance systems' gap, provided that they rely mostly on governance information in decision making prior to 2005. When foreign acquirers find it costly to correct for the governance information signals errors, the accounting system of the target country with much lower information processing cost seems to be a satisfactory alternative information source, which can also provide decision useful information. Similar to hypothesis 1, I suspect that this compensation role is also enhanced following accounting harmonization process. To investigate this effect, I suggest the following set of hypotheses in their null form:

H02a: Accounting standards disparity, on average, does not influence bilateral cross-border M&A flows when paired countries have higher corporate governance gap pre mandatory IFRS adoption.

H02b: Accounting standards disparity, on average, does not influence bilateral cross-border M&A flows when paired countries have higher corporate governance gap post mandatory IFRS adoption.

Chapter 3: Methodology

Section 1: Empirical Specification

A large body of economics research on international trade employs a gravity model— so named since the model is similar in form and analogous in interpretation to the mathematical model Sir Isaac Newton proposed in the seventeenth century to characterize universal gravitation. It describes certain behavior in social sciences that induce the "gravitational" effects, which can be attributed to certain elements containing mass and distance. Papers in international economics using various econometric specifications of the gravity model include Helpman and Krugman (1985), Bergstrand (1985), Baier and Bergstrand (2001), Hummels 2001, Evenett and Keller (2002), Redding and Venables (2004). These papers address such issues as bilateral trading pattern, increasing returns to scale, imperfectly competitive markets and firm-level product differentiation. In the estimation of models of geography and trade, the gravity model is again widely used, though the econometric specifications tend to vary catering to different research design purposes (Hummels 2001, Redding and Venables 2004).

The empirical work I report in this study is also based on a gravity model. Following Head et al. (2010), I adopt a simple theoretical expression of the gravity model here:

$$Y_{ijt} = G_t M_{it}^{ex} M_{jt}^{im} \phi_{ijt} \qquad (1)$$

In equation (1), Y_{ijt} represents the international trade flow from exporting country i to importing country j at time t; G_t represents a year-specific component that amplifies the volume of trade; M_{it}^{ex} and M_{jt}^{im} represent indexes of the attributes of exporter i and importer j in a specific year t; ϕ_{ijt} represents variations in bilateral trade intensity, a combination of variables that influence the trade cost between two countries. I follow approach of Head et al. (2010) by taking log on both sides of equation (1) and model by a linear combination of variables. This gives the baseline specification expressed in the following term:

$$\ln Y_{ijt} = \ln G_t + \ln M_{it}^{ex} + \ln M_{jt}^{im} + \delta D_{ijt} + \varepsilon_{ijt} \qquad (2)$$

$$\text{where } \ln \phi_{ijt} = \delta D_{ijt} + \mu_{ijt} \qquad (3)$$

In equation (2), I denote M_{it}^{ex} and M_{jt}^{im} as monadic control variables varying across countries and years. I denote D_{ijt} as dyadic variables, which are country or year dummy variables. μ_{ijt} is the error term in equation (3). The potential effect of information cost induced by accounting standards disparity enters into equation (3) as one of the trading cost components. The rest of variable set are control variables. The major benefits of using this macro empirical model are: First, aggregating at the country level can address

concerns of inflated significance caused by cross-sectional correlation in the error terms within an adopting country. Second, the gravity model has been empirically tested to possess high explanatory power in various bilateral flow setting.

Section 2: Cross-Border M&A Deal Source

My sample contains all cross-border M&A deals completed between January 1, 2000 and December 31, 2009, reported by SDC Platinum. This is a database from Thomson Financial that reports both public and private firms' transactions. The SDC Platinum database is one of the major sources for studying global M&A transactions, although some small countries report deals less frequently (Rossi and Volpin 2004; Bris et al. 2008, etc)[12]. Table 2 Panel A shows the detailed sample descriptive statistics of cross-border M&A activities for 49 major countries from 2000 to 2009. In total, there are more than 275,000 deals worth more than 22 trillion in current dollars from the bilateral M&A transactions.

Section 3: Sample Selection

Since mandatory IFRS adoption officially started from January 1 2005, this total sample from 2000 to 2009 was selected with 2005 as cutoff year to balance pre and post periods, i.e., five years pre mandatory adoption and five years post mandatory adoption. This is to

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[12] I checked the volume numbers reported by SDC with World Bank Development Indicators database and found no significant deviations in reporting figures. I also checked the total aggregate value with prior literature and found no significant deviations (Tanakon 2010).

enable comparisons of accounting disparity at the two accounting regimes based on relatively equal sample size. The reason for this sub-division of the sample is that 2005 is the cutoff year that mandatory adoption of IFRS took place and introduced an exogenous shock to all publicly listed firms in participating countries.

I then selected 49 countries worldwide, out of which 17 countries have not adopted IFRS. The rationale for selecting these countries is to follow the Bae et al. (2008) survey study, which covers the 49 countries with sufficient data for each country's information regarding its accounting standards and their matching with IFRS requirements. The accounting local GAAP measure developed by Bae et al. (2008) captures 21 dimensions of a country's local accounting standards, including taxation, business consolidation, goodwill etc. The measurement is most recent and rather inclusive that it mitigates the concerns of the accounting disparity measure not capturing specific accounting components that influence cross-border M&A transactions separately in reality. Although the sample does not cover 208 countries worldwide, the aggregate volume of cross-border M&A for the 49 countries included accounts for more than 95% of global M&A volume from 2000 to 2009.

After extracting all deals' information from SDC database, I summed up transaction volumes of yearly deals of a specific country pair to form cross-border country level flow data, based on M&A flow types. I distinguished M&A flow types based on the degree of

influence the acquiring firm has over the target firm and the respective different accounting treatments.

In cross-border M&A transactions, the acquirer's post-merger ownership with more than 50% shares (denoted as Type I M&A) is treated by IFRS standards as business combinations and the degree of influence by the acquirer is to take significant control of the target firm. In the case of post-merger ownership less or equal to 50% (denoted as Type II M&A), the deal is either investment in financial assets (the acquirer's ownership is less than 20%) or investments in associates (the acquirer's ownership is between 20% to 50%). The latter type of M&A requires "pooling of interests" or "equity method" accounting treatment, depending on different accounting standards a country selects to implement. This approach gives 6,562 country-pair/year observations from 2000 to 2009 in total[13]. In Type I case acquirers are assumed to have much influence in the target firm's policy choice by incorporating the target firm's accounting system into the acquirer's (Martynova and Renneboog 2008). In Type II cases, acquirers and targets have discretion to choose an optimal set of accounting standards not necessarily adopted by either side during M&A negotiating process. The latter renegotiation process may provide flexibility in accounting policy setting for the merged firm and mitigate any negative impact caused by accounting standards change, should there be any. The difference in degree of

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[13] Ideally, the data should contain 49X48 country-pair observations from 2000 to 2009, while the actually sample used in the study shrinks to 6594. Three reasons may explain this data shrink: first, some smaller countries did not report to SDC regarding cross-border M&A private deals due to lack of merging laws. Second, some countries did not have actual cross-border M&A transactions for some years. Last, SDC coverage of countries changes throughout years; during earlier years the data were less sufficient than the most recent years. Flows with opposite directions between two countries were treated as two separate observations. I corrected standard errors for extreme outliers.

freedom in merging two firms' accounting systems implies that accounting standards systemic change will impact Type I flows more severely than Type II flows. Table 2 Panel B shows the yearly distribution of the sample. From 2000 to 2009, the number of transactions qualified for this study ranges from 538 to 812 each year. In aggregate, Type I M&A flows account for around 64% of all cross-border flows.

Next I selected a sub-sample excluding the United States from my total sample to eliminate the idiosyncratic error introduced by this particular country. Data indicate that during this near decade, more than 43% capital flows of all 49 countries involved the United States. Given the fact that U.S. GAAP and IFRS still differ in their treatments of business combinations and overall accounting standards, I investigated a sub-sample without the U.S. to make sure that any result from the total sample is valid apart from the idiosyncratic error introduced by the U.S. Also, this sub-sample selection procedure allows for cross-sectional comparison between the EU dominated M&A flows and the overall global flows that involve the U.S. impact.

Section 4: Measures: Test Variables

Table 2 gives the definitions and measurements for all the test variables and control variables. The dependent variable is log of the total volume of bilateral cross-border M&A aggregated flows between two countries for all the hypotheses.

[Insert Table 2]

To test the first set of hypotheses, I constructed two measures of accounting disparity for both pre and post mandatory IFRS adoption periods of each country pair. Based on Bae et al. (2008), I constructed AD1 by coding it 1 if two paired countries do not consistently follow a specific accounting rule according to IFRS; 0 if both countries follow a specific IFRS principle or neither follows it. I then took the average score of the sum of all 21 IFRS rules. This approach gives the first measure of accounting disparity for testing purpose in terms of percentage. Given the fact that "neither country follows a rule" may not indicate the disparity of their accounting standards in the respective dimension, I thus constructed modified measure AD2 based on AD1 by further coding the respective dimension 1 if these two countries have different legal origins and 0 if not; then take the average (Yu 2010, Bae et al. 2008). For the post-adoption period, I manually corrected the coding according to a country's adoption status and then recalculated the two accounting disparity measures. This approach allows me to construct four accounting standards disparity measures $PREDIFF_{1(2)}$ and $POSTDIFF_{1(2)}$ for pre and post periods respectively.

To test hypotheses 2a and 2b, I first constructed two measures of country-level corporate governance. I used the first principal component of six country-level governance indicators developed by Kaufmann et al. (2009) as one corporate governance (CG) measure. The six indicators are voice and accountability, political stability, government effects, regulatory quality, rule of law and control of corruption; none of which involve a country's accounting standards quality aspect directly. Each indicator ranges from -2.5 to

2.5, with higher values corresponding to better governance outcomes. By taking the first principal component of the six indicators, I obtained a governance measure that accounts for around 90% of the data variation, while reducing the six dimensions to one dimension only (Jolliffe 1986). I then took the absolute value of two paired countries' CG measure difference to form $GOVDIFF_1$.

The second measure I used is the self-dealing-index developed by Djankov et al. (2008), with higher value representing higher degree of minority investor protection. This index captures the degree of a country's investor protection against foreign controllers. To be consistent with $GOVDIFF_1$ that captures a country's investment environment attraction to foreign investors, I then multiplied the anti-self-dealing-index by -1 and calculated the absolute value of two paired countries measure disparity to form $GOVDIFF_2$.

Last, I created dummy variables representing upper 25% and lower 25% based on these two CG measures and interacted them with AD measures to construct $HPREDIFF_{1(2)}$, $LPREDIFF_{1(2)}$, $HPOSTDIFF_{1(2)}$, and $LPOSTDIFF_{1(2)}$ for pre and post periods respectively.

Section 5: Control Variables

I used a CEPII dataset for all the control variables in my regressions, which makes available a "square" gravity dataset for all world pairs of countries for the period 1948 to 2006. I self-developed the dataset to cover year 2007 to 2009 for all included countries.

In a variety of gravity models, the monadic effects were controlled by taking log of both countries' GDP per capita and population, as determinants of bilateral trade patterns. I included them in all my regressions as control variables. Also, for dyadic control variables, I controlled for time-fixed dyadic variables by including log of weighted-disparity and dummies coded 1 if both countries have common contiguity; common official language; common ethnos; common colonizer post 1945; common legal origin; are pairs in colonial relationship post 1945; ever have been in colonial relationship; are currently in colonial relationship. For time-varying dyadic control variables, I included dummies coded 1 if both countries are GATT/WTO members; have regional trade agreement in force; common currency; are from ACP countries to EU countries; are from EU countries to ACP countries. The detailed sources and definitions of each control variable are included in Table 2. These control variables are widely used in bilateral trade literature (Head et al. 2010; Ramos 2008) to control for the "gravitational" effects in the gravity model. Table 3 describes the sample summary statistics.

[Insert Table 3]

Chapter 4: Results

Section 1: Univariate Analysis

Figure 2a plots the accounting disparity change pre and post IFRS mandatory adoption for 49 countries. The accounting disparity measure and the modified measure both indicate that IFRS mandatory adoption induces a reduction in the accounting disparity between all country pairs. According to measure I, on average about 8% of accounting standards disparity is reduced after mandatory IFRS adoption for all the 49 major countries; this figure increases to 33% by the modified measure, which can be regarded as a higher bound. Figure 2b and 2c plot the accounting standards disparity change based on paired countries' adoption status. The results indicate that accounting standards disparity drops more rapidly in absolute value for country pairs that both mandatorily adopt IFRS, around 40% to 44% reduction. However, for country pairs that only one adopts IFRS, the change is less significant, ranging from +14% to -5%.

[Insert Figure 2a]

Table 4 Panel A shows the summary results for univariate analysis of accounting standards disparity decrease based on country pairs' adoption status [14]. Among all

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[14] Statistics shown on Table 3 Panel A and Figure 2a-2c show a minor difference. The reason is that in Table 3 Panel A, country pairs receive different weighting subject to M&A flow availability and frequency in respective years. In Figure 2a-2c, the weighting is equally loaded on each country pair regardless of M&A flows and years.

included observations in the sample, country pairs with both adopting IFRS show the highest drop in accounting disparity after mandatory adoption, ranging from 41% to 62% based on two AD measures. Changes of accounting disparity for country pairs with one adopting IFRS and one not adopting are not as significant as the both-adoption case, ranging from -17% to 11% based on two AD measures. For country pairs with neither adopting IFRS, the accounting disparity does not change. Overall, for all observations included in the sample, mandatory IFRS adoption decreases between-country accounting disparity ranging from 5% to 16%.

[Insert Table 4]

Panel B1 and B2 describes the accounting disparity decrease based on country pairs' adoption status under high/low governance gap. The results are largely consistent with Panel A.

Table 5 shows the Pearson Spearman correlation matrix for all the test variables and control variables. Almost all test variables do not correlate with each other with higher than 0.4 correlation coefficients. Coefficients in bold are within 5% level of significance.

[Insert Table 5]

Table 6 shows the results of IFRS mandatory adoption on pair-wise M&A flows. I empirically test the following equation:

$$\ln VALUE_{ijt} = X_{ijt} + \sum MonadicVars_{it} + \sum MonadicVars_{jt} + \sum DyadicVars_{ijt} + \mu_{ijt} \quad (4)$$

$X_{ijt} = PREDIFF_{1(2)}$ for pre adoption period; $X_{ijt} = POSTDIFF_{1(2)}$ for post adoption period;

Based on the results summarized in Table 6 Panel A, I do not reject H1a but reject H1b. Overall, accounting standards disparity is negatively associated with cross-border M&A flows after mandatory IFRS adoption. This association is not significant in pre adoption period, indicated by Columns (1) (2) and (5) (6). Columns (3) (4) and (7) (8) show that in post mandatory IFRS adoption regime, on average, 1% increase in accounting standards disparity suppresses 1% to 2% in cross-border M&A flows based on two AD measures, after controlling for various country characteristics, clustering by year and correcting for heterogeneity in the error term. This is economically significant, considering cross-border M&As' total value. A further look into the result shows that this association is mostly driven by Type I M&A flows, which represents flows with major ownership transfer from target countries to acquiring countries. Also, the results are robust to sub-samples that exclude the U.S. flows. Panel B Chow test statistics suggest a structural change in the AD coefficients across two accounting regimes. Overall, the results document an enhanced economic role that accounting standards play on cross-border M&A flows. In

the post mandatory IFRS adoption accounting regime, deviating from the commonly used IFRS standards will result in significant reduction in respective country's cross-border M&A flows. This conclusion generally does not apply at less pre mandatory IFRS adoption accounting regime prior to 2005.

[Insert Table 6]

Table 7 further investigates the role of accounting harmonization in complementing the country-level corporate governance (CG) gap. I use the following equation to test the hypotheses:

$$\ln VALUE_{ijt} = HAD_{ijt} + LAD_{ijt} + \sum MonadicVars_{it} + \sum MonadicVars_{jt} + \sum DyadicVars_{ijt} + \mu_{ijt} \quad (5)$$

$HAD_{ijt} = HPREDIFF_{1(2)} or HPOSTDIFF_{1(2)}$ for pre and post adoption periods respectively;
$LAD_{ijt} = LPREDIFF_{1(2)} or LPOSTDIFF_{1(2)}$ for pre and post adoption periods respectively;

Based on the results summarized in Table 7 Panel A, I do not reject H2a but reject H2b. During pre mandatory IFRS adoption period, according to Columns (1) (2) and (5) (6), I do not observe a consistent association between accounting disparity under high CG gap and the bilateral flows, based on different AD measures. However, during post mandatory IFRS adoption period, if the two countries have relatively high CG gap (upper 25%), 1% decrease of accounting disparity can promote 1.6% M&A flows on average, as indicated by the combined sample results in columns (3) (4) and (7) (8). This result also

holds for samples excluding the U.S., though the coefficients are smaller. I do not observe a generally significant association between accounting standards disparity and cross-border M&A flows with low CG gap. This shows that although under both cases the accounting standards disparity changes following the similar pattern after mandatory IFRS adoption, the complementary effect of accounting standards is more significant to those country pairs that have relatively higher CG gap. This is intuitively valid because acquiring firms generally incur more information processing costs by relying on the signals produced by a rather different governance system of the target firm's country. Chow test statistics support this structural change. Results for Type II M&A flows are generally insignificant.

To sum, Table 7 implies that after mandatory IFRS adoption, when two firms are from countries with relatively higher institutional difference, reducing accounting standards disparity may help promote cross-border M&A flows.

[Insert Table 7]

Chapter 5: Sensitivity Analysis

In this section, I present a set of robustness tests with discussions to validate the proceeding results. I address concerns subject to the robustness of the results, econometric specification, governance measurement errors, and endogeneity issues.

Section 1: Robustness of the Findings in Post Mandatory IFRS Adoption Period

To further validate the significant findings in post-IFRS period, I adopted a change model as an alternative econometric methodology in the following form:

$$\Delta VALUE_{ijt} = \Delta AD_{ijt} + \sum \Delta MonadicVars_{it} + \sum \Delta MonadicVars_{jt} + \sum DyadicVars_{ijt} + \mu_{ijt} \qquad (6)$$

I selected a sub-sample of country/year observations in 2005 and 2007, with the screening requirement that a country-pair shall have bilateral M&A flows in both years. I separately tested the effect of accounting standards disparity on Type I and Type II M&A flows. The rationale for this testing strategy is: Given mandatory IFRS adoption took place on January 1st 2005, the structural change in accounting disparity will highly likely occur within 2 years. This time lag takes account of any country that announced adoption in 2006 and firms having cross-border M&A transactions that have non-December fiscal year ends.

From Table 8, the results are largely consistent with prior analysis: for Type I case, 1% change of accounting standards disparity results in about 2% change in cross-border M&A flows. This effect does not appear significant for Type II M&A flows.

[Insert Table 8]

Section 2: Alternative Governance Measure

I presented a robustness test by replacing the PCA corporate governance measure with the one developed by Djankov et al (2008). This is a measure capturing the legal protection of minority shareholders against expropriation by corporate insiders. The results are shown in Table 10. On average, 1% change of accounting standards disparity impacts around 1% to 1.5% on cross-border Type I M&A flows, given relatively wider corporate governance gap. Chow test statistics support that there is a structural change induced the mandatory IFRS adoption.

[Insert Table 9]

Session 3: Endogeneity Concerns

The industrial organization literature suggests that a large increase in two countries' cross-border trade may help promote ideas and knowledge, and help the move towards

uniform standards (Branstetter 1998). To address the endogeneity concern that there exists potential reverse causality between cross-border M&A flows and accounting standards harmonization, I checked the macro trend of cross-border M&A flows between 2000 and 2009, based on country pairs' adoption type.

The descriptive results are shown in Figure 1c. In 2002, when EU announces plans to adopt IFRS in 2005, global bilateral cross-border M&A flows were decreasing to the trough of the most recent decade. In 2005, when mandatory IFRS took place in EU countries, cross-border M&A flows were increasing at a rapid speed, but not yet reached the peak. This evidence suggests that it is unlikely for the reverse causality between cross-border flows and accounting standards disparity to hold, for two main reasons: First, the decrease of aggregate flows is unlikely to promote further ideas' spreading among countries concerning the idea of moving towards a uniformed set of accounting standards; second, the 2005 mandatory IFRS change took place during a time when bilateral flows were neither at the trough nor at the peak. The lack of an apparent kink in 2005 at least suggests that the mandatory adoption event was unlikely to be driven by any shock in cross-border M&A flows then.

[Insert Figure 1c]

The contention that IFRS adoption drives information environment change is consistent with Horton et al. (2008), which also address the causality concern by adopting a two-stage instrumental variable (IV) model. To further supplement this study, I checked the

major results using IV methodology. I adopt both partner countries' population difference as instruments for their accounting standards disparity. Overall speaking, the results are largely consistent with prior analysis in terms of signs and magnitudes, although weakly significant by AD measure II. Further study may carry forward to find a more reliable instrument, or use more advanced methodology to attack the macro level endogeneity issue.

[Insert Table 10]

Chapter 6: Conclusion

This paper provides macro level evidence documenting the enhanced economic role of accounting standards on bilateral cross-border mergers and acquisition flows. I posit that mandatory IFRS adoption significantly lowers the systemic information noise embedded in participating countries' accounting standards. Consequently the associated information processing costs for foreign acquirers are reduced to a level lower than a potential critical threshold, enhancing the economic role accounting standards play on international investment flows. In post mandatory IFRS adoption period, accounting standards disparity appears to be one significant factor that influences cross-border M&A bilateral flows. On average, a 1% deviation from the commonly used accounting standards (IFRS) suppresses bilateral cross-border M&A flows by 2% post mandatory IFRS adoption. This economic association does not generally appear in pre mandatory IFRS adoption period.

Given the fact that aggregated bilateral flows are valued at more than 20 trillion dollars in the most recent decade, the economic consequence of mandatory IFRS adoption is clearly important. Further, when paired countries have a wider governance gap that may create information disadvantages to foreign acquirers, so reducing the accounting standards disparity has a positive impact on their bilateral cross-border M&A flows after the mandatory IFRS adoption. This robust finding indicates that accounting standards may serve a complementary role to a country's governance infrastructure in facilitating bilateral cross-border trade.

This paper gives evidence on an aggregated level to support the advocacy of global accounting harmonization initiated by IASB. It shows the increasing economic and policy importance of adopting a set of internationally uniform accounting standards. For countries that are considering expanding their growth opportunity sets, particular those in the developing economies, the results of the study suggest that adopting IFRS or at least converging to IFRS can help promote their bilateral cross-border M&A trade flows. These results should be interpreted with caution though, due to common shortcomings of a country-level study. Further studies should continue to explore the effect of accounting standards harmonization on real business investments.

Essay II: Who Cares about IFRS in the United States?

Section 1: IFRS Lobbying in the United States

The United States, in an effort to join the global accounting harmonization wave, actively played a leadership in developing mutually acceptable international accounting standards since 1988. As shown in Figure 1b, starting from 1997, SEC fully recognized the efforts made by International Accounting Standards Committee (IASB) in developing International Accounting Standards (IAS), the predecessor of what now becomes IFRS. In 2000, the International Organization of Securities Commissions (IOSCO), an organization in which U.S. SEC participated as a leader, recommended to its members to use 30 core standards issued by IASB's predecessor in cases of cross-border listing and international IPO. Later in 2002, Norwalk Agreement between the Financial Accounting Standards Board (FASB) and IASB was announced by SEC. These agreements started many mutual convergence projects and eventually lead to SEC's acceptance from foreign private issuers' financial statements prepared in accordance with IFRS without reconciliation to U.S. GAAP in 2007. The key document discussing the possibility of adopting IFRS in 2014 in the U.S. was announced in 2008 and two years later, in 2010, SEC issued a statement in support of convergence and global accounting standards and calls for the development and execution of a work plan.

[Insert Figure 1b]

Section 2: SEC Comment Letters and Lobbying Activity

"This Roadmap sets forth several milestones that, if achieved, could lead to the required use of IFRS by U.S. issuers in 2014 if the Commission believes it to be in the public interest and for the protection of investors."

---SEC, 2008

The United States Security and Exchange Commission (SEC) has a history for inviting the public to express their opinions freely to any new regulation under discussion. On November 14th 2008, it issued Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers. This Roadmap, once supported by public firms and legislation bodies, would "*eventually lead to the passage of IFRS in the United States*" (SEC, 2008). Although globally there have been more than a hundred countries adopting IFRS either officially or on a voluntary basis (Delloitte 2009), in the United States, this issue has been heatedly discussed. Two contradicting views prevail in the literature. On one hand, from a capital-market-based view, previous researches have emphasized the positive side of IFRS in improving financial reporting transparency and as a result reduce the cost of capital for adopting firms (Daske, H. 2005); on the other hand, incentive-based view argues that due to country legislative differences, firms' reporting incentives, and inconsistent interpretation and applications of IFRS, the new accounting standard itself does not change the underlying accounting misreporting incentives materially; hence there shall

not be significant material benefit to firms by mere standards change (Covrig et al. 2007; Hail et al. 2009).

Managers or corporations may wish to retain their power over their choice of accounting practice, for the purpose of concealing unpleasant financial information or managing earnings to meet certain growth benchmark (Burgstahler and Dichev 1997). In order to do so they have the incentives to lobby to accounting standards setting authority and express their concerns, not merely in the full view of the interesting public but for their own private concerns. The most frequently used approach, as agreed by both the private parties and the standard setting body such as SEC, is by means of comment letters, with specifies major accounting policy change inquiries in each publicly available document. Watts and Zimmerman (1978), Deakin (1989) and Dechow et al (1996) use empirical methodology and take comment letters sent to the standard setter as the basis of their analysis in the United States. MacArthur (1988) and Georgiou (2002) focus on the lobbying activities in the United Kingdom. While it may raise some doubt over the different means of lobbying to SEC, in addition to the comment letter approach, Georgiou (2004) finds that the latter approach is a good proxy for a company's overall lobbying posture, which gives more justification for this paper to focus on studying the comment letters as a main political lobbying mechanism.

While most of the IFRS empirical evidence comes from European context, little empirical evidence has been provided from the United States, partially due to data

unavailability. To address some preliminary questions before IFRS being officially introduced into the United States, three major questions are asked in this section:

I, who are the potential U.S. firms that will be impacted materially by IFRS and as a result corresponded actively to SEC Roadmap?

II, among the key self-defined dimensions of IFRS discussion, which dimensions are being heatedly debated?

III, for each heatedly debated dimension, do firms with different reporting incentives react to IFRS differentially? If so, is IFRS favored more by firms with relatively better reporting incentives or the reverse?

Section 3: Data Processing of Comment Letters

I manually collected all 251 comment letters from SEC website and coded six dimensions of firms' opinions. By sorting the diverging opinions into six dimensions, I find that opinion diverges in three major dimensions, namely IFRS comparability, IFRS quality and market economic and litigation consequences. My results show that firms with longer age, more segments, more analysts covering, larger size and poorer profitability tend to be more eager to lobby to SEC regarding their opposing or supporting IFRS adoption opinions; industry-wise, statistics show that retail, utility and banking industries will be

more concerned about IFRS adoption in the United States; moreover, this behavior pattern cannot be explained by firms' idiosyncratic tastes in reacting to SEC comment letters request. Among all firms with adequate data, I find that U.S. firms with relatively less shareholder protections and therefore more misreporting incentives, as captured by G-Index, incline to express opposing opinions regarding the previous three heatedly debated dimensions.

To help understand the current IFRS converging status of the United States, I read each comment letter published on SEC website and identified six key dimensions that are of key interests, denoted as "Comparability", "Quality", "Effect", "Scheme", "FASB" and "Cost". In terms of "Comparability", I read the content of the comment letter and coded 1 if that particular commenter expressed words containing "comparable", "comparability" with a supporting point of view of IFRS' improvements on financial reporting comparability, using rational logical deduction; coded 0 if the view is opposing and 3 otherwise. In terms of "Quality", the letters were read and coded 1 if the word "quality" was mentioned in the letter, with a clear expressions of supporting that IFRS is a high quality accounting standard, such as "agree it is of high quality" or "support the high quality standards" etc; it was coded 0, if the opinion was opposing and 3 otherwise. For "Effect", the content covered the lines in the comment letters, which explicitly discussed the potential capital market economic benefits/costs, auditor responsibility and litigation risk, other than implementation cost that IFRS might bring to the commenter, for example, Ebay Inc. expressed its opinion "…but will also enable investors to evaluate us

more effectively…". Similar favorable opinions covering this range were coded 1; any opposing opinion was coded 0 and 3 otherwise. For "Scheme", it stands for the adoption proposal raised by SEC Roadmap. An opinion was coded 1 if the commenter responded in favor of the current adoption plan; if the commenter was against the plan, it was coded 0; it was coded 3 otherwise. For "FASB", an opinion was coded 1 if the commenter supported the coordination between FASB and IASB, for example "We support the current convergence projects…"; the letter was coded 0, if the commenter expressed unfavorable opinion towards FASB and IASB convergence projects, such as "… lose the authority over supervising accounting standards…"; 3 if no opinion expressed or other. "Cost" was coded 1 if a firm explicitly expressed opinions pointing to the fact that the benefit of implementing IFRS overweighs the cost; coded 0 if a firm believed that the cost of implementation is higher than the benefit; 3 otherwise. A second reader randomly double checked the coding for controlling the sampling error. Appendix I provides a detailed description of the collected data.

In addition, all comment letters were separated into eight categories, namely, public firms, non-public firms, non-investor group, investor group, individuals, accountants, academia and other. Public firms represent the group of publicly trading firms; non-public firms represent the group of private firms; investor group represents business association, industry organization and investment association; non-investor group represent any group that is not of a business orientation; individuals represent any working professionals; accountants represent accounting firms and its staff; academia

represents accounting professors from universities; other represents any government organization that does not fall into the previous seven categories. After deleting 60 non-opinion letters, 10 non-public firm letters, 24 non-investor group letters, 8 investor group letters, 9 individual letters, 18 accountants letters, 14 academia letters and 20 other letters, I reached a sample of 88 public firms. Essay II Table 1 describes the sample selection process.

[Insert Table 1]

Section 4: Summary Statistics

Table 2A provides the summary statistics of public opinion divergence regarding SEC Roadmap. In column 1, 70% commenters expressed opposing opinions to SEC Roadmap proposal of cost of implementing IFRS, whereas only14% supported. Public firms went even further—81% opposed the SEC estimation of implementation cost. In a comment letter, it is even stated that "…the estimated cost could even exceed the cost of implementing SOX…" In column 2, comparability issue casts a debate among commenters. 37% in total agreed that IFRS, once adopted in the United States, will improve the comparability of financial reporting, whereas 47% believed that the comparability improvements will not take effect in the U.S. setting. Similar contradicting debates are also found in FASB and Effects dimensions. More than 60% public firms believed that FASB will not be dominated by IASB and as a result loses degree of

freedom, while 20% oppose this argument. The most diverging views come from the Effects dimension, where the pros and cons are almost head-to-head—48% objecting and 50% supporting. In summary, public firms held more diverging opinions than the general public. The three heated debated dimensions with less than 40% difference between pros and cons are Comparability, Quality, and Effects.

[Insert Table 2A]

In terms of industry distribution, Table 2B provides the detailed descriptive statistics. Using 4-digit SIC codes, I separate the 88 firms into 16 industries. Banks, Retails, Utilities, Refining and Transportation are the top 5 industries that have the most comment letters written to SEC. On the three heatedly debated dimensions, Banks expressed the most favorable opinions—highly in favor of IFRS comparability, quality and the potential capital market effects. Firms from other industries are less diverging. Please refer to Table 2B for detailed statistics.

[Insert Table 2B]

Section 5: Further Analysis on U.S. Firms which responded to IFRS

Firstly, the six dimensions of opinions divergence are specified in Table 3A. The association between comparability and quality is high, which indicates that a commenter is likely to give same opinions along these two dimensions. Also, the association between

Quality and Effect is relatively high (0.44). All other dimensions have either non-significant association or significant but low associations. This gives some evidence to the orthogonality of the proposed dimensions, which happened to coincide with Hail et al (2009) discussions.

[Insert Table 3A Here]

As evidenced in Table 3B, many of my hypothesized variables are significantly correlated with one another. Thus, I adopt a logistic regression analysis to assess the association of each of the variables, after controlling for other variables I examine.

[Insert Table 3B Here]

Table 4 uses a logit model and a rare event logit model to run the regressions. King and Zeng (2000) provide the rationale for using rare event logit model. They study the specific logit model that fits "rare events data, binary dependent variables with dozens to thousands of times fewer ones (events, such as wars, vetoes, cases of political activism, or epidemiological infections)". Since the responding firm group is small, compared with the total sample, it is appropriate to use relogit model in the regressions.

The regression results indicate that firms with longer firm age, more segments, more analysts covering, larger size are more likely to respond to SEC regarding its IFRS

adoption proposal. Profitability is negatively correlated with responding likelihood in Column 3 and 4. Pseudo R-square indicates that the model fits the data at more than 30% significance level. Hence, hypothesis 1 is supported.

[Insert Table 4]

As shown in Table 5A and Table 5B, among the six dimensions, G-Index varies only for Comparability, Quality and Effect dimensions, which are exactly the three heatedly debated topics, as previously shown in the descriptive statistics. Two-tailed t-test indicates that firms with less misreporting incentives tend to favor IFRS more than those with relatively more misreporting incentives. For Comparability dimension, the difference is 1.82, which is highly significant. For Effect dimension, the difference is 1.2 at 5% significance level. The only marginally significant dimension is Quality, which is at 10% level. Wilcoxon test verifies the results of Comparability and Effect, while Quality is no longer significant. Table 5B gives logit regression results for these three dimensions. After controlling for size, profitability and industry, G-Index is still negatively correlated with firms' likelihood of expressing positive opinions.

[Insert Table 5A and 5B]

Section 6: Robustness Check

To further provide robustness to my previous findings, I include a test to see whether firms' responding to SEC comment requests following a systematic pattern. To rule out this possibility, I first checked the names of correspondents of each comment letter to see whether the same correspondent's name appeared in other comment letters written to SEC. I did not find the same person in charge repeatedly reacting to SEC comment letters in 2008 and 2007 cross-sectionally, which rules out the behavior pattern of a specific correspondent's individual taste. Refer to Appendix I for commenter names. Secondly, I include the frequency of firms' comment letters writing to SEC in 2008 in the logit regression to explore whether firms have a consistent pattern in responding to SEC comment letter requests. On average, I did not find a statistically significant relation between frequency of comment letters and the likelihood of responding to SEC Roadmap. This further provides support to previous findings that firms react to IFRS Roadmap with rational expectations of benefits and costs instead of a behavioral habit. The results are not reported here due to insignificant loadings, but are subject to request.

Section 7: Conclusion

To conclude, this paper provides early empirical evidence regarding the adoption of International Financial Reporting Standards (IFRS) in the United States. A lobbying approach is implemented to study a sample of 251 comments letters in response to the most up-to-date IFRS document – Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers,

which was publicly announced by Security and Exchange Committee (SEC) for comments due on April 30th 2009. By sorting the diverging opinions into six dimensions, I find that opinion diverges in three major dimensions, namely IFRS comparability, IFRS quality and market economic and litigation consequences. My results show that firm with more experience, more segments, more information demand, larger size, poorer profitability tend to be more active in lobbying to SEC regarding their opposing or supporting IFRS adoption opinions, after controlling their industries; moreover, this behavior pattern cannot be explained by firms' idiosyncratic tastes in reacting to SEC comment letters request. Among all firms with adequate data, I find that U.S. firms with relatively less shareholder protections, as captured by G-Index, incline to express opposing opinions regarding the previous three heatedly debated dimensions. This result supplements accounting regulation research in that it shows IFRS is welcomed in the United States by firms with less misreporting incentives and that IFRS is not a mere signaling device for U.S. firms. A direct research topic linking to this paper is to study the post-adoption effect of IFRS on the lobbying and non-lobbying U.S. firms, when data become available.

Appendix I: SEC Comment Letters Summary

Appendix II: Conceptual Framework Development

I assume that there are two types of decision makers involved. One is an investment policy central planner in acquiring country i seeking investment opportunities globally, i.e., looking for cross-border M&A projects. The other is the accounting standards setter in the target country j. At initial stage, the planner selects an optimal level of weighting w_j' s.t. $\sum w_j' = 1$ on each target country j to optimize the utility of its scarce resource; given that, at the next stage, the target j's accounting standards setters are trying to self-select their own standards' idiosyncratic noise in order to provide the most informational advantage to the foreign acquirer. In total there are N target countries. I assume costless and timeless shifts in accounting standards selection. I further assume that there exists one-one mapping from the set of accounting standards to the set of standards systemic noise. Also information about first stage acquirer's weighting decision and each of the target countries' accounting standards setters' objective function is common knowledge. Further assume the information cost as a result of accounting standards systemic noise is monotonically increasing with the information signal's volatility produced by the target countries' accounting system, i.e. without loss of generality,

$$c_i = V(s + \varepsilon_i) \tag{.1}$$

$V(.)$ is the variance of information signal noise produced by a country's accounting standard's system; s is the true set of information signal noise due to uncertainty of M&A projects' future cash flows and simply remains consistent across all target

countries; ε_i is the systemic idiosyncratic information noise produced by a country's accounting system. Let $s \sim N(\alpha, \beta^2); \varepsilon_i \sim N(0, \delta_i^2); COV(\varepsilon_i, s) = 0; \delta_i \in [\delta_0, +\infty)$. This further gives

$$c_i = \beta^2 + \delta_i^2 \tag{.2}$$

The profit function faced by the country planner to invest in the global M&A markets initially at T=0 is:

$$\prod = P - W^T C \tag{.3}$$

Where $P = [p_1, p_2, ..., p_N]^{'}$ is the vector that represents the constant net profit from carrying M&A transactions in N target countries; $C = [c_1, c_2, ..., c_N]^{'}$ is the vector of the respective accounting information cost from all target countries;

$W = [w_1^{'}, w_2^{'}, ..., w_N^{'}]^{'}$ is the weighting vector optimally chosen by the acquirer. I propose a simplified objective function of a target country j's accounting standards setting body at T=1, i.e., choose a set of accounting standards which permits certain level of systemic information noise to enable the target country to be most informationally attractive among all potential candidates to the acquirer. Holding production net profits and information noise from cash flow uncertainty *ceteris paribus* across all N target countries, I derive the following objective function for all target countries' accounting standards setters:

$$\max_{\delta_i} w_i^{'} p - w_i^{'} \beta^2 - w_i^{'} \delta_i^2 (\delta_1, \delta_2, ..., \delta_N) \tag{.4}$$

Next I show that the previous setting satisfies four conditions necessary for a Bertrand competition model to hold:

First, there are at least two target countries' accounting standards setters producing homogeneous accounting information for the acquirer; second, target countries' accounting standards setters do not cooperate; third, target countries' accounting standards setters compete by self-selecting a lower information noise level simultaneously; last, the acquirer buys everything from a target at a lowered information cost *ceteris paribus*. If all targets charge the same price, the acquirer randomly selects among them.

Under these conditions satisfying Bertrand competition game, all target countries accounting standards setters compete to reach Nash equilibrium state by self-selecting the same accounting standards systemic noise based on their objective functions. Mathematically,

$$w_i^{'} p - w_i^{'} \beta^2 - w_i^{'} \delta_i^2 (\delta_0, \delta_0, ..., \delta_0) >= w_i^{'} p - w_i^{'} \beta^2 - w_i^{'} \delta_i^2 (\delta_1, \delta_2, ..., \delta_N) \qquad (.5)$$

Due to the one-one mapping assumption between accounting standards set and standards systemic noise set, I conclude that all target countries will harmonize their accounting standards at the Nash equilibrium stage. Therefore, when accounting standards are harmonized, any deviation from this strategy will be sub-optimal to the specific target country.

Figures

Figure 1a: International Financial Reporting Standards Timeline

Accountants International Study Group was created, the precurser to the IASB	IAS Committee was formed with volunteers who met three times a year, issuin IAS No1 to No41.	IASC was restructured into the IASB, issuing IFRS that sit alongside or replace IASs.	EU announced plans to adopt IFRS in 2005; IASB and FASB issued "Norwalk Agreement".	Australia, New Zealand and Hong Kong commited to adopt IFRS	Mandatory IFRS adoption in all EU countries.	
1967	1973	2000	2002	2003	2005	2006

Source: The Financial Times Limited 2011.

Figure 1b: Flow Chart on the Relation between Mandatory IFRS Adoption, Accounting Standards Disparity and Bilateral Cross-border M&A Flows

Head et al. (2010) provides a gravity model that explains cross-border trade flows.

Yu (2010): Theoretically and empirically show that accounting standards disparity is a source of information cost that affects foreign investors.

Beneish and Yohn (2008): Analyze channels through which accounting standards can influence information cost.

Bilateral Cross-border M&A Flows

Bilateral Cross-border M&A Flows

$\beta(pre) = ? = \beta(post)$

Critical cost threshold for foreign acquirers to rely on accounting systems when making investment decisions

Information processing cost caused by accounting standards' systemic information noise

Information processing cost caused by accounting standards' systemic information noise

Other Idiosyncratic trade cost

Other Idiosyncratic trade cost

Time Line of Accounting Harmonization	Jan 1st, 2000 Dec 31st, 2004	Mandatory IFRS Adoption	Jan 1st, 2005 Dec 31st, 2009
	Mixed Accounting Standards Period		**More Harmonized Accounting Standards Period**

Figure 1c: Cross-Border M&A Flows of 49 Countries between 2000 and 2009

In Billion

Without De-Trend   After H-P De-Trend

Legend: total00, total01, total11, total10, total_all
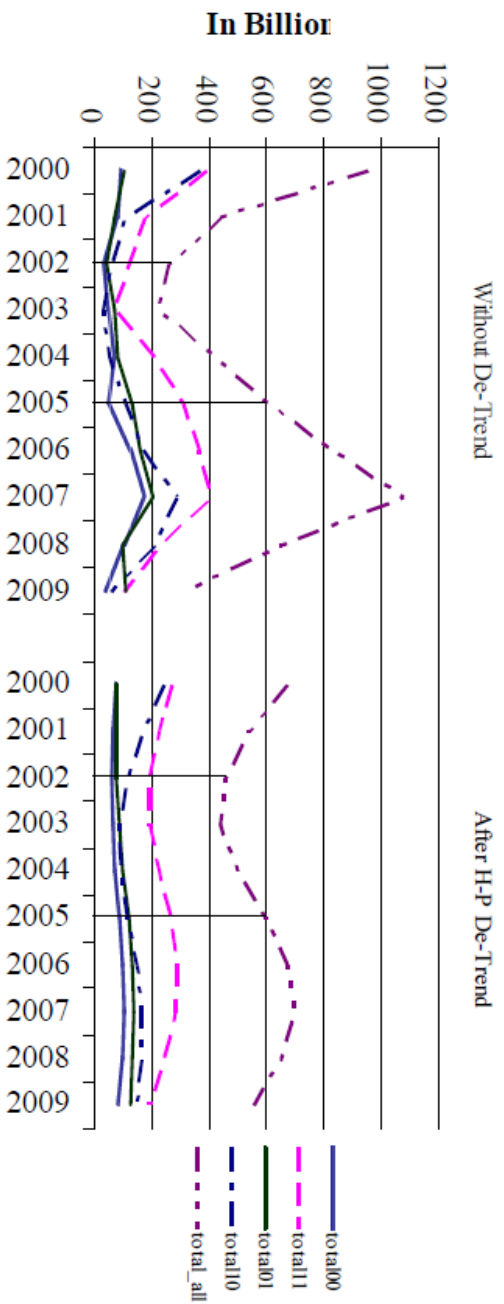
Figure 1c plots bilateral cross-border M&A flows of 49 countries between 2000 and 2009 in billion current dollars. "total 00" represents the flows from a non-IFRS country to a non-IFRS country; "total 11" represents the flows from an IFRS country to an IFRS country; "total01" represents the flows from a non-IFRS country to an IFRS country; "total10" represents the flows from an IFRS country to a non-IFRS country; "total_all" gives summary of all flows. Results with H-P de-trend and without H-P de-trend are shown in the figure. In 2002, when EU announced plans to adopt IFRS in 2005, global bilateral cross-border M&A flows were decreasing to the trough of the most recent decade. In 2005, when mandatory IFRS took place in EU countries, cross-border M&A flows were increasing at a rapid speed, but not yet reached the peak. The lack of an apparent kink in 2005 suggests that it is unlikely for the reverse causality between cross-border flows and accounting standards disparity to hold.

Figure 2a: Accounting Disparity pre and post Mandatory IFRS Adoption

	Pre-IFRS	Post-IFRS
AD1	43%	35%
AD2	71%	38%
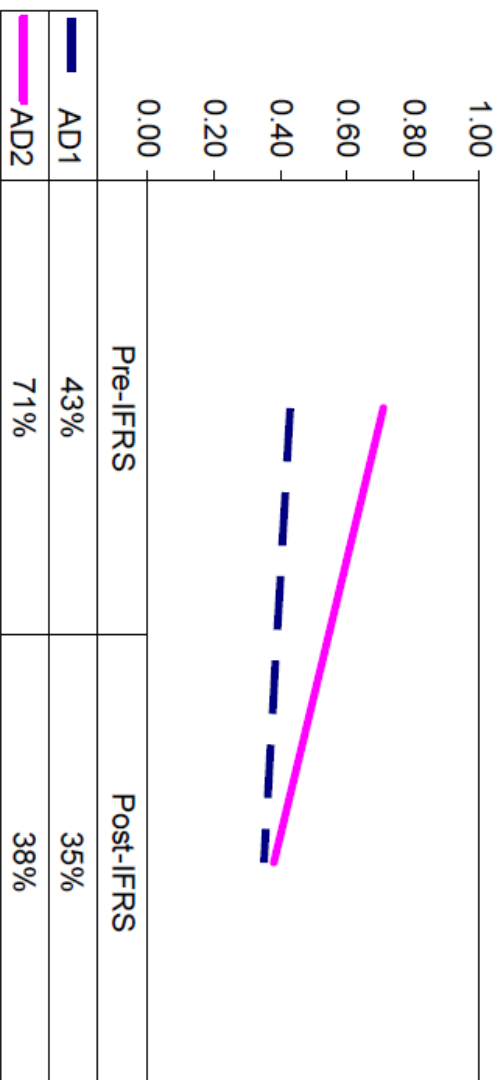
Figure 2a plots the accounting disparity change pre-and-post IFRS mandatory adoption. The accounting disparity measure and the modified measure both indicate that IFRS mandatory adoption induces a reduction in the accounting disparity between sample country pairs. According to AD1, on average accounting standards disparity is reduced by 8% after mandatory IFRS adoption on a global base; this figure increases to 33% if using the modified measure AD2. All results are significant at 1% level.

Figure 2b: Accounting Disparity Change based on Paired Countries' Adoption Status

	Pre-IFRS	Post-IFRS
AD1_11	44%	0%
AD1_10	42%	66%
AD1_00	40%	40%
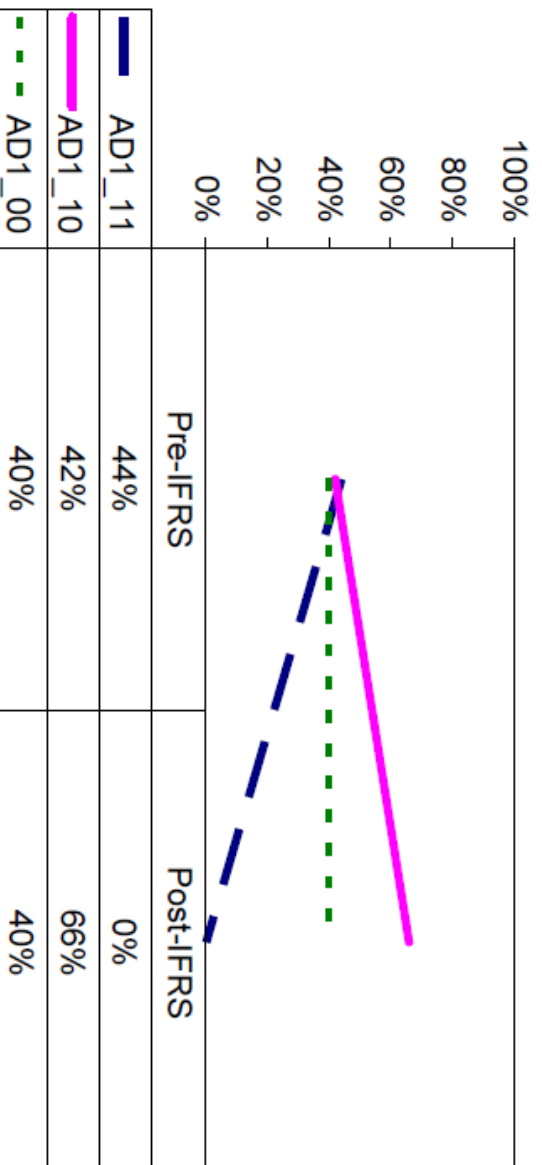
Figure 2c: Accounting Disparity Change based on Paired Countries' Adoption Status

	Pre-IFRS	Post-IFRS
AD2_11	70%	0%
AD2_10	71%	66%
AD2_00	71%	71%
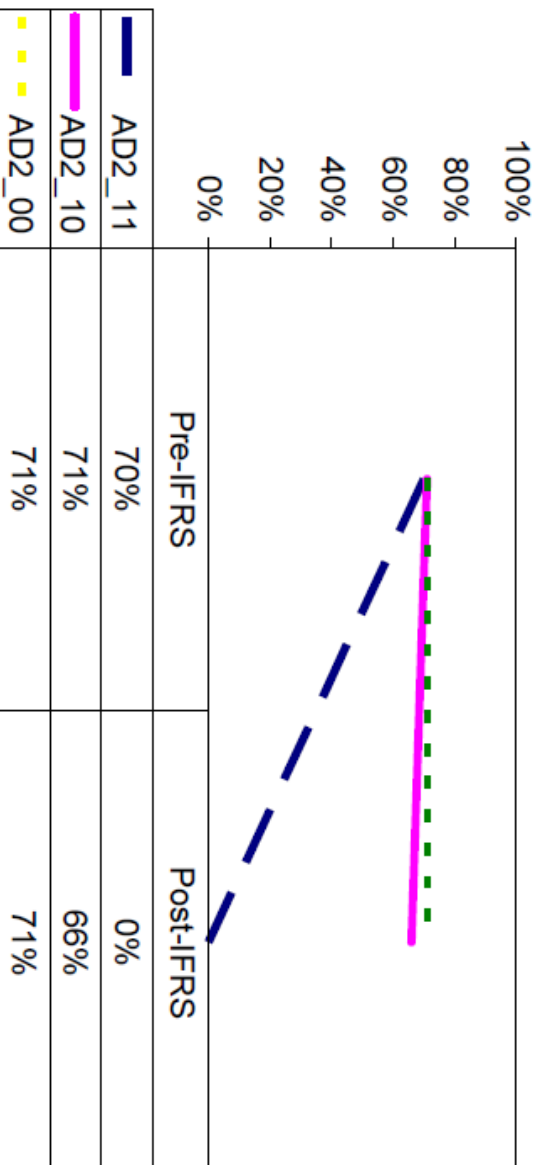
Figure 2b and 2c show that among all sample country pairs, the accounting disparity measures drop significantly for the country pairs which both adopt IFRS (denoted as $AD1\_11$ and AD2_10). Country pairs without adoption of IFRS (denoted as $AD1\_00$ and $AD2\_00$) do not change significantly after the mandatory adoption shock. Figures of country pairs with one adopting IFRS and the other not adopting (denoted as $AD1\_10$ and $AD2\_10$) tend to vary within +24% to -5% based on two measures. Statistics of the pre-IFRS and post-IFRS differences are significant at 1% level.

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Figure 3. The IFRS legislative timeline for United States

Source: AICPA (2010)

2010
SEC issues a statement in support of convergence and global accounting standards and calls for the development and execution of a work plan.

1988
Securities and Exchange Commission (SEC) issues a policy statement supporting the establishment of mutually acceptable international accounting standards.

1997
SEC encouraged the efforts of the International Accounting Standards Committee to develop a core set of accounting standards. These standards are now known as IFRS.

2008
SEC issues proposed roadmap with timeline and key milestones for moving to IFRS and allowing early adoption for U.S. public companies meeting certain criteria.

| 1988 | | 1990 | | 1992 | | 1994 | | 1996 | | 1998 | | 2000 | | 2002 | | 2004 | | 2006 | | 2008 | | 2010 |
| | 1989 | | 1991 | | 1993 | | 1995 | | 1997 | | 1999 | | 2001 | | 2003 | | 2005 | | 2007 | | 2009 | |

2002
SEC announces support of Norwalk Agreement between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

2007
SEC votes unanimously to accept from foreign private issuers financial statements prepared in accordance with IFRS without reconciliation to U.S. GAAP.

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Tables

TABLE 1: SAMPLE DESCRIPTIVE STATISTICS

Panel A: Cross-Border M&A Activities from 2000 to 2009

Country i	No. of Targets from Country i	In Million Current Dollars	No. of Acquirors from Country i	In Million Current Dollars
Argentina	1090	452245	579	24617
Australia	13160	602881	12623	612405
Austria	1553	71779	1763	50043
Belgium	2157	197860	2120	235843
Brazil	3254	312235	2327	245020
Canada	13439	936102	14069	868570
Chile	3203	359680	461	23829
China	9167	344299	6802	258609
Czech	1187	42583	608	13850
Denmark	2361	108530	2496	113677
Egypt	193	36069	141	15217
Estonia	371	3998	204	342
Finland	2736	87186	2915	107429
France	10678	850977	11089	1187564
Germany	12851	856484	12331	878592
Greece	839	47927	848	34289
Hong Kong	4480	241647	5088	288408
Hungary	937	23850	557	3838
India	1221	56920	683	36759
Indonesia	5278	145436	4588	112485
Ireland	1323	63410	1470	77164
Israel	795	44580	828	57722
Italy	5791	757752	5390	768365
Japan	19203	894891	19793	956101
Korea	3832	263131	3676	242150
Luxembourg	273	89550	642	92577
Malaysia	6032	98885	6305	115239
Mexico	1152	159542	592	138733
The Netherl	4439	577313	5280	656273
New Zealar	2316	56242	1905	41693
Norway	2549	152144	2544	155108
Pakistan	105	5460	68	1370
Peru	349	14358	152	4392
Philippines	821	43992	640	34500
Poland	1913	44759	1195	18257
Portugal	1307	64991	1114	59949
Russia	6387	323070	5802	304681
Singapore	2926	113095	3790	213553
Slovenia	264	3801	215	1471
South Afric	1628	107192	1454	78939
Spain	6929	499801	6493	585369
Sweden	4792	234379	5173	225939
Switzerland	3203	359680	3709	505607
Taiwan	961	93966	838	78522
Thailand	1869	38477	1525	27393
The U.K.	24888	2284373	26574	2184363
Turkey	897	76920	540	27715
The U.S.	80255	947853	84942	9414973
Venezuela	176	14348	106	9273
Total	277530	22499643	275047	22188777

Panel B: Sample Distribution by Year

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL	%
Combined sample	749	612	538	544	579	646	682	812	783	617	6562	100
Type I M&A	436	394	364	358	392	440	460	523	491	379	4237	64.57
Type II M&A	313	218	174	186	187	206	222	289	292	238	2325	35.43

TABLE 2: DEFINITIONS AND SOURCES OF EACH VARIABLE

NAMES	MEASURES	DEFINITIONS	SOURCES
DEPENDENT VARIABLE			
LnVALUE	$LVALUE = Ln(\sum X_{ijt})$ i is acquirer's country; j is target's countries; t is year.	Captures the aggregate bilateral flows between two countries.	SDC Database
INDEPENDENT VARIABLES -- SET 1			
PREDIFF1 PREDIFF2 POSTDIFF1 POSTDIFF2	$AD1 = \dfrac{\sum_{i-j-1}^{21} x_{i,j}}{21}$; $x_{i,j} = 1$ if two countries differ in the specific accounting rule; 0 otherwise. $AD2$: modified version of $AD1$ by further denoting 1 if two countries have 0 in $AD1$ but differ in legal origin. $PREDIFF_i = AD_i \times I(year < 2005)$ $POSTDIFF_i = AD_i \times I(year >= 2005)$	The accounting disparity between two countries; two measures are further separated into pre and post mandatory adoption periods by interacting with indicator variables.	Bae et al. (2008) and the author's calculation
INDEPENDENT VARIABLES -- SET 2			
GOVDIFF1	$GOVDIFF1_{ij} = |x_i - x_j|$	Disparity of paired countries' first principal component of World Bank governance indicators	Kaufmann et al. (2010)
GOVDIFF2 HPREDIFF1	$GOVDIFF2_{ij} = -|x_i - x_j|$	Disparity of paired countries' legal protection of minority shareholders against expropriation by corporate insiders for pair-countries.	Djankov et al. (2008)
LPREDIFF1 HPREDIFF2 LPREDIFF2 HPOSTDIFF1 LPOSTDIFF1 HPOSTDIFF2 LPOSTDIFF2	$HPREDIFF_i = I(GOVDIFF_i \geq 75\%) \times PREDIFF_i$ $LPREDIFF_i = I(GOVDIFF_i \leq 25\%) \times PREDIFF_i$ $HPOSTDIFF_i = I(GOVDIFF_i \geq 75\%) \times POSTDIFF_i$ $LPOSTDIFF_i = I(GOVDIFF_i \leq 25\%) \times POSTDIFF_i$	Accounting difference measures are interacted with dummies indicating high (H) or low (L) country-pair corporate governance gap for both pre-and-post IFRS mandatory adoption periods. All measures capture the accounting disparity of two countries' under extreme corporate governance conditions.	The author's calculation

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MONADIC CONTROL VARIABLES			
LPOP_O LPOP_D LCAP_O LCAP_D	$LPOP\_O(D) = LnX_{i,j}$ $LCAP\_O(D) = LnY_{i,j}$	Control variables to capture both exporting and importing countries' characteristics, given theoretical gravity model.	World Development Indicators and the author's calculation
TIME VARYING DYADIC CONTROL VARIABLES			
LDISTW	$LDISTW = LnX_{i,j}$	Geographic distance control variable to capture the distance between two countries from 2000 to 2009	
CONTIGUITY		Denote 1 if both countries share common contiguity; 0 otherwise.	
COMLANG_OFFICIAL		Denote 1 if both countries share common official language; 0 otherwise.	CEPII Gravity Dataset by Head et al. (2010) from various data sources
COMLANG_ETHNO	$I_{i,j}$: Indicator variables	Denote 1 if a language is spoken by at least 9% of the population; 0 otherwise.	
COLONIZER		Denote 1 for common colonizer post 1945; 0 otherwise.	
COMLEGAL		Denote 1 if two countries share the same legal origin.	
COL45		Denote 1 for pairs in colonial relationship post 1945; 0 otherwise.	
COLONY		Denote 1 for pair ever in colonial relationship; 0 otherwise.	
TIME FIXED DYADIC CONTROL VARIABLES			
BOTHGATT		Denote 1 if both of the pair countries are GATT/WTO member; 0 otherwise.	
RTA		Denote 1 if regional trade agreement in force; 0 otherwise.	
CURRENCY		Denote 1 if both pair countries have common currency; 0 otherwise.	CEPII Gravity Dataset by Head et al. (2010) from various data sources
ACP_EU	$I_{i,j}$: Indicator variables	"ACP" represents a sequence of agreements conferring preferential treatment of imports from former colonies and some other developing countries (e.g. Liberia). "EU" variable is denoted 1 when a country belongs to European Union. "ACP_EU" is denoted 1 when an ACP country exports to a member of the EU; otherwise 0. "EU_ACP" is denoted 1 when an EU country exports to an "ACP" country; otherwise 0.	
EU_ACP			

TABLE 3: SAMPLE SUMMARY STATISTICS

| VARIABLES | N | MEAN | S.D. | QUANTILES | | | | |
				MIN	0.25	MDN	0.75	MAX
LVALUE	6562	4.38	2.44	-6.91	2.78	4.51	6.12	11.25
PREAD1	6562	0.39	0.15	0.00	0.29	0.38	0.48	0.86
PREAD2	6562	0.65	0.28	0.00	0.38	0.71	0.90	1.00
POSTAD1	6562	0.29	0.21	0.00	0.10	0.29	0.43	0.86
POSTAD2	6562	0.51	0.36	0.00	0.19	0.57	0.81	1.00
GOVDIFF1	6562	1.75	1.58	0.00	0.50	1.10	2.81	7.29
GOVDIFF2	6562	0.26	0.19	0.00	0.10	0.20	0.37	0.86
LPOP_O	6562	3.49	1.55	-0.83	2.19	3.72	4.41	7.19
LPOP_D	6562	3.68	1.59	-0.83	2.35	3.72	4.41	7.19
LCAP_O	6562	10.03	0.93	6.12	10.02	10.31	10.52	11.40
LCAP_D	6562	9.56	1.22	6.12	8.66	10.10	10.47	11.40
LDISTW	6562	8.16	1.13	5.08	7.19	8.55	9.13	9.86
CONTIGUITY	6562	0.12	0.33	0.00	0.00	0.00	0.00	1.00
COMLANG_OFF	6562	0.24	0.43	0.00	0.00	0.00	0.00	1.00
COMLANG_ETHNO	6562	0.28	0.45	0.00	0.00	0.00	1.00	1.00
COLONIZER	6562	0.03	0.16	0.00	0.00	0.00	0.00	1.00
COMLEGAL	6562	0.34	0.47	0.00	0.00	0.00	1.00	1.00
COL45	6562	0.03	0.17	0.00	0.00	0.00	0.00	1.00
COLONY	6562	0.10	0.29	0.00	0.00	0.00	0.00	1.00
BOTHGATT	6562	0.96	0.19	0.00	1.00	1.00	1.00	1.00
RTA	6562	0.42	0.49	0.00	0.00	0.00	1.00	1.00
CURRENCY	6562	0.11	0.32	0.00	0.00	0.00	0.00	1.00
ACP_EU	6562	0.00	0.07	0.00	0.00	0.00	0.00	1.00
EU_ACP	6562	0.01	0.08	0.00	0.00	0.00	0.00	1.00

TABLE 4: UNIVARIATE ANALYSIS

Panel A: Accounting Standards Disparity pre and post Mandatory IFRS Adoption

Country Pair Adoption Status	Measures	NO.Obs.	Pre-Mean	Post-Mean	Difference	t(pre=post)
Both	I	1444	0.41	0.00	0.41	98.68
One Adopt	I	1429	0.38	0.55	-0.17	-22.41
Neither Adopt	I	3689	0.38	0.38	0.00	n/a
Total	I	6562	0.39	0.34	0.05	16.97
Both	II	1444	0.62	0.00	0.62	87.00
One Adopt	II	1429	0.66	0.55	0.11	11.02
Neither Adopt	II	3689	0.66	0.66	0.00	n/a
Total	II	6562	0.65	0.49	0.16	39.77

Panel B1: Accounting Standards Disparity pre and post Mandatory IFRS Adoption under High CG Gap

Country Pair Adoption Status	Measures	NO.Obs.	Pre-Mean	Post-Mean	Difference	t(pre=post)
Both	I	108	0.43	0.00	0.43	25.08
One Adopt	I	563	0.39	0.52	-0.12	-11.44
Neither Adopt	I	992	0.39	0.39	0.00	n/a
Total	I	1663	0.40	0.41	-0.01	-2.79
Both	II	108	0.61	0.00	0.61	22.38
One Adopt	II	563	0.66	0.52	0.14	10.42
Neither Adopt	II	992	0.72	0.72	0.00	n/a
Total	II	1663	0.69	0.60	0.09	14.17

Panel B2: Accounting Standards Disparity pre and post Mandatory IFRS Adoption under Low CG Gap

Country Pair Adoption Status	Measures	NO.Obs.	Pre-Mean	Post-Mean	Difference	t(pre=post)
Both	I	504	0.41	0.00	0.41	59.56
One Adopt	I	265	0.36	0.58	-0.22	-11.09
Neither Adopt	I	863	0.37	0.37	0.00	n/a
Total	I	1632	0.38	0.29	0.09	13.24
Both	II	504	0.62	0.00	0.62	48.49
One-Adopt	II	265	0.64	0.58	0.06	2.39
Neither-Adopt	II	863	0.62	0.62	0.00	n/a
Total	II	1632	0.62	0.42	0.20	22.41

TABLE 5: SPEARMAN / PEARSON CORRELATIONS OF CROSS-BORDER M&A FLOWS AND DETERMINANTS OF CROSS BORDER M&A BILATERAL FLOWS

	Y1	T1	T2	T3	T4	T5	T6	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14	V15	V16	V17
LVALUE (Y1)	1	-0.074	-0.023	-0.020	-0.018	-0.056	-0.037	0.086	0.042	0.111	0.122	-0.048	0.042	0.014	0.010	-0.006	0.021	-0.010	0.018	-0.001	0.047	0.033	-0.001	0.000
GOVDIFF1 (T1)	-0.111	1	0.014	0.022	0.041	0.175	0.081	0.099	0.240	-0.146	-0.335	0.109	-0.032	-0.030	0.008	0.009	-0.046	-0.001	-0.022	-0.056	-0.128	0.000	0.004	0.005
GOVDIFF2 (T2)	-0.035	0.021	1	0.201	0.415	0.085	0.228	0.021	0.038	0.005	-0.003	0.125	-0.112	-0.075	-0.036	-0.016	-0.209	-0.020	-0.035	0.008	-0.099	-0.095	0.002	0.004
PREDIFF1 (T3)	-0.030	0.030	0.303	1	0.402	0.351	0.126	0.011	-0.010	0.046	0.001	0.024	-0.061	-0.171	-0.188	-0.021	-0.172	-0.026	-0.052	-0.013	0.000	-0.025	-0.002	0.000
PREDIFF2 (T4)	-0.026	0.064	0.593	0.537	1	0.179	0.438	0.063	0.052	0.041	-0.016	0.076	-0.090	-0.231	-0.183	-0.028	-0.424	-0.037	-0.088	-0.004	-0.078	-0.093	0.001	0.002
POSTDIFF1 (T5)	-0.087	0.257	0.126	0.390	0.251	1	0.411	0.090	0.121	-0.183	-0.219	0.103	-0.045	-0.073	-0.070	-0.002	-0.091	-0.006	-0.023	-0.053	-0.164	-0.057	-0.003	-0.003
POSTDIFF2 (T6)	-0.056	0.124	0.320	0.165	0.511	0.591	1	0.092	0.104	-0.107	-0.144	0.179	-0.082	-0.063	-0.012	-0.001	-0.200	-0.010	-0.029	-0.001	-0.196	-0.100	-0.002	-0.002
LPOP_O (V1)	0.129	0.148	0.033	0.017	0.096	0.138	0.141	1	-0.023	-0.066	-0.016	0.143	-0.022	-0.043	-0.003	-0.021	-0.047	0.009	0.020	-0.020	-0.135	-0.027	0.001	0.000
LPOP_D (V2)	0.062	0.352	0.058	-0.015	0.080	0.184	0.160	-0.035	1	-0.032	-0.228	0.120	-0.022	-0.041	-0.012	-0.013	-0.053	0.005	0.011	-0.024	-0.142	-0.032	0.001	0.001
LCAP_O (V3)	0.166	-0.213	0.008	0.070	0.063	-0.279	-0.165	-0.130	-0.047	1	0.080	-0.022	-0.007	-0.044	-0.072	-0.026	-0.060	-0.004	-0.002	0.021	0.047	0.003	0.003	0.002
LCAP_D (V4)	0.183	-0.476	-0.004	0.002	-0.022	-0.335	-0.214	-0.024	-0.350	0.122	1	-0.068	0.024	0.023	-0.006	-0.018	0.011	-0.007	0.002	0.023	0.099	0.045	0.003	-0.009
LDISTW (V5)	-0.070	0.155	0.187	0.035	0.097	0.159	0.269	0.217	0.184	-0.030	-0.099	1	-0.180	0.044	0.078	-0.016	0.004	0.016	0.033	0.001	-0.401	-0.152	0.005	0.007
CONTIGUITY (V6)	0.110	-0.085	-0.293	-0.160	-0.235	-0.120	-0.216	-0.059	-0.059	-0.017	0.062	-0.472	1	0.057	0.042	0.005	0.065	-0.007	0.001	0.001	0.120	0.0768*	-0.001	-0.002
COMLANG_OFF (V7)	0.029	-0.061	-0.149	-0.347	-0.466	-0.147	-0.127	-0.086	-0.082	-0.089	0.046	0.088	0.201	1	0.325	0.033	0.215	0.024	0.077	0.013	-0.031	-0.001	0.002	0.002
COMLANG_ETHNO (V8)	0.020	0.015	-0.070	-0.365	-0.354	-0.136	-0.023	-0.005	-0.023	-0.139	-0.011	0.150	0.143	0.841	1	0.031	0.176	0.022	0.075	0.017	-0.049	-0.0211*	0.002	0.002
COLONIZER (V9)	-0.033	0.048	-0.088	-0.113	-0.153	-0.008	-0.006	-0.113	-0.071	-0.143	-0.098	-0.089	0.048	0.237	0.216	1	0.034	-0.002	-0.005	0.002	-0.010	0.0056*	0.000	0.000
COMLEGAL (V10)	0.038	-0.083	-0.380	-0.315	-0.775	-0.168	-0.366	-0.086	-0.097	-0.110	0.020	0.006	0.206	0.525	0.413	0.226	1	0.033	0.073	0.019	0.039	0.0677*	0.001	0.001
COL45 (V11)	-0.052	-0.005	-0.106	-0.134	-0.194	-0.031	-0.051	0.048	0.028	-0.020	-0.038	0.081	-0.062	0.165	0.145	-0.028	0.209	1	0.051	0.000	-0.019	-0.0065*	0.000	0.000
COLONY (V12)	0.053	-0.066	-0.102	-0.154	-0.259	-0.069	-0.085	0.060	0.034	-0.007	0.006	0.097	0.005	0.303	0.285	-0.053	0.261	0.526	1	0.002	-0.030	-0.0181*	0.004	0.005
BOTHGATT (V13)	-0.003	-0.248	0.035	-0.060	-0.020	-0.239	-0.006	-0.089	-0.107	0.092	0.100	0.005	0.007	0.081	0.098	0.028	0.103	0.006	0.015	1	0.033	0.0089*	0.001	0.001
RTA (V14)	0.083	-0.225	-0.174	0.000	-0.137	-0.291	-0.347	-0.236	-0.249	0.083	0.173	-0.704	0.369	-0.072	-0.111	-0.065	0.084	-0.115	-0.104	0.172	1	0.1328*	0.006	0.008
CURRENCY (V15)	0.090	-0.114	-0.258	-0.069	-0.253	-0.156	-0.274	-0.072	-0.087	0.007	0.123	-0.412	0.365	-0.002	-0.074	0.055	0.224	-0.061	-0.097	0.073	0.423	1	-0.001	-0.002
ACP_EU (V16)	-0.006	0.047	0.025	-0.020	0.007	-0.043	-0.032	0.009	-0.002	-0.100	0.037	0.061	-0.026	0.033	0.026	-0.011	0.016	-0.012	0.106	0.014	0.081	-0.0247*	1	0.000
EU_ACP (V17)	0.002	0.048	0.039	0.000	0.022	-0.027	-0.016	-0.004	0.009	0.015	-0.095	0.073	-0.032	0.031	0.024	-0.014	0.011	-0.014	0.102	0.017	0.100	-0.0304*	-0.006	1

Correlation coefficients in bold are significant at 5% level.

Impact of Mandatory IFRS Adoption on Cross-border M&A Flows

Panel A: OLS regression analysis of AD and cross-border M&A flows under different accounting regimes

		AD Measure I				AD Measure II			
		Pre-Adoption		Post-Adoption		Pre-Adoption		Post-Adoption	
		All	Ex U.S.	All	Ex U.S.	All	Ex U.S.	All	Ex U.S.
		LnValue		Ln Value		Ln Value		Ln Value	
Test Variables	Signs	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
AD (Combined sample) in %	(-)	-0.751*	0.0439	-1.955***	-1.178**	-0.281	0.397	-1.053***	-0.851*
		(0.293)	(0.356)	(0.375)	(0.403)	(0.230)	(0.199)	(0.210)	(0.312)
•AD (Type I M&A) in %	(-)	-0.430*	0.327	-2.193**	-1.432**	-0.101	0.527***	-1.408**	-1.247**
		(0.184)	(0.264)	(0.519)	(0.483)	(0.076)	(0.062)	(0.343)	(0.360)
•AD (Type II M&A) in %	(?)	-0.904	-0.601	-0.176	0.365	-0.600	-0.297	-0.369	-0.203
		(0.451)	(0.598)	(0.429)	(0.300)	(0.285)	(0.330)	(0.213)	(0.132)
Monadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-fixed dyadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-varying dyadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cluster by year		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs. (Combined sample)		3018	2538	3535	3037	3018	2538	3535	3037
Adj-R Square		0.84	0.83	0.86	0.85	0.84	0.83	0.86	0.85
Obs. (Type I M&A)		1940	1640	2288	1980	1940	1640	2288	1980
Adj-R Square		0.82	0.80	0.84	0.83	0.82	0.80	0.84	0.83
Obs. (Type II M&A)		1078	898	1247	1057	1078	898	1247	1057
Adj-R Square		0.73	0.71	0.76	0.75	0.73	0.71	0.76	0.75

Panel B: Chow test F-statistics for pre-and-post Adoption AD coefficients change

| | AD MEASURE I | | AD MEASURE II | |
	ALL	EX-US	ALL	EX-US
AD (Combined sample)	4.44*	4.21*	41.52***	28.52***
AD (Type I M&A)	3.04*	5.21**	14.87***	17.79***
AD (Type II M&A)	0.65	0.60	0.64	1.50

$\ln VALUE_{ijt} = X_{ijt} + \ln POP\_O_{ijt} + \ln POP\_D_{ijt} + \ln CAP\_O_{ijt} + \ln CAP\_D_{ijt} + \ln DISTW_{ijt} + CONTIGUITY_{ijt} + COMLANG\_OFFICIAL_{ijt} + COMLANG\_ETHNO_{ijt} + COLONIZER_{ijt}$
$+ COMLEGAL_{ijt} + COL45_{ijt} + COLONY_{ijt} + BOTHGATT_{ijt} + RTA_{ijt} + CURRENCY_{ijt} + ACP\_EU_{ijt} + EU\_ACP_{ijt} + u_{ijt}. X_{ijt} = PREDIFF_{1or2} and POSTDIFF_{1or2}$

Dependent variable is the change of total aggregated value (Ln VALUE) of all deals from SDC Database one year before-and-after 2005. CEPII dataset is used for all the control variables for pairs of countries 2000 to 2006. I self-develop the dataset to cover 2007 to 2009 and include Taiwan as an additional country. Two accounting standards disparity measures are calculated. In pre mandatory IFRS adoption period, PREDIFF1(2) are used. In post mandatory IFRS adoption period, POSTDIFF1(2) are used. The monadic control variables are calculated by taking log of both countries' GDP per capita (LCAP_O;LCAP_D) and population (LPOP_O; LPOP_D), as determinants of bilateral trade patterns in the regressions. For dyadic control variables, time-fixed dyadic variables are controlled by including log of weighted-disparity (LDISTW) and dummies coded 1 if both countries have common contiguity (CONTIGUITY), common official language (COMLANG_OFF), common ethnos (COMLANG_ETHNO), common colonizer post 1945 (COLONIZER) and common legal origin (COMLEG); are pairs in colonial relationship post 1945 (COL45); ever have been in colonial relationship (COLONY). For time-varying dyadic control variables, dummies are coded 1 if both countries are GATT/WTO members (BOTHGATT); have regional trade agreement in force and common currency (RTA); are from ACP countries to EU countries (ACP_EU) and the reverse (EU_ACP). The detailed sources and definitions of each control variable are included in Table2. Standard errors are clustered by year and corrected for heterogeneity and extreme outliers. Corrected robust standard errors are reported in parentheses. * is p<10%; ** is p<5%;*** is p<1%.

Impact of Mandatory IFRS Adoption on Cross-border M&A Flows under High/Low Corporate Governance

Panel A: OLS regression analysis of AD and cross-border M&A flows under different accounting regimes

		AD MEASURE I				AD MEASURE II			
		Pre-Adoption		Post-Adoption		Pre-Adoption		Post-Adoption	
		All	Ex U.S.	All	Ex U.S.	All	Ex U.S.	All	Ex U.S.
		Ln Value		Ln Value		Ln Value		Ln Value	
Test Variables	Signs	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
AD (Combined sample) in %									
Upper 25% by CG	(-)	-0.641**	0.0639	-1.588***	-0.808**	-0.368**	0.173	-1.189***	-0.950**
		(0.195)	(0.305)	(0.305)	(0.277)	(0.108)	(0.168)	(0.187)	(0.209)
Lower 25% by CG		-0.0555	0.354	-0.701*	-0.595	0.0594	0.417**	-0.511**	-0.694***
		(0.205)	(0.320)	(0.284)	(0.316)	(0.087)	(0.112)	(0.153)	(0.143)
F-Stat for (HPostDiff)=(LPostDiff)				6.35**	8.20***			10.65***	0.01
•AD (Type I M&A) in %									
Upper 25% by CG	(-)	-1.090**	-0.197	-2.309**	-1.442*	-0.525**	0.166	-1.597***	-1.331**
		(0.305)	(0.256)	(0.559)	(0.521)	(0.159)	(0.097)	(0.381)	(0.390)
Lower 25% by CG		0.0721	0.669**	-0.458	-0.527	0.269*	0.764***	-0.194	-0.516
		(0.127)	(0.199)	(0.558)	(0.577)	(0.121)	(0.054)	(0.338)	(0.399)
F-Stat for (HPostDiff)=(LPostDiff)				53.68***	12.76***			78.96***	9.48***
•AD (Type II M&A) in %									
Upper 25% by CG	(?)	-0.672	0.105	0.148	0.238	-0.197	-0.061	-0.101	0.313
		(0.751)	(0.316)	(0.728)	(0.423)	(0.434)	(0.587)	(0.408)	(0.229)
Lower 25% by CG		-0.385	-0.168	0.334	-0.906**	-0.136	-0.746	0.334	-0.503*
		(0.378)	(0.383)	(0.516)	(0.255)	(0.270)	(0.668)	(0.276)	(0.208)
Monadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-fixed controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-varying controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cluster by year		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs. (Combined sample)		1541	1300	1765	1511	1541	1300	1765	1511
Adj-R Square		0.78	0.76	0.81	0.80	0.78	0.76	0.81	0.80
Obs. (Type I M&A)		1940	1640	2288	1980	1940	1640	2288	1980
Adj-R Square		0.82	0.80	0.84	0.83	0.82	0.80	0.84	0.83
Obs. (Type II M&A)		1078	898	1247	1057	1078	898	1247	1057
Adj-R Square		0.73	0.70	0.76	0.75	0.73	0.70	0.76	0.75

Panel B: Chow test F-statistics for pre-and-post Adoption AD coefficients change under high CG gap

	AD MEASURE I		AD MEASURE II	
	ALL	EX-US	ALL	EX-US
AD (Combined sample)	8.11**	5.65**	23.16***	1.38
AD (Type I M&A)	5.66**	1.96	10.31**	131.26***
AD (Type II M&A)	1.17	1.75	0.06	0.16

$\ln VALUE_{gt} = HAD_{gt} + LAD_{gt} + \ln POP\_O_{gt} + \ln POP\_D_{gt} + \ln CAP\_O_{gt} + \ln CAP\_D_{gt} + \ln DISTW_{gt} + CONTIGUITY_{gt} + COMLANG\_OFFICIAL_{gt} + COMLANG\_ETHNO_{gt} + COLONIZER$
$+ COL45_{gt} + COLONY_{gt} + BOTHGATT_{gt} + RTA_{gt} + CURRENCY_{gt} + ACP\_EU_{gt} + EU\_ACP_{gt} + u_{gt}$

$HAD_{gt} = HPREDIFF / HPOSTDIFF ; LAD_{gt} = LPREDIFF / LPOSTDIFF$

Dependent variable is the change of total aggregated value (Ln VALUE) of all deals from SDC Database one year before and after 2005. CEPII dataset is used for all the control variables for pairs of countries 2000 to 2006. I self develop the dataset to cover 2007 to 2009 and include Taiwan as an additional country. Two accounting standards disparity measures are calculated. In pre mandatory IFRS adoption period, HPREDIFF1(2) and LPREDIFF1(2) are used. In post mandatory IFRS adoption period, HPOSTDIFF1(2) and LPOSTDIFF1(2) are used. The monadic effects are controlled by taking log of both countries' GDP per capita (LCAP_O; LCAP_D) and population (LPOP_O; LPOP_D) as determinants of bilateral trade patterns in the regressions. For dyadic control variables, time-fixed dyadic variables are controlled by including log of weighted-disparity (LDISTW) and dummies coded 1 if both countries have common contiguity (CONTIGUITY), common official language (COMLANG_OFF), common ethnos (COMLANG_ETHNO), common colonizer post 1945 (COLONIZER) and common legal origin (COMLEG); are pairs in colonial relationship post 1945 (COL45); ever have been in colonial relationship (COLONY). For time-varying dyadic control variables, dummies are coded 1 if both countries are GATT/WTO members (BOTHGATT); have regional trade agreement in force and common currency (RTA); are from ACP countries to EU countries (ACP_EU) and the reverse (EU_ACP). The detailed sources and definitions of each control variable are included in Table1. Standard errors are clustered by year and corrected for heterogeneity and extreme outliers. All standard errors are reported in parentheses in corrected form. * is p<10%; ** is p<5%;*** is p<1%.

Impact of Upper 25% Accounting Disparity on Cross-border M&A Flows pre-and-post Mandatory IFRS Adoption

Panel A: OLS regression analysis of AD and cross-border M&A flows under different accounting regimes

		AD MEASURE I				AD MEASURE II			
		Pre-Adoption		Post-Adoption		Pre-Adoption		Post-Adoption	
		All	Ex U.S.	All	Ex U.S.	All	Ex U.S.	All	Ex U.S.
		Ln Value		Ln Value		Ln Value		Ln Value	
Test Variables	Signs	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
•AD (Type I M&A) in %	(-)	0.435	1.310*	-1.811**	-1.604*	-4.420***	-1.137	-0.999*	-1.185*
Upper 25% by AD		(0.742)	(0.521)	(0.481)	(0.581)	(0.299)	(0.798)	(0.434)	(0.476)
•AD (Type II M&A) in %	(?)	-3.375***	-3.908**	0.212	0.401	-1.248	2.477	-0.24	-0.363
Upper 25% by AD		(0.688)	(0.941)	(0.298)	(0.214)	(2.974)	(4.066)	(0.652)	(0.584)
Monadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-fixed controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-varying controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cluster by year		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs. (Type I M&A)		523	523	633	633	478	478	565	565
Adj-R Square		0.83	0.82	0.84	0.83	0.82	0.79	0.85	0.84
Obs. (Type II M&A)		242	242	309	309	260	260	314	314
Adj-R Square		0.72	0.71	0.74	0.72	0.71	0.69	0.73	0.74

Panel B: Chow test F-statistics for pre-and-post upper 25% AD coefficients change

	AD MEASURE I		AD MEASURE II	
	ALL	EX-US	ALL	EX-US
AD (Type I M&A)	4.74*	7.76**	18.86***	21.95***
AD (Type II M&A)	2.2	2.13	0.23	0.41

$\ln VALUE_{ijt} = X_{ijt} + \ln POP\_O_{ijt} + \ln POP\_D_{ijt} + \ln CAP\_O_{ijt} + \ln CAP\_D_{ijt} + \ln DISTW_{ijt} + CONTIGUITY_{ijt} + COMLANG\_OFFICIAL_{ijt} + COMLANG\_ETHNO_{ijt} + COLONIZER_{ijt}$
$+ COMLEGAL_{ijt} + COL45_{ijt} + COLONY_{ijt} + BOTHGATT_{ijt} + RTA_{ijt} + CURRENCY_{ijt} + ACP\_EU_{ijt} + EU\_ACP_{ijt} + u_{ijt}. X_{ijt} = PREDIFF_{1or2} and POSTDIFF_{1or2}$

Dependent variable is log of total aggregated value (VALUE) of all deals from SDC Database one year before-and-after 2005. CEPII dataset is used for all the control variables for pairs of countries 2000 to 2006. I self-develop the dataset to cover 2007 to 2009 and include Taiwan as an additional country. Samples are selected to be upper 25% by AD. Two accounting standards disparity measures are calculated. In pre mandatory IFRS adoption period, PREDIFF1(2) are used. In post mandatory IFRS adoption period, POSTDIFF1(2) are used. The monadic effects are controlled by taking log of the change of both countries' GDP per capita (LCAP_O;LCAP_D) and population (LPOP_O; LPOP_D) as determinants of bilateral trade patterns in the regressions. For dyadic control variables, time-fixed dyadic variables are controlled by including log of weighted-disparity (LDISTW) and dummies coded 1 if both countries have common contiguity (CONTIGUITY), common official language (COMLANG_OFF), common ethnos (COMLANG_ETHNO), common colonizer post 1945 (COLONIZER) and common legal origin (COMLEG); are pairs in colonial relationship post 1945 (COL45); ever have been in colonial relationship (COLONY). For time-varying dyadic control variables, dummies are coded 1 if both countries are GATT/WTO members (BOTHGATT); have regional trade agreement in force and common currency (RTA); are from ACP countries to EU countries (ACP_EU) and the reverse (EU_ACP). The detailed sources and definitions of each control variable are included in Table2. Standard errors are clustered by year and corrected for heterogeneity and extreme outliers. Corrected robust standard errors are reported in parentheses. * is p<10%; ** is p<5%;*** is p<1%.

TABLE 9: ROBUSTNESS CHECK - H2

Impact of Mandatory IFRS Adoption on Cross-border M&A flows under Alternative CG Measure

Panel A: OLS regression analysis of AD and cross-border M&A flows under different accounting regimes

Test Variables	Signs	AD MEASURE I				AD MEASURE II			
		Pre-Adoption		Post-Adoption		Pre-Adoption		Post-Adoption	
		All	Ex U.S.	All	Ex U.S.	All	Ex U.S.	All	Ex U.S.
		Ln Value		Ln Value		Ln Value		Ln Value	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
•AD (Type I M&A) in %	(-)	-0.952**	0.0287	-1.409***	-0.512**	-0.528**	-0.0217	-1.054***	-0.664***
		(0.313)	(0.222)	(0.248)	(0.125)	(0.152)	(0.142)	(0.176)	(0.130)
		0.23	0.548**	1.723***	1.876**	0.0695	0.219**	1.187***	1.091**
		(0.204)	(0.120)	(0.370)	(0.481)	(0.109)	(0.061)	(0.183)	(0.373)
F-Statistics (HPostDiff)=(LPostDiff)				5.00*	10.43**			5.52**	10.31**
•AD (Type II M&A) in %	(?)	-0.782**	-0.524	0.232	0.585*	-0.375*	-0.202	0.045	-0.202
		(0.251)	(0.378)	(0.312)	(0.232)	(0.141)	(0.217)	(0.182)	(0.217)
		0.003	0.301	-0.512	-0.604	-0.052	.0195	-0.616	0.195
		(0.438)	(0.629)	(0.520)	(0.431)	(0.236)	(0.346)	(0.357)	(0.346)
Monadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-fixed dyadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time-varying dyadic controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cluster by year		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs. (Type I M&A)		1940	1640	2288	1980	1940	1640	2288	1980
Adj-R Square		0.82	0.80	0.84	0.82	0.82	0.80	0.84	0.83
Obs. (Type II M&A)		1078	898	1247	1057	1078	898	1247	1057
Adj-R Square		0.73	0.71	0.76	0.71	0.73	0.70	0.76	0.71

Panel B: Chow test F-statistics for pre-and-post Adoption AD coefficients change under high governance gap

	AD MEASURE I		AD MEASURE II	
	ALL	EX-US	ALL	EX-US
AD (Type I M&A)	9.79**	6.64**	3.94*	2.25
AD (Type II M&A)	0.91	0.92	4.03*	1.02

$\ln VALUE_{ijt} = HAD_{ijt} + LAD_{ijt} + \ln POP\_O_{ijt} + \ln POP\_D_{ijt} + \ln CAP\_O_{ijt} + \ln CAP\_D_{ijt} + \ln DISTW_{ijt} + CONTIGUITY_{ijt} + COMLANG\_OFFICIAL_{ijt} + COMLANG\_ETHNO_{ijt} + COLONIZER$
$+ COL45_{ijt} + COLONY_{ijt} + BOTHGATT_{ijt} + RTA_{ijt} + CURRENCY_{ijt} + ACP\_EU_{ijt} + EU\_ACP_{ijt} + u_{ijt}$
$HAD_{ijt} = HPREDIFF / HPOSTDIFF; LAD_{ijt} = LPREDIFF / LPOSTDIFF$

Dependent variable is the change of total aggregated value (Ln VALUE) of all deals from SDC Database one year before and after 2005. CEPII dataset is used for all the control variables for pairs of countries 2000 to 2006. I self develop the dataset to cover 2007 to 2009 and include Taiwan as an additional country. Two accounting standards disparity measures are calculated. In pre mandatory IFRS adoption period, PREDIFF1(2) are used. In post mandatory IFRS adoption period, POSTDIFF1(2) are used. Δ AD is POSTDIFF1(2) minus PREDIFF1(2). The monadic effects are controlled by taking log of both countries' GDP per capita (LCAP_O;LCAP_D) and population (LPOP_O; LPOP_D) as determinants of bilateral trade patterns in the regressions. For dyadic control variables, time-fixed dyadic variables are controlled by including log of weighted-disparity (LDISTW) and dummies coded 1 if both countries have common contiguity (CONTIGUITY), common official language (COMLANG_OFF), common ethnos (COMLANG_ETHNO), common colonizer post 1945 (COLONIZER) and common legal origin (COMLEG); are pairs in colonial relationship post 1945 (COL45); ever have been in colonial relationship (COLONY). For time-varying dyadic control variables, dummies are coded 1 if both countries are GATT/WTO members (BOTHGATT); have regional trade agreement in force and common currency (RTA); are from ACP countries to EU countries (ACP_EU) and the reverse (EU_ACP). The detailed sources and definitions of each control variable are included in Table1. Standard errors are clustered by year and corrected for heterogeneity and extreme outliers. All standard errors are reported in parentheses in corrected form. * is p<10%; ** is p<5%;*** is p<1%.

Table 10: Instrumental Variable Robustness Check

lvalue	Coef.	Std. Err.	z	P>z	lvalue	Coef.	Std. Err.	z	P>z
			AD Measure I					AD MeasureII	
PostDiff1	-1.448	2.042	-0.710	0.478	PostDiff2	-1.794	1.204	-1.740	0.083
lpop_o	0.416	0.023	18.290	0.000	lpop_o	0.424	0.030	14.270	0.000
lpop_d	0.391	0.034	11.420	0.000	lpop_d	0.397	0.031	12.640	0.000
lcap_o	0.607	0.084	7.230	0.000	lcap_o	0.547	0.088	6.240	0.000
lcap_d	0.507	0.100	5.090	0.000	lcap_d	0.446	0.100	4.460	0.000
ldistw	-0.170	0.042	-4.040	0.000	ldistw	-0.188	0.032	-5.810	0.000
contig	0.329	0.144	2.290	0.022	contig	0.341	0.145	2.350	0.019
comlang_off	0.170	0.111	1.530	0.126	comlang_off	0.073	0.104	0.700	0.485
comlang_ethno	-0.137	0.157	-0.870	0.384	comlang_ethno	0.033	0.102	0.330	0.744
comcol	0.433	0.182	2.380	0.018	comcol	0.404	0.172	2.340	0.019
comleg	0.302	0.126	2.400	0.016	comleg	-0.129	0.324	-0.400	0.691
col45	-1.392	0.184	-7.570	0.000	col45	-1.373	0.167	-8.240	0.000
colony	0.561	0.105	5.330	0.000	colony	0.499	0.134	3.730	0.000
bothgatt	-0.657	0.700	-0.940	0.348	bothgatt	-0.591	0.444	-1.330	0.183
rta	0.128	0.200	0.640	0.522	rta	0.047	0.175	0.270	0.787
comcur	-0.167	0.095	-1.750	0.080	comcur	-0.169	0.096	-1.750	0.079
acp_to_eu	0.050	0.355	0.140	0.887	acp_to_eu	0.032	0.251	0.130	0.900
eu_to_acp	0.452	0.282	1.610	0.108	eu_to_acp	0.473	0.249	1.900	0.057

Dependent variable is the change of total aggregated value (Ln VALUE) of all deals from SDC Database one year before and after 2005. CEPII dataset is used for all the control variables for pairs of countries 2000 to 2006. I self develop the dataset to cover 2007 to 2009 and include Taiwan as an additional country. Two accounting standards disparity measures are calculated. In pre mandatory IFRS adoption period, PREDIFF1(2) are used. In post mandatory IFRS adoption period, POSTDIFF1(2) are used. The monadic effects are controlled by taking log of both countries' GDP per capita (LCAP_O;LCAP_D) and population (LPOP_O; LPOP_D) as determinants of bilateral trade patterns in the regressions. For dyadic control variables, time-fixed dyadic variables are controlled by including log of weighted-disparity (LDISTW) and dummies coded 1 if both countries have common contiguity (CONTIGUITY), common official language (COMLANG_OFF), common ethnos (COMLANG_ETHNO), common colonizer post 1945 (COLONIZER) and common legal origin (COMLEG); are pairs in colonial relationship post 1945 (COL45); ever have been in colonial relationship (COLONY). For time-varying dyadic control variables, dummies are coded 1 if both countries are GATT/WTO members (BOTHGATT); have regional trade agreement in force and common currency (RTA); are from ACP countries to EU countries (ACP_EU) and the reverse (EU_ACP).IV instruments are both partner countries' population difference. The detailed sources and definitions of each control variable are included in Table1. Standard errors are clustered by year and corrected for heterogeneity and extreme outliers. All standard errors are reported in parentheses in corrected form. * is p<10%; ** is p<5%;*** is p<1%.

Essay II Tables

Table 1: Comment Letters Sample Selection Process

		NO. of Letters
Total responding comment letters		251
Less	Non-opinion Letters	(60)
	Non-public Firms	(10)
	Non-Investor Group	(24)
	Investor Group	(8)
	Individuals	(9)
	Accountant	(18)
	Academia	(14)
	Other	(20)
Public firms		88
Less missing data firms		(16)
Final responding firms		72

All comment letters were separated into eight categories, namely, public firms, non-public firms, non-investor group, investor group, individuals, accountants, academia and other. Public firms represent the group of publicly trading firms; non-public firms represent the group of private firms; investor group represents business association, industry organization and investment association; non-investor group represent any group that is not of a business orientation; individuals represent any working professionals; accountants represent accounting firms and its staff; academia represents accounting professors from universities; other represents any government organization that does not fall into the previous seven categories. After deleting 60 non-opinion letters, 10 non-public firm letters, 24 non-investor group letters, 8 investor group letters, 9 individual letters, 18 accountants letters, 14 academia letters, 20 other letters and missing data firms, I reached a sample of 88 public firms.

Table 2A: Summary of Public Opinion Divergence regarding SEC Roadmap by Commentors

Commentors	Freq.	Cost over IFRS Implementation (1)			Concerns for Comparability (2)			Early Adoption & Compatibility (3)			Concerns for IFRS Quality (4)			FASB/IASB Coordination (5)			Economic & Litigation Effects (6)		
		Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other
Public Firms	88	71	14	3	34	43	11	73	15	0	20	63	5	18	54	16	42	44	2
(% in Total)		81%	16%	3%	39%	49%	13%	83%	17%	0%	23%	72%	6%	20%	61%	18%	48%	50%	2%
Non-public Firms	10	5	1	4	3	7	0	9	1	0	2	8	0	1	5	4	4	4	2
(% in Total)		50%	10%	40%	30%	70%	0%	90%	10%	0%	20%	80%	0%	10%	50%	40%	40%	40%	20%
Non-Investor Group	24	12	5	7	6	12	6	19	3	2	6	16	2	7	13	4	7	12	5
(% in Total)		50%	21%	29%	25%	50%	25%	79%	13%	8%	25%	67%	8%	29%	54%	17%	29%	50%	21%
Investor Group	8	6	0	2	5	3	0	7	0	1	5	3	0	4	3	1	6	1	1
(% in Total)		75%	0%	25%	63%	38%	0%	88%	0%	13%	63%	38%	0%	50%	38%	13%	75%	13%	13%
Individuals	9	5	0	4	5	2	2	7	1	1	4	2	3	3	0	6	5	3	1
(% in Total)		56%	0%	44%	56%	22%	22%	78%	11%	11%	44%	22%	33%	33%	0%	67%	56%	33%	11%
Accountant	18	13	2	3	3	10	5	8	8	2	3	11	4	6	8	4	7	10	1
(% in Total)		72%	11%	17%	17%	56%	28%	44%	44%	11%	17%	61%	22%	33%	44%	22%	39%	56%	6%
Academia	14	10	1	3	9	2	3	11	2	1	9	3	2	9	3	2	6	4	4
(% in Total)		71%	7%	21%	64%	14%	21%	79%	14%	7%	64%	21%	14%	64%	21%	14%	43%	29%	29%
Other	20	11	3	6	5	10	5	11	7	2	4	14	2	9	7	4	5	10	5
(% in Total)		55%	15%	30%	25%	50%	25%	55%	35%	10%	20%	70%	10%	45%	35%	20%	25%	50%	25%
Total	191	133	26	32	70	89	32	145	37	9	53	120	18	57	93	41	82	88	21
(% in Total)		70%	14%	17%	37%	47%	17%	76%	19%	5%	28%	63%	9%	30%	49%	21%	43%	46%	11%

In terms of "Comparability", I read the content of the comment letter and coded 1 if that particular commenter expressed words containing "comparable", "comparability" with a supporting point of view of IFRS' improvements on financial reporting comparability, using rational logical deduction; coded 0 if the view is opposing and 3 otherwise. In terms of "Quality", the letters were read and coded 1 if the word "quality" was mentioned in the letter, with a clear expressions of supporting that IFRS is a high quality accounting standard, such as "agree it is of high quality" or "support the high quality standards" etc; it was coded 0, if the opinion was opposing and 3 otherwise. For "Effect", the content covered the lines in the comment letters, which explicitly discussed the potential capital market economic benefits/costs, auditor responsibility and litigation risk, other than implementation cost that IFRS might bring to the commenter. Similar favorable opinions covering this range were coded 1; any opposing opinion was coded 0 and 3 otherwise. For "Scheme", it stands for the adoption proposal raised by SEC Roadmap. An opinion was coded 1 if the commenter responded in favor of the current adoption plan; if the commenter was against the plan, it was coded 3 otherwise. For "FASB", an opinion was coded 1 if the commenter supported the coordination between FASB and IASB and the letter was coded 0, if the commenter expressed unfavorable opinion towards FASB and IASB convergence projects; 3 if no opinion expressed or other. "Cost" was coded 1 if a firm explicitly expressed opinions pointing to the fact that the benefit of implementing IFRS overweighs the cost; coded 0 if a firm believed that the cost of implementation is higher than the benefit; 3 otherwise.

Table 2B: Summary of Public Opinion Divergence regarding SEC Roadmap by Industry

Industry	Freq.	Cost over IFRS Implementation (1)			Concerns for Comparability (2)			Early Adoption & Compatibility (3)			Concerns for IFRS Quality (4)			FASB/IASB Coordination (5)			Economic & Litigation Effects (6)		
		Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other	Cons	Pros	Other
Food	3	3	0	0	0	3	0	3	0	0	0	3	0	0	2	1	2	1	0
Textiles	5	5	0	0	4	0	1	5	0	0	4	1	0	2	2	1	4	1	0
Drugs	4	3	1	0	2	2	0	3	1	0	1	3	0	1	1	2	2	2	0
Chemicals	4	1	3	0	1	3	0	3	1	0	0	4	0	0	3	1	0	4	0
Refining	6	5	1	0	3	2	1	5	1	0	1	4	1	0	5	1	2	4	0
Rubber	2	2	0	0	0	1	1	1	1	0	0	1	1	1	1	0	1	1	0
Industrial	2	1	1	0	0	2	0	2	0	0	0	2	0	1	1	0	1	1	0
Electrical	1	1	0	0	0	1	0	1	0	0	0	1	0	0	0	1	1	0	0
Misc. Equip.	5	5	0	0	4	1	0	5	0	0	3	2	0	0	5	0	4	1	0
Computers	7	4	2	1	1	6	0	5	2	0	1	6	0	1	5	1	1	6	0
Transportation	6	5	0	1	1	2	3	4	2	0	1	5	0	0	4	2	3	3	0
Utilities	10	9	1	0	5	3	2	10	0	0	4	4	2	2	7	1	6	3	1
Retail	11	11	0	0	5	4	2	11	0	0	2	8	1	4	5	2	7	4	0
Banks	17	12	4	1	6	11	0	10	7	0	1	16	0	5	10	2	3	13	1
Services	5	4	1	0	2	2	1	5	0	0	2	3	0	1	3	1	5	0	0
Total	88	71	14	3	34	43	11	73	15	0	20	63	5	18	54	16	42	44	2
(% in Total)		81%	16%	3%	39%	49%	13%	83%	17%	0%	23%	72%	6%	20%	61%	18%	48%	50%	2%

In terms of "Comparability", I read the content of the comment letter and coded 1 if that particular commenter expressed words containing "comparable", "comparability" with a supporting point of view of IFRS' improvements on financial reporting comparability, using rational logical deduction; coded 0 if the view is opposing and 3 otherwise. In terms of "Quality", the letters were read and coded 1 if the word "quality" was mentioned in the letter, with a clear expressions of supporting that IFRS is a high quality accounting standard, such as "agree it is of high quality" or "support the high quality standards" etc; it was coded 0, if the opinion was opposing and 3 otherwise. For "Effect", the content covered the lines in the comment letters, which explicitly discussed the potential capital market economic benefits/costs, auditor responsibility and litigation risk, other than implementation cost that IFRS might bring to the commenter. Similar favorable opinions covering this range were coded 1; any opposing opinion was coded 0 and 3 otherwise. For "Scheme", it stands for the adoption proposal raised by SEC Roadmap. An opinion was coded 1 if the commenter responded in favor of the current adoption plan; if the commenter was against the plan, it was coded 0; it was coded 3 otherwise. For "FASB", an opinion was coded 1 if the commenter supported the coordination between FASB and IASB and the letter was coded 0, if the commenter expressed unfavorable opinion towards FASB and IASB convergence projects; 3 if no opinion expressed or other. "Cost" was coded 1 if a firm explicitly expressed opinions pointing to the fact that the benefit of implementing IFRS overweighs the cost; coded 0 if a firm believed that the cost of implementation is higher than the benefit; 3 otherwise.

Table 3A: Correlation Matrix for Variables in Essay I

	Cost	Quality	Compare	FASB	Scheme	Effect
Cost	1.00	0.07	0.04	0.01	0.24	0.20
		(0.512)	(0.702)	(0.952)	(0.022)	(0.059)
Quality	0.18	1.00	0.71	0.06	0.08	0.35
	(0.089)		(0.000)	(0.551)	(0.473)	(0.001)
Compare	0.20	0.71	1.00	0.02	0.10	0.25
	(0.066)	(0.000)		(0.821)	(0.360)	(0.017)
FASB	-0.03	0.10	0.04	1.00	0.02	0.02
	(0.802)	(0.351)	(0.689)		(0.857)	(0.852)
Scheme	0.31	0.17	0.21	0.07	1.00	0.27
	(0.003)	(0.114)	(0.048)	(0.534)		(0.012)
Effect	0.28	0.44	0.37	0.07	0.35	1.00
	(0.009)	(0.000)	(0.000)	(0.489)	(0.001)	

P-values are in prances. Upper triangular matrix for results of Pearson correlation; lower triangular matrix for results of Spearman correlation.

Table 3B: Correlation Matrix for Total Sample in Essay I

	Respond	Firm Age	Audit Fee	Segment	Foreign	Bkv	Mktcap	ROA	CFO	Analyst
Respond	1.00	0.19	-0.02	0.12	0.06	0.18	0.24	0.06	0.04	-0.06
		(0.000)	(0.279)	(0.000)	(0.001)	(0.000)	(0.000)	(0.001)	(0.012)	(0.001)
Firm Age	0.14	1.00	-0.08	0.31	0.17	0.39	0.43	0.18	0.15	-0.23
	(0.000)		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Audit Fee	-0.19	-0.32	1.00	-0.07	-0.06	-0.37	-0.20	-0.35	-0.36	0.70
	(0.000)	(0.000)		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Segment	0.10	0.27	-0.07	1.00	0.40	0.31	0.36	0.17	0.19	-0.15
	(0.000)	(0.000)	(0.000)		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Foreign	0.06	0.17	0.01	0.41	1.00	0.22	0.27	0.12	0.16	-0.11
	(0.001)	(0.000)	(0.646)	(0.000)		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Bookvalue	0.20	0.40	-0.80	0.34	0.23	1.00	0.81	0.50	0.48	-0.58
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		(0.000)	(0.000)	(0.000)	(0.000)
Marketcap	0.20	0.38	-0.69	0.37	0.26	0.88	1.00	0.41	0.38	-0.36
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		(0.000)	(0.000)	(0.000)
ROA	0.06	0.17	-0.22	0.22	0.16	0.36	0.47	1.00	0.76	-0.51
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		(0.000)	(0.000)
CFO	0.05	0.15	-0.14	0.25	0.17	0.32	0.41	0.64	1.00	-0.53
	(0.007)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		(0.000)
Analyst	-0.17	-0.36	0.87	-0.10	-0.04	-0.68	-0.52	-0.14	-0.04	1.00
	(0.000)	(0.000)	(0.000)	(0.000)	(0.022)	(0.000)	(0.000)	(0.000)	(0.012)	

P-values are reported in prances. Upper triangular matrix for results of Pearson correlation; lower triangular matrix for results of Spearman correlation. For each firm, Bookvalue and Marketcap are the log of average book and market capitalization of fiscal year 2008 and 2007. To measure experience, I count firm years available in COMPUSTAT database for each firm to represent firm age (Firm Age), assuming that firms with older age have better experience in financial reporting and more matured accounting information systems. Audit fees scaled by average asset (Auditor Fee / A) is used to capture the average effects that auditors play in a firm. Segments is calculated by summing up all business segments of a particular firm. Foreign Currency is a dummy variable which is denoted 1 when a firm has foreign currency translation and 0 otherwise. I measure the specific information demand of a firm by using analysts following numbers in 2008 scaled by average total asset. This is denoted Analyst. Return on assets (ROA) as calculated by averaging annual returns over assets of the current and prior period year. Another metric, CFO/A, is calculated by dividing cash flows from operations with average total assets of the current and prior period year.

Table 4: Logit Regressions for IFRS Responding Firms Characteristics

	Predicted Sign	Logit Estimate (p-value) (1)	Relogit Estimate (p-value) (2)	Logit Estimate (p-value) (3)	Relogit Estimate (p-value) (4)	Logit Estimate (p-value) (5)	Relogit Estimate (p-value) (6)
Firm Age	+	0.019**	0.018**	0.017**	0.016*	0.016*	0.016*
		(0.008)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Auditor Fee / A	-	-0.031	0.001	-0.055	-0.025	-0.046	-0.018
		(0.042)	(0.018)	(0.049)	(0.022)	(0.047)	(0.020)
Foreign Currency	-	-0.235	-0.226	-0.301	-0.286	-0.311	-0.292
		(0.318)	(0.334)	(0.323)	(0.343)	(0.323)	(0.340)
Segments	+	0.068**	0.065**	0.073**	0.070**	0.067**	0.064**
		(0.032)	(0.032)	(0.033)	(0.033)	(0.033)	(0.033)
Analyst	+	55.209***	53.271***	29.93	30.450*	46.272**	46.286***
		(20.587)	(14.136)	(22.761)	(18.263)	(22.517)	(16.861)
Bookvalue	+	8.643***	8.532***			4.225**	4.107**
		(1.067)	(1.086)			-2.002	-1.885
Marketcap	+			0.982***	0.967***	0.562**	0.553***
				(0.116)	(0.118)	(0.226)	(0.212)
ROA	-/+	-0.167	-0.335			-0.187	-0.477
		(1.376)	(1.114)			(1.752)	(1.383)
CFO/A	-/+			-3.916**	-3.820***	-2.827	-2.563
				(1.638)	(1.422)	(2.278)	(2.341)
Industry		yes	Yes	yes	yes	yes	yes
Number of Responding Firms		72	72	72	72	72	72
Number of Total Sample		3402	3402	3402	3402	3402	3402
Likelihood Ratio		229.36	n/a	230.97	n/a	235.99	n/a

For each firm, Bookvalue and Marketcap are the log of average book and market capitalization of fiscal year 2008 and 2007. To measure experience, I count firm years available in COMPUSTAT database for each firm to represent firm age (Firm Age), assuming that firms with older age have better experience in financial reporting and more matured accounting information systems. Audit fees scaled by average asset (Auditor Fee / A) is used to capture the average effects that auditors play in a firm. Segments is calculated by summing up all business segments of a particular firm. Foreign Currency is a dummy variable which is denoted 1 when a firm has foreign currency translation and 0 otherwise. I measure the specific information demand of a firm by using analysts following numbers in 2008 scaled by average total asset. This is denoted Analyst. Return on assets (ROA) as calculated by averaging annual returns over assets of the current and prior period year. Another metric, CFO/A, is calculated by dividing cash flows from operations with average total assets of the current and prior period year. Logit and rare event logit models are adopted.

Table 5A: Opinion Divergence with Different Reporting Incentives: G-Index Proxy

| | Group | Obs | Mean | S.E. | Diff. | t-test (p-value for Ha>0) | | Wilcoxon Test (p-value for Ha>0) | |
						T	Pr(T>t)	z	Prob(Z>z)
Comparability	0	33	9.848	0.440	1.817	2.888	0.002	2.708	0.004
	1	32	8.031	0.450					
Quality	0	19	9.737	0.566	0.948	1.335	0.047	1.307	0.096
	1	52	8.788	0.376					
Effect	0	40	9.575	0.389	1.193	2.006	0.012	1.824	0.034
	1	34	8.382	0.455					
Scheme	0	68	9.015	0.315	-0.485	-0.499	0.345	-0.571	0.284
	1	8	9.500	0.945					
FASB	0	16	8.938	0.559	-0.193	-0.248	0.299	-0.251	0.401
	1	46	9.130	0.415					
Cost	0	67	9.164	0.303	0.593	0.569	0.143	0.855	0.196
	1	7	8.571	1.462					
	1	7	8.571	1.462					

Table 5B: Logit Regression for Responding Firms with Diversified Opinions

| | Sign | Comparability | | | Quality | | | Effect | | |
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
G-Index	-	-0.282***	-0.219*	-0.381**	-0.137	-0.200	-0.196	-0.186*	-0.202*	-0.322**
		(0.107)	(0.112)	(0.158)	(0.104)	(0.127)	(0.180)	(0.096)	(0.110)	(0.136)
Controls			yes			Yes			yes	
Industry				yes			yes			yes
Likelihood Ratio		7.95	8.17	18.73	1.8	6.25	18.52	4.00	5.11	23.04
Pseudo R^2		0.088	0.09	0.246	0.022	0.082	0.242	0.039	0.057	0.253
No. of Obs.		65	65	65	65	65	65	65	65	65

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