

**“Capital market effects on the IFRS adoption for separate financial statements:
Evidence from the Italian stock market”**

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ABSTRACT

Using a sample of Italian firms, I investigate whether separate financial statements are useful to capital market investors and IFRS are more value-relevant than domestic GAAP. I find that separate financial statements are value relevant under both the accounting standard sets, with Italian GAAP being more informative than IFRS. However, while results are robust for book value, they provide mixed evidence on net income.

KEYWORDS: Value-Relevance, Domestic GAAP, IFRS, Separate Financial Statements, Regulation 1606/2002

JEL CLASSIFICATION: M41, G10

1. Introduction

As is well known, since 2005 all listed companies in the European Union have been required to prepare their financial statements in accordance with the international financial reporting standards (IFRS)¹. IFRS have been introduced in the European Union by Regulation 1606/2002, which mandates IFRS for listed consolidated financial statements with a member State option to apply IFRS for the other reporting entities.

A certain number of States have extended IFRS to separate financial statements. The adoption of IFRS for separate financial statements has however been widely discussed and questioned, especially in countries where separate financial statements serve other purposes such as computation of income taxes, and taxation rules are heavily aligned to domestic Generally Accepted Accounting Principles (GAAP) (Choi and Mueller 1992, Lamb *et al.* 1998, Nobes 1998, Nobes 2003, Delvaile *et al.* 2005, Whittington 2005, Oliveras and Puig 2007, Macias and Muiño 2011).

Table 1 displays the States in the European Union (EU) and the European Economic Area (EEA) requiring or permitting IFRS for separate financial statements.

(Insert Table 1 about here)

Recently, the European Financial Reporting Advisory Group (EFRAG) has launched a proactive project, *“Separate Financial Statements prepared under IFRS”*, whose purpose is to determine whether IFRS are fit-for-purpose in satisfying the information needs of separate financial statement users. Many have in fact argued that IFRS are more

¹IAS were issued by the International Accounting Standard Committee (IASC), predecessor of the International Accounting Standard Board (IASB) till 2000. IFRS are issued by the IASB. For ease of exposition, I use the term IFRS to refer both to the International Accounting standards (IAS) and to the International Financial Reporting Standards (IFRS).

conceived for consolidated accounts and for the needs of capital market investors, raising therefore practical concerns about the IFRS relevance for separate financial statements (EFRAG, Motivation for the Proactive Project).

Academic research is an important tool for standard setters and policy-makers as it can provide evidence helpful to inform the debate and the decision-making process on financial reporting issues. The purpose of this research is therefore to investigate whether separate financial statements are useful for capital market investors and IFRS are more value-relevant than domestic GAAP. These are key issues both to the EFRAG's proactive project and to policy makers interested in evaluating the IFRS adoption for separate financial statements.

This paper focuses on the Italian context, where the usefulness of separate financial statements prepared according to IFRS often come up to discussion (OIC 2012), with the aim of contributing therefore specific evidence to this point.

Overall, findings document that separate financial statements provide investors with useful information. Separate financial statements are value-relevant under both Italian GAAP and IFRS, although results are robust only for book value. Furthermore, results also indicate that the IFRS adoption has not increased the value relevance of separate financial statements, therefore providing some support to those who claim for a return of separate financial statements to domestic GAAP.

This research extends and contributes to existing international literature in different ways.

This paper is arguably the first investigating the value-relevance of separate financial statements and the effects of adopting IFRS². First of all, it provides useful insights into the different information needs of financial statements users by investigating whether separate financial statements add information content to consolidated numbers.

Furthermore, it documents the effects of adopting IFRS on the usefulness of separate financial statements to investors. Its results are therefore of direct interest to those countries either requiring, permitting or considering the IFRS adoption for separate financial statements.

Although the analysis is carried out in the Italian context, its findings can however provide guidance of an international nature relating to the effect of adopting IFRS in other stakeholder-oriented countries (Alford *et al.* 1993, Ball *et al.* 2000, Ali and Hwang 2000).

Finally, this study also contributes to previous literature from a methodology perspective. Following Clarkson *et al.* (2011), it controls for possible model misspecification by performing a regression that includes some cross-product terms, which are intended to control for possible nonlinearities in the relation between share prices and accounting variables. Indeed, the adoption of such a model shows that the IFRS adoption introduces nonlinearities effects in the relation between prices and accounting variables, which alters statistical inference.

² The only recent study on the IFRS adoption for separate financial statements is the one by Macias and Muiño (2011). Their analysis focuses however on consolidated data and shows that European countries requiring the use of domestic standards in separate financial statements exhibit a significantly lower value-relevance of accounting data, which suggests that domestic standards are more oriented towards the satisfaction of different needs than those of investors. Macias and Muiño measure accounting quality for consolidated financial statements by using the explanatory power of earnings and equity book value for stock prices and the ability of earnings to explain future cash flows. Differently from Macias and Muiño, this research focuses directly on the relation between share prices and separate financial statements.

The remainder of the paper is organized as follows. Section 2 presents the relevant literature on the topic, while Section 3 provides the research design. Section 4 describes the sample selection and provides descriptive statistics. Section 5 presents empirical results, while Section 6 reports a robustness check, and Section 7 concludes.

2. Literary review

Evidence regarding the value relevance of separate financial statements both in absolute terms and relative to consolidated data is rather limited, largely due to US companies not disclosing parent accounts alone.

Darrough and Harris (1991), for instance, examine the effects of consolidation in Japan and find little evidence of incremental information content or value relevance of consolidated data. They conclude, however, that these results cannot be generalized due to the unique institutional environment and inter-firm ownership relations. Harris *et al.* (1997) also provide weak evidence that consolidated financial statements are more value relevant than unconsolidated financial statements for a sample of German firms.

However, findings are not consistent over all the sample years and the flexibility afforded in the domestic GAAP application to consolidated accounts is claimed to influence the results.

In contrast, Alford *et al.* (1993) find that both unconsolidated and consolidated earnings are value relevant for a set of non-US companies, with consolidated ones however being more value-relevant. These results are in line with Abad *et al.* (2000), who show that consolidated information dominates parent company information in a set of quoted Spanish firms.

One explanation for the lower value relevance of separate financial statements could be that such documents satisfy regulatory and taxation purposes. Indeed, in nearly every country unconsolidated accounts are the starting point for the computation of taxable income, although the degree of connection between taxation and financial reporting varies from dominance in Germany (e.g. Haller 1992, Pfaff and Shröer 1996) to minor importance in the UK (e.g. Lamb 1996). The extent of the departure from accounting rules mainly depends on the differing purposes assigned to financial reporting by each national accounting system (Nobes 2003, Norberg 2007). In Italy, taxation rules are more aligned to the Italian GAAP (Hoogendoorn 1996, Rocchi 1996, Gavana 2013) and for this reason the decision to extend the compulsory use of IFRS to the separate financial statements of certain types of companies have raised many questions among both academicians and practitioners (Mastellone 2011).

IFRS are strongly oriented to the needs of investors, who are considered by the IASB to have the most critical and immediate need for the information in financial reports (IASB 2010 BC 1.16). The IFRS usefulness to investors have therefore been explored widely, with research papers however focusing only consolidated financial statements. The only recent study on the IFRS adoption for separate financial statements is the one by Macias and Muiño (2011), who however perform their analysis by using consolidated data. The authors show in fact that European countries requiring the use of domestic standards in separate financial statements exhibit in general a lower value-relevance of accounting

data³, which is consistent with domestic standards more oriented towards the satisfaction of different needs than those of investors.

The IFRS adoption in all the European Union has represented an extraordinary occasion for empirical research to assess their usefulness to investors. A certain number of studies have focused on the effects of mandating IFRS in different countries contemporarily (Aubert and Grudnitski 2011, Daske *et al.* 2008) and provided mixed results. Aubert and Grudnitski, for instance, examine 13 countries in the European Union and 20 industries at the same time, failing to document a statistically significant increase in the value-relevance of accounting information after the IFRS adoption. Daske *et al.* examine the mandatory IFRS adoption not only in Europe, but worldwide, and find statistically significant, but economically modest capital market benefits around the IFRS adoption. Such market benefits occurred, however, only in countries where firms had incentives to be transparent and where legal enforcement was strong. Byard *et al.* (2011), Barth *et al.* (2012) and Horton *et al.* (2012) also document the important roles of enforcement regimes and firm-level reporting incentives in determining the impact of mandatory IFRS adoption.

Other studies have investigated the mandatory IFRS adoption in individual countries, with the important advantage of reducing the omitted variables problem.

However, also these studies have provided mixed results. Callao *et al.* (2007), for instance, focus on the IFRS adoption in Spain and find that value-relevance of financial reporting does not improve, whereas comparability even worsens for firms adopting IFRS. Horton

³ Macias and Muiño measure accounting quality for consolidated financial statements by using the explanatory power of earnings and equity book value for stock prices and the ability of earnings to explain future cash flows.

and Serafeim (2010) examine the UK stock market documenting a decrease in forecast errors for firms mandatorily adopting IFRS. Christensen *et al.* (2007) investigate a similar setting, but focus on the effect of adopting IFRS on debt contracting and documented significant market reactions to IFRS reconciliation announcements. Gjerde *et al.* (2008) focus on the IFRS restatements for firms listed on the Oslo Stock Exchange and find mixed results according to the research methodology employed, whereas Iatridis and Rouvolis (2010) examine the Greek context documenting that IFRS-based financial statements have higher value-relevance than under Greek GAAP.

Some researchers have pointed out that mixed results provided by empirical literature could be due to the different levels of legal enforcement and firm incentives in adopting IFRS (e.g. Atanassova 2008, Daske *et al.* 2008, Beuselinck *et al.* 2010, Aharoni *et al.* 2010, Kvaal and Nobes 2010, Verriest *et al.* 2010, Byard *et al.* 2011, Barth *et al.* 2012 and Horton *et al.* 2012). Some others have instead suggested that mixed results could also be driven by methodological issues, such as misspecification of the regression models (Soderstrom 2007, Clarkson *et al.* 2011). Clarkson *et al.*, for instance, show that inference on the IFRS value relevance varies according to the regression model. Their analysis documents in fact that when a cross-product term, equal to the product of earnings and book value, is included in the regression so as to control for nonlinearities in the relation between prices and accounting measures, IFRS numbers become not relevant, an inference that would not have been possible had their analysis been confined to the linear pricing model.

3. Research hypotheses and methodology

This study belongs to the value-relevance research area, which is coherent with the IASB's focus on the needs of the participants in capital markets.

In the extant literature, an accounting amount is defined as value-relevant if it is significantly associated with share prices (Barth *et al.* 2001). Value-relevance is an empirical way for operationalizing the criteria of relevance and reliability, which are used by standard setters in order to choose among accounting alternatives.

Following the review in Section 2, this paper tests 3 hypotheses, specified as alternatives to their null.

The first purpose of this paper is to check whether the information included in separate financial statements is value-relevant, regardless of the accounting standard set used for their preparation. Therefore, the first hypothesis tested can be stated as follows:

H1: Separate financial statements are value-relevant to capital market investors. As a consequence, the estimated coefficients on book value and net income are expected to be significantly different from zero.

This research to book value of equity and net income⁴, which are key drivers in firm valuation (Feltham and Ohlson 1995, 1996; Ohlson 1999, 2000).

To test the first hypothesis, the following ordinary least squares (OLS) regression is performed under both domestic GAAP and IFRS:

$$PPS_{it-30,t+60} = \alpha_0 + \alpha_1 BVPS_{it_SEP} + \alpha_2 NIPS_{it_SEP} + \alpha_3 BVPS_{it_CON} + \alpha_4 NIPS_{it_CON} + \varepsilon \quad (1)$$

where :

$PPS_{it-30,t+60}$ = price per share for firm i over a period which includes 30 days before the first IFRS financial statements, issued at time t , and 60 days after;

⁴ When research is oriented to determine what is reflected in the firm value over a specific period of time, research design usually consists in examining the association between market value of equity, or share price, and accounting data (Barth *et al.* 2001). Since my primary research interest is to assess whether and to what extent accounting numbers are reflected in stock prices, rather than their timeliness, I follow this approach. Moreover, this approach has certain advantages over traditional return models (Collins *et al.* 1997, Rees 1997, Garrod and Rees 1998, Barth *et al.* 2001).

$BVPS_{it_{SEP}}$ = book value of equity per share for firm i in the first IFRS separate financial statements, issued at time t ;

$NIPS_{it_{SEP}}$ = net income per share for firm i in the first IFRS separate financial statements, issued at time t ;

$BVPS_{it_{CON}}$ = consolidated book value of equity per share for firm i at time t ;

$NIPS_{it_{CON}}$ = consolidated net income per share for firm i at time t .

Regression (1) also includes consolidated book value and net income, which prior research has found to be highly correlated with share prices. Inserting consolidated data as a control variable allows disentangling the effects of separate financial statements on share prices from those of consolidated financial statements.

In order to mitigate scale effects, all the variables in regression (1) are deflated by the number of share outstanding. Scale effects generally arise from the fact that larger firms have larger market capitalizations, larger book values and larger earnings as opposed to smaller firms (see e.g. Barth and Kallapur 1996, Brown, Lo and Lys 1999, Easton and Sommers 2003). Therefore, a cross-sectional regression of market capitalization on book value and earnings might not capture more than existing scale variation, and the adjusted R^2 in a regression with a common scale factor is overestimated (Gjerde et al. 2008).

Price per share in regression (1) is computed as a simple average of price per shares from 30 days before the first IFRS separate financial statements to 60 days after. During this period, investors are supposed to encompass the new information released in prices⁵. The time period assumed for price reaction to new information also includes 30 days prior to

⁵As outlined by Bartov *et al.*, the choice about the length of the event window always involves a trade-off. On the one hand, windows that are too wide might increase the noise-to-signal ratio and, thereby, decrease the explanatory power of accounting numbers. On the other hand, however, windows that are too narrow might exclude part of market reaction to the event of interest.

its disclosure as some information can be anticipated to the market (Rees and Elgers 1997).

Data on individual stock prices are obtained from the Sole24Ore database, which contains daily information on stock prices from the Italian Stock Exchange. Accounting data under domestic GAAP and IFRS, as well as reconciliation data, are hand-collected from the financial statements of the sample firms.

Findings documenting that separate financial statement book value and net income are not value-relevant would suggest that such numbers serve other purposes rather than those of investors.

Findings documenting that separate financial statements are instead value-relevant would require to further investigate which accounting standard set – either Italian GAAP or IFRS - is more linked to share prices. The accounting standard set which is more linked to share prices is deemed to be more useful to investors.

As is well known, one of the purposes of the European Regulation 1606/2002 adopting IFRS in Europe is to ensure a higher level of transparency in financial statements, which is necessary to build an efficient and integrated capital market.

Table 2 reports the main differences between Italian GAAP and IFRS.

(Insert Table 2 about here)

Coherently with Regulation 1606/2002, IFRS are therefore expected to be more value-relevant than Italian GAAP. Hence, my second hypothesis can be specified as follows:

H2: The value-relevance of IFRS for separate financial statements is significantly higher than Italian GAAP, as evaluated by a higher adjusted R^2 in the regression of price per share on book value and net income per share.

To test this hypothesis, I can exploit the advantage that, in the first year of the IFRS adoption, firms were required to prepare their financial statements according to both domestic standards and IFRS as well as to provide investors with reconciliations to IFRS. This allows comparing accounting numbers prepared under both domestic standards and IFRS for the same set of firms at the same date. As the economic reality is the same, this approach ensures that the differences observed between financial measures are exclusively due to differences in accounting standards. In fact, firm-related, country-related and other factors which might affect accounting value-relevance are held constant. As the IFRS adoption for separate financial statements in Italy was mandatory, this approach also overcomes the problem of controlling for changes in firms' incentives to change financial reporting standards.

Furthermore, at the date of the IFRS adoption for separate financial statements, consolidated financial statements were already prepared under IFRS. Consolidated financial statements switched to IFRS in 2005, whereas separate financial statements in 2006. This time discrepancy therefore allows disentangling the effects of the first time adoption of IFRS on separate statements from those on consolidated financial statements. In order to test the second research hypothesis, I perform regression (1) using both Italian GAAP and IFRS numbers reported in the first IFRS financial statements and I measure their value-relevance by using the adjusted R^2 from price regression. The accounting numbers with higher R^2 are considered to have a higher explanatory power and therefore to be more value relevant. The statistical significance of differences in R^2 is based on Cramer (1987).

If findings show that either separate financial statements are not value-relevant, or that IFRS are less value-relevant than Italian GAAP, it would be difficult to reject the claim of those suggest that firms should be exempted from preparing their separate financial statements according to IFRS. In fact, if IFRS are primarily conceived for capital market investors, but capital market investors ignore them, why should they be adopted? However, this paper also follows a different approach, which consists in evaluating the incremental value-relevance of IFRS by testing the value-relevance of adjustments to Italian GAAP amounts⁶.

The third research hypothesis can therefore be stated as follows:

H3: The IFRS mandatory reconciliations to book value and net income in the separate financial statements are incrementally value-relevant, as evaluated by their regression coefficients with share prices, which are expected to be significantly different from zero.

In order to test the third research hypothesis, I subdivide book value and net income under IFRS as follows:

$$PPS_{it-30,t+60} = \beta_0 + \beta_1 BVPS_{it SEP}^{IGAAP} + \beta_2 BVPS_{it SEP}^{IFRS-IGAAP} + \beta_3 NIPS_{it SEP}^{IGAAP} + \beta_4 NIPS_{it SEP}^{IFRS-IGAAP} + \beta_5 BVPS_{it CON} + \beta_6 NIPS_{it CON} + \varepsilon \quad (2)$$

where :

⁶ Value-relevance tests can be classified in relative association and incremental association tests. Relative association tests compare the association between stock market values (or changes in values) and alternative accounting measures. This kind of test focuses on differences in the R² of regressions. The accounting numbers with the highest R² are described as being more value-relevant. Incremental association tests, instead, investigate whether the accounting number is helpful in explaining stock market values (or returns) given other specified variables. That accounting number is typically deemed to be value-relevant if its estimated regression coefficient is significantly different from zero. Incremental association tests investigate whether an accounting number is helpful in explaining stock market values (or returns) given other specified variables. That accounting number is deemed to be value-relevant if its estimated regression coefficient is significantly different from zero.

$PPS_{it-30,t+60}$ = price per share for firm i over a period which includes 30 days before the first IFRS financial statements, issued at time t , and 60 days after;

$BVPS_{it}^{IGAAP}$ = book value of equity per share for firm i under Italian GAAP in the first IFRS separate financial statements, issued at time t ;

$BVPS_{it}^{IFRS-IGAAP}$ = book value reconciliation per share for firm i from Italian GAAP to IFRS in the first IFRS separate financial statements, issued at time t ;

$NIPS_{it}^{IGAAP}$ = net income per share for firm i under Italian GAAP in the first IFRS separate financial statements, issued at time t ;

$NIPS_{it}^{IFRS-IGAAP}$ = net income reconciliation per share for firm i from Italian GAAP to IFRS in the first IFRS separate financial statements, issued at time t .

4. Sample selection and descriptive statistics

This research paper focuses on separate financial statements of parent companies, i.e. companies having one or more subsidiaries.

The sample used in this research is made of industrial firms listed on the Italian stock exchange at the date of the mandatory adoption of IFRS for separate financial statements.

In order to identify the sample firms, I use the Sole24Ore database. Firms included in this database at the date of IFRS adoption are 264. Following other studies (e.g. Hung and

Subramanyan 2007), I drop banks as well as insurance and financial investment

companies as their activities are very different from manufacturing and industrial

services. This choice allows not introducing dummy variables for the industries into the regressions, coherently with the criterion of parsimony in the selection of the regression

models (Schwarz 1978, Jefferys and Berger 1992, Forster and Sober 1994). I then drop

firms for which one or more data are not available and I exclude firms preparing

individual financial statements only as they are the only information source available to

capital market investors. I also exclude firms in temporary receivership, for which

insistent rumours about possible mergers, acquisitions as well as other news and

managers' interviews could influence prices more than their financial statements' release.

Finally, I drop firms that went public in the first year of the IFRS adoption as they prepared financial statements directly according to IFRS.

In the end, the sample results in 173 firms⁷. Table 3 reports the distribution of the sample firms by industry group.

(Insert Table 3 about here)

Table 4 displays descriptive statistics on book value, net income and their adjustments in separate financial statements for the sample firms, before winsorizing extreme observations, while Table 5 reports descriptive statistics on some important key financial ratios. All numbers are in Euros.

(Insert Table 4 about here)

At the date of the IFRS adoption, book value captures the cumulative effect of accounting differences, whereas net income captures the effects of accounting differences during the fiscal year.

Table 4 shows that, at the time of first adoption, 99% of the firms have positive book values in separate financial statements under both Italian GAAP and IFRS. Only one firm reports a negative book value (-24,119,771) under Italian GAAP, which remains negative (-26,811,279) under IFRS. Firms reporting book value adjustments are 99%. Only one firm does not report any adjustment either on the balance sheet or on the income statement.

Book value adjustments are positive in 49% cases and negative in 51%, but none of the

⁷ A potential criticism is that only 173 observations give little statistical power to reject the null hypothesis that IFRS and Italian GAAP are equally value-relevant. This criticism is correct if I were analyzing a sample and could expand the sample size. In my case, I have all observations available. The sample could be expanded by including other countries, but this approach would not match with the purpose of the paper. Furthermore, if the universe of observations is studied, all differences are significant in principle and no statistical tests would be needed. However, I will not interpret my sample as the universe of observations, so tests are performed in order to generalize results.

book values change signs after the IFRS implementation. Adjustments of the book value are included between – 69% and +112% of its amount under Italian GAAP.

After the IFRS adoption, the average book value in separate financial statements rises by 3.13% as a result of large adjustments made by a few firms, while the median slightly decreases by 0.51%. The standard deviation under IFRS is slightly higher (+4.09%) than under Italian GAAP, indicating that the IFRS adoption has magnified differences across firm book values.

Net income captures the effect of accounting differences during the fiscal year. Firms reporting net income adjustments in separate financial statements are 99% of the sample, positive adjustments are 45% and negative ones are 55%. 5 firms have changed their net income from negative to positive and 5 from positive to negative. Net income adjustments are included between -1,054% and +2,567% of net income under Italian GAAP. Overall, after the IFRS adoption, net income has decreased by 8.62% on average and by 1.34% in median. The standard deviation also decreases by 3.37%, indicating that the IFRS adoption has reduced net income cross-sectional variation.

(Insert Tables 5)

Table 6 reports descriptive statistics for the variables included in the regressions. In order to limit the effect of possible outliers in the inferential analysis, I could adopt different rules. In this paper, I winsorize extreme observations of each variable: all data below the 5th percentile are set to the 5th percentile, and data above the 95th percentile are set to the 95th percentile. I also replicate the analysis by eliminating observations with studentized residuals above 2 (Belsley *et al.* 1980) and results (not reported) are qualitatively similar.

(Insert Table 6 About here)

Finally, Table 7 displays the Pearson's correlation coefficients for the variable included in the regressions.

(Insert Table 7 about here)

According to the univariate analysis, share price is significantly correlated with book value and net income in separate financial statements both under IFRS and Italian GAAP. However, correlations with book value and net income are slightly stronger under Italian GAAP, thus suggesting Italian GAAP being more informative than IFRS. This is also consistent with the correlation coefficients between share price and reconciliation data, which are not significant, thus indicating that they do not contain additional value-relevant information beyond Italian GAAP.

Table 7 also shows that consolidated book value and net income are strongly correlated with share price at the 1% level and that their coefficients are higher than for separate financial statements, which suggests that consolidated data have higher value-relevance than separate ones. As expected, consolidated and separate book value and net income are also strongly correlated, although correlation is surprisingly higher between consolidated and separate data under Italian GAAP than for the same data all under IFRS. In particular, the correlation coefficient between separate book value under Italian GAAP and consolidated book value is 0.90 and significant at the 1% level, while the correlation coefficient between separate book value under IFRS is 0.88 and significant at the 1% level, too. Finally, the correlation coefficients between share price and the product term is always positive and significant at the 1% level, consistent with possible nonlinearities in the relation between prices and accounting variables.

5. Findings

Tables 8 and 9 displays results of the regressions (1) and (2) respectively.

In Table 8, price per share is modelled as a linear function of the book value and net income per share in separate and consolidated financial statements.

In order to evaluate the two accounting standards sets unconditionally, regression (1) is performed for Italian GAAP and IFRS measures separately.

(insert Table 8 about here)

Table 8 shows that all the accounting variable coefficients are statistically significant, thus indicating that the information conveyed by both separate and consolidated financial statements is value-relevant, i.e. it is useful for capital market investors.

Findings therefore provide support to the first research hypothesis, suggesting that separate financial statements contain additional value-relevant information.

Book value and net income coefficients for separate financial statements are positive and significant at the 1% and 5% level respectively under both Italian GAAP and IFRS. Both the coefficient on book value and net income of separate financial statements are higher under Italian GAAP ($BVPS_{SEP}^{IGAAP} = 0.90$ and $NIPS_{SEP}^{IGAAP} = 3.42$) than under IFRS ($BVPS_{SEP}^{IFRS} = 0.74$ and $NIPS_{SEP}^{IFRS} = 2.85$), consistent with Italian GAAP being more conservative than IFRS⁸.

When comparing explanatory power of the regressions, findings document a lower value relevance of accounting data under IFRS ($R^2 = 69,1\%$) than under Italian GAAP ($R^2 = 70,1\%$), which suggests accounting disclosure based on Italian GAAP being more informative than IFRS.

Cramer test

⁸ Results (not reported) from regressions with backward elimination of variables are qualitative similar, although R^2 decreases and coefficients on book value and net income increase, as might be expected.

When evaluated unconditionally, the value-relevance of Italian GAAP is significantly higher than the value-relevance of IFRS, as measured by the differences in R^2 for the two reporting sets. As a result, the second research hypothesis does not find support in Table 8.

Table 9 tests the incremental value-relevance of IFRS, i.e. the value-relevance of the adjustments made to the existing book value and net income in separate financial statements when adopting IFRS. Results show that IFRS do not provide marginal improvement in value-relevance relative to Italian GAAP, i.e. investors having access to the Italian GAAP financial statements do not find valuable additional information in the corresponding IFRS financial statements.

When the adjustments to IFRS are included in the model, the adjusted R^2 is 69,8% and the estimated coefficients on book value and net income of separate financial statements under Italian GAAP are significantly positive (coefficients 0,91 and t-statistic = 3.87 for $BVPS_{SEP}^{IGAAP}$; coefficient 3.34 and t-statistic = 2.24 for $NIPS_{SEP}^{IGAAP}$). Instead, both the estimated coefficients on book value and net income adjustments are not significant (coefficient 0.78 and t-statistic = 0.39 for $BVPS_{SEP}^{IFRS-IGAAP}$; coefficient -3.47 and t-statistic = -0.70 for $NIPS_{SEP}^{IFRS-IGAAP}$), which indicate that IFRS do not contain additional value-relevant information to Italian GAAP. These results are consistent with Table 8 and fail to provide support to the third research hypothesis.

6. Robustness check

In order to provide a robustness check for results and to control for possible model misspecification, I perform alternative analyses.

First of all, I perform a pooled regression of price per share on the book value and net income per share that includes an accounting standard dummy variable and its product with book value and net income (Bartov *et al.* 2005), so as to reflect the differential effect of reporting under IFRS over Italian GAAP.

The pooled regression is specified as follows:

$$(3) PPS_{it-30,t+60} = \gamma_0 + \gamma_1 BVPS_{it_SEP} + \gamma_2 NIPS_{it_SEP} + \gamma_3 BVPS_{it_CON} + \gamma_4 NIPS_{it_CON} + \gamma_5 \times DUMMY + \gamma_6 BVPS_{it_SEP} \times DUMMY + \gamma_7 NIPS_{it_SEP} \times DUMMY + \varepsilon \quad (3)$$

All the variables are defined as in regression (1). The dummy variable equals zero for Italian GAAP and 1 for IFRS.

If reporting book value and net income under IFRS provides greater value relevance than German GAAP, then γ_6 and γ_7 would be significantly positive.

Table 10 shows that results from regression (3) are qualitatively similar to previous findings. The coefficient of the dummy variable as well as of the interaction terms are not statistical significant, which also suggests that reporting under IFRS does not have incremental value relevance.

(Insert Table 10 about here)

Furthermore, as suggested by Clarkson *et al.*, I extend the linear model (1) and (2) by introducing a product term between book value and net income in order to reflect possible nonlinearities in the relation between prices and accounting data⁹.

⁹ Indeed, prior research has shown that conservatism in Italian GAAP induces a downward bias in book value and earnings (Beatty, Riffe and Thompson 1999, Clarkson *et al.* 2011). Ohlson (2009) also shows that fair value accounting measures expected earnings with considerable measurement errors and earnings therefore do a poor job in explaining the level of price.

I therefore perform the following nonlinear pricing models (termed the “product models”):

$$PPS_{it-30,t+60} = \gamma_0 + \gamma_1 BVPS_{it_SEP} + \gamma_2 NIPS_{it_SEP} + \gamma_3 BVPS_{it_CON} + \gamma_4 NIPS_{it_CON} + \gamma_5 BVPS_{it_SEP} \times NIPS_{it_SEP} + \gamma_6 BVPS_{it_CON} \times NIPS_{it_CON} + \varepsilon \quad (4)$$

and

$$PPS_{it-30,t+60} = \delta_0 + \delta_1 BVPS_{it}^{IGAAP} + \delta_2 BVPS_{it}^{IFRS-IGAAP} + \delta_3 NIPS_{it}^{IGAAP} + \delta_4 NIPS_{it}^{IFRS-IGAAP} + \delta_5 NIPS_{it}^{IGAAP} \times BVPS_{it}^{IGAAP} + \delta_6 NIPS_{it}^{IFRS-IGAAP} \times BVPS_{it}^{IFRS-IGAAP} + \delta_7 BVPS_{it_CON} + \delta_8 NIPS_{it_CON} + \delta_9 BVPS_{it_CON} \times NIPS_{it_CON} + \varepsilon \quad (5)$$

All the variables are defined as in regressions (1) and (2) and results are provided in Table 11.

Regression (4) shows that, overall, separate financial statements are value relevant, although – differently from previous findings - results are robust only for book value and not for net income. Separate financial statements under Italian GAAP are also more value-relevant than under IFRS, which is consistent results from the linear model. The product term is not significant for separate financial statements both under Italian GAAP and IFRS, whereas it is strongly significant for consolidated financial statements.

Regression (5) also confirms results from the linear model as the The product term of book value and net income under the Italian GAAP is not significant, whereas the product term of the reconciliation amounts is strongly significant at the 1% level, thus suggesting the absence of measurement errors under the Italian GAAP, which show up adopting IFRS.

Robustness check performed in this section therefore increases confidence about the conclusion that adopting IFRS does not provide any incremental value-relevant information to investors.

7. Conclusions

This paper investigates the value-relevance of separate financial statements and the implications of adopting IFRS in the Italian context. It compares information under both Italian GAAP and IFRS for the same set of firms at the same date. It documents the changes in book value and net income precipitated by the IFRS adoption for separate financial statements and investigates the value-relevance of financial information under both the accounting standards.

Overall, this study shows that separate financial statements are value-relevant. Findings indicate that investors find valuable information in the book value under both Italian GAAP and IFRS. Results provide instead mixed evidence on net income as net income under Italian GAAP and IFRS is value-relevant in the linear model, but not in the product model. Finally, the product term for consolidated financial statements suggests that adopting IFRS induce nonlinearities in the pricing function.

Findings also show that Italian GAAP are however more value relevant than IFRS.

Results hold for both relative and incremental value relevance analysis, thus suggesting that the choice made by the Italian policy-maker to extend IFRS to separate financial statements does not find empirical support.

One explanation for results could be that, at least in Italy, consolidated financial statements have informative purposes only, whereas the dividend policy is defined on results provided by separate financial statements. If the dividend policy is set according

to the numbers in the separate financial statements, then investors might be interested in those data. As is well known, share prices are in fact driven by dividends.

Furthermore, dividend distribution relies on conservative criteria, which are closer to Italian GAAP than IFRS and for this reason investors could consider Italian GAAP as more useful.

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Table 1 – IFRS adoption for separate financial statements in the European Union and in the European Economic Area

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

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

Table 2 - Summary of the main differences between Italian GAAP and IFRS at the date of IFRS adoption according to the European Regulation 1606/2002.

ITEMS	ITALIAN GAAP	IFRS
Intangible assets	Alternatively capitalized or charged to operation when incurred.	Capitalized only if some criteria are met.
Goodwill	Amortised.	Not amortised.
Inventory	Either LIFO or FIFO or weighted average cost permitted.	LIFO not permitted. Recorded net of advances received by customers.
Property, plant and equipment.	Revaluation not permitted.	Revaluation permitted.
Provisions and contingent liabilities	Prudence prevails on competence.	Provision is made only if there is a current obligation as a consequence of an occurred event.
Finance leases	Recognised in the income statement.	Recognised on the balance sheet as tangible assets with the a financial obligation of equal value.
Tax assets and liabilities	Deferred tax assets must be posted only if it is reasonably certain that there will be sufficient taxable income to absorb them. Deferred tax liabilities must be posted only if it is likely to be paid.	Tax assets must be recorded when it is probable that there will be sufficient taxable income to absorb them.
Employee benefits	Recorded at nominal value and calculated as required by the Civil Code.	Determined on actuarial assumptions and discounted.
Financial instruments	Lower of cost or market values.	Fair value for certain types of investments.
Investment property	Revaluation not permitted.	Revaluation permitted
Investment in subsidiaries, jointly controlled entities and associates in separate financial statement	Recorded at cost or under equity method.	Recorded at cost or fair value.

Table 3 – Distribution of sample firms by industry (N = 174 firms)

Industry Group	%
Aerospace and Defence	1%
Automobiles	4%
Chemicals	2%
Consumers (durable and non durables)	16%
Diversified Manufacturing and Capital Goods	20%
Energy	4%
Food, Beverage, Restaurants	3%
Healthcare	1%
Housebuildings, Building Materials and Constructions	8%
Media and Entertainment	9%
Natural Resources	1%
Real Estate	4%
Technology	8%
Telecommunications and Cable	3%
Transportation	4%
Utilities	13%
	100%

Table 4 – Descriptive Statistics on book value (BV), net income (NI) and reconciliation amounts for the Full Sample (€)

	BV^{IGAAP} separate financial statements	BV^{IFRS} separate financial statements	BV^{IFRS-IGAAP} separate financial statements	NI^{IGAAP} separate financial statements	NI^{IFRS} separate financial statements	NI^{IFRS - IGAAP} separate financial statements	BV^{IFRS} consolidated financial statements	NI^{IFRS} consolidated financial statements
Mean	848,718,798	875,299,204	26,580,407	112,670,103	102,958,827	-5,840,206	1,111,752,132	94,740,430
First quartile	55,995,500	55,232,250	-4,704,071	437,250	535,933	-1,138,000	59,062,000	-351,000
Median	131,941,000	131,263,000	38,000	6,609,500	6,521,000	65,470	156,177,000	6,903,000
Third quartile	458,497,467	456,311,615	5,181,306	38,550,500	40,281,500	1,471,500	556,474,860	32,257,000
Standard deviation	2,899,789,425	3,018,370,149	205,499,819	549,542,198	531,019,849	194,115,306	3,885,437,385	471,685,682
Minimum	-24,119,771	-26,811,279	-515,443,699	-257,352,000	-259,348,000	-2,051,000,000	-169,733,000	-74,140,000
Maximum	25,440,000,000	26,872,000,000	1,829,394,000	5,288,000,000	6,042,000,000	894,000,000	37,832,000,000	5,613,000,000
Kurtosis	48.4	48.9	46.8	60.5	94.8	76.7	57	111
Asymmetry	6.6	6.7	6	7.5	9.1	-6.3	7	10
Number of observations	174	174	174	174	174	174	174	174
Negative	1%	1%	49%	22%	22%	45%	1%	27%
Positive	99%	99%	51%	78%	78%	55%	99%	73%
Non-zero	100%	100%	99%	100%	100%	99%	100%	100%

BV^{IGAAP} = book value of equity under Italian GAAP;

$BV^{IFRS-IGAAP}$ = book value reconciliation from Italian GAAP to IFRS;

BV^{IFRS} = book value of equity under IFRS;

NI^{IGAAP} = net income under Italian GAAP;

$NI^{IFRS-IGAAP}$ = net income reconciliation from Italian GAAP to IFRS.

NI^{IFRS} = net income under IFRS.

Table 5 – Key financial ratios for the full sample

	Price to book value IGAAP	Price to book value IFRS	Price to earnings IGAAP	Price to earnings IFRS	ROE (*) % IGAAP	ROE(*) % IFRS	ROA(*) % IGAAP	ROA(*) % IFRS	Total assets/book value IGAAP	Total assets/book value IFRS
Mean	2.99	3.01	2.99	3.01	2.14%	-0.15%	2.48%	1.87%	2.45	2.43
First quartile	1.40	1.39	1.40	1.39	1.04%	0.87%	0.43%	0.43%	1.44	1.43
Median	2.17	2.17	2.17	2.17	5.37%	5.37%	2.76%	2.44%	1.89	1.90
Third quartile	3.54	3.37	3.54	3.37	12.54%	12.36%	5.81%	5.36%	2.58	2.72
Standard deviation	2.85	3.07	2.85	3.07	35.55%	45.88%	12.17%	13.06%	2.38	2.30
Minimum	-1.17	-1.06	-1.17	-1.06	-342.40%	-406.48%	-72.88%	-92.80%	-3.90	-3.63
Maximum	21.54	25.98	21.54	25.98	72.81%	71.87%	60.81%	60.13%	20.06	19.58
Kurtosis	13.20	21.36	13.20	21.36	5281.21%	5585.57%	1437.39%	2308.59%	36.04	33.97
Asymmetry	3.11	3.85	3.11	3.85	-604.07%	-691.17%	-113.08%	-189.09%	5.16	4.94

ROE = Net income 2006/Book value of equity 2006

ROA = Net income 2006/ Total assets 2006

Table 6 – Descriptive statistics on market capitalization, price per share and number of shares outstanding for the full sample

	Market capitalization (€)	Price per share (€)	Number of shares outstanding
Mean	2,202,817,654	9.11	513,661,880
First quartile	102,151,230	1.82	27,652,125
Median	319,233,339	5.13	79,714,178
Third quartile	1,188,102,612	10.63	282,399,102
Standard deviation	8,954,348,273	11.99	1,782,036,580
Minimum	9,723,450	0.05	1,194,107
Maximum	98,932,364,237	86.08	19,406,843,739
Kurtosis	84	12.65	75.04
Asymmetry	9	3.02	7.83
Number of observations	174	174	174

Table 7 – Pearson’s correlation coefficients for the full sample - Deflated variables (by number of shares outstanding)

	$PPS_{it-30,t+60}$	$BVPS^{IGAAP}$	$BVPS^{IFRS}$	$NIPS^{IGAAP}$	$NIPS^{IFRS}$	$BVPS^{IFRS-IGAAP}$	$NIPS^{IFRS-IGAAP}$
$PPS_{it-30,t+60}$	1	0.79***	0.80***	0.25***	0.28***	0.28**	0.05
$BVPS^{IGAAP}$		1	0.97***	0.01	0.02	0.19**	0.13
$BVPS^{IFRS}$			1	0.03	0.05	0.42***	0.09
$NIPS^{IGAAP}$				1	0.92**	0.09	0.15
$NIPS^{IFRS}$					1	0.15**	-0.04
$BVPS^{IFRS-IGAAP}$						1	-0.10
$NIPS^{IFRS-IGAAP}$							1

$PPS_{it-30,t+60}$ = price per share over a period which includes 30 days before the first IFRS financial statements, issued at time t, and 60 days after;

$BVPS^{IGAAP}$ = book value of equity per share under Italian GAAP in the first IFRS financial statements;

$BVPS^{IFRS}$ = book value reconciliation per share from Italian GAAP to IFRS in the first IFRS financial statements;

$NIPS^{IGAAP}$ = net income per share under Italian GAAP in the first IFRS financial statements;

$NIPS^{IFRS}$ = net income reconciliation per share from Italian GAAP to IFRS in the first IFRS financial statements;

$BVPS^{IFRS-IGAAP}$ = book value reconciliation per share adjustment from Italian GAAP to IFRS in the first IFRS financial statements;

$NIPS^{IFRS-IGAAP}$ = net income reconciliation per share from Italian GAAP to IFRS in the first IFRS financial statements.

, * Coefficients are statistically significant at the 5% and 1% level, respectively.

Table 8– Value-relevance of book value and net income under Italian GAAP (IGAAP) and IFRS –variables deflated by number of shares outstanding

$$(1) PPS_{it-30,t+60} = \alpha_0 + \alpha_1 BVPS_{it}^{IGAAP} + \alpha_2 BVPS_{it}^{IFRS-IGAAP} + \alpha_3 NIPS_{it}^{IGAAP} + \alpha_4 NIPS_{it}^{IFRS-IGAAP} + \varepsilon$$

	Intercept	BVPS ^{IGAAP}	BVPS ^{IFRS-IGAAP}	NIPS ^{IGAAP}	NIPS ^{IFRS-IGAAP}	Adj. R ² %	F-statistics	N
Coefficients	1.06*** (2.68)	1.88*** (23.83)	1.11*** (4.38)	3.38*** (6.16)	- 2.91*** (-2.87)	82.6%	192.89	162

$$(2) PPS_{it-30,t+60} = \beta_0 + \beta_1 BVPS_{it}^{IGAAP} + \beta_2 BVPS_{it}^{IFRS-IGAAP} + \beta_3 NIPS_{it}^{IGAAP} + \beta_4 NIPS_{it}^{IFRS-IGAAP} + \beta_5 NIPS_{it}^{IGAAP} \times BVPS_{it}^{IGAAP} + \beta_6 NIPS_{it}^{IFRS-IGAAP} \times BVPS_{it}^{IFRS-IGAAP} + \varepsilon$$

	Intercept	BVPS ^{IGAAP}	BVPS ^{IFRS-IGAAP}	NIPS ^{IGAAP}	NIPS ^{IFRS-IGAAP}	NIPS ^{IGAAP} × BVPS ^{IGAAP}	NIPS ^{IFRS-IGAAP} × BVPS ^{IFRS-IGAAP}	Adj. R ² %	F-statistics	N
Coefficients	1.18 (3.19)	1.94*** (26.21)	1.06*** (2.83)	-0.80 (-1.09)	1.96 (1.40)	0.55*** (4.99)	3.99*** (3.67)	85.2%	154.29	160

$PPS_{it-30,t+60}$ = price per share for firm i over a period which includes 30 days before the first IFRS financial statements, issued at time t , and 60 days after;

$BVPS_{it}^{IGAAP}$ = book value of equity per share for firm i under Italian GAAP in the first IFRS separate financial statements, issued at time t ;

$BVPS_{it}^{IFRS-IGAAP}$ = book value reconciliation per share for firm i from Italian GAAP to IFRS in the first separate IFRS financial statements, issued at time t ;

$NIPS_{it}^{IGAAP}$ = net income per share for firm i under Italian GAAP in the first IFRS separate financial statements, issued at time t ;

$NIPS_{it}^{IFRS-IGAAP}$ = net income reconciliation per share for firm i from Italian GAAP to IFRS in the first IFRS separate financial statements, issued at time t ;

*, **, *** Coefficients are statistically significant at the 10%, 5%, 1% levels. T-statistics are in parentheses.

Results are robust to heteroskedasticity.

Table 9 – Value-relevance of book value and net income under Italian GAAP (IGAAP) and of reconciliation items to IFRS-variables undeflated

$$(1) MV_{it-30,t+60} = \alpha_0 + \alpha_1 BV_{it}^{IGAAP} + \alpha_2 BV_{it}^{IFRS-IGAAP} + \alpha_3 NI_{it}^{IGAAP} + \alpha_4 NI_{it}^{IFRS-IGAAP} + \varepsilon_i$$

	Intercept	BV ^{IGAAP}	BV ^{IFRS-IGAAP}	NI ^{IGAAP}	NI ^{IFRS-IGAAP}		Adj. R ² %	F-statistics	N
Coefficients	-1.9·10 ⁽⁶⁾ (-0.03)	1.62*** (18.37)	2.13***(2.78)	7.92*** (15.23)	4.95*** (5.59)		96.8%	1,255.06	166

$$(2) MV_{it-30,t+60} = -_{30,t+60} = \beta_0 + \beta_1 BV_{it}^{IGAAP} + \beta_2 BV_{it}^{IFRS-IGAAP} + \beta_3 NI_{it}^{IGAAP} + \beta_4 NI_{it}^{IFRS-IGAAP} + \beta_5 NI_{it}^{IGAAP} \times BV_{it}^{IGAAP} + \beta_6 NI_{it}^{IFRS-IGAAP} \times BV_{it}^{IFRS-IGAAP} + \varepsilon$$

	Intercept	BV ^{IGAAP}	BV ^{IFRS-IGAAP}	NI ^{IGAAP}	NI ^{IFRS-IGAAP}	NI ^{IGAAP} × BV ^{IGAAP}	NI ^{IFRS-IGAAP} × BV ^{IFRS-IGAAP}	Adj. R ² %	F-statistics	N
Coefficients	1.38·10 ⁽⁸⁾ *** (2.78)	1.47*** (21.47)	1.89*** (3.18)	5.29*** (7.47)	1.68** (2.07)	-7.39·10 ⁽⁻¹¹⁾ (-0.76)	3.66·10 ⁽⁸⁾ *** (3.81)	99.5%	5,348.89	165

$MV_{it-30,t+60}$ = market value for firm i over a period which includes 30 days before the first IFRS separate financial statements, issued at time t , and 60 days after;

BV_{it}^{IGAAP} = book value of equity for firm i under Italian GAAP in the first IFRS separate financial statements, issued at time t ;

$BV_{it}^{IFRS-IGAAP}$ = book value reconciliation for firm i from Italian GAAP to IFRS in the first IFRS separate financial statements, issued at time t ;

NI_{it}^{IGAAP} = net income for firm i under Italian GAAP in the first IFRS separate financial statements, issued at time t ;

$NI_{it}^{IFRS-IGAAP}$ = net income reconciliation for firm i from Italian GAAP to IFRS in the first IFRS separate financial statements, issued at time t ;

*, **, *** Coefficients are statistically significant at the 10%, 5%, 1% levels. T-statistics are in parentheses.

Results are robust to heteroskedasticity.

Table 10 – Value-relevance of book value and net income under IFRS for separate and consolidated financial statements - variables deflated by number of shares outstanding

(1) $PPS_{it-30,t+60} = \alpha_0 + \alpha_1 BVPS_{it} + \alpha_2 NIPS_{it}$

	Intercept	BVPS	NIPS	Adj. R ² %	F-statistics	N
Separate Financial Statements	1.42*** (3.24)	1.67*** (23.70)	5.43*** (7.71)	80.4%	334.54	163
Consolidated Financial Statements	5.44*** (9.11)	0.38*** (5.23)	1.25** (2.31)	50.7%	84.68	163

(2) $PPS_{it-30,t+60} = \beta_0 + \beta_1 BVPS_{it} + \beta_2 NIPS_{it} + \beta_3 BVPS_{it} \times NIPS_{it} + \varepsilon_i$

	Intercept	BVPS	NIPS	BVPS X NIPS	Adj. R ² %	F-statistics	N
Separate Financial Statements	1.53*** (3.58)	1.72*** (17.79)	2.25*(1.77)	0.23*(1.68)	74.0%	151.54	159
Consolidated Financial Statements	1.16** (2.42)	1.41*** (16.36)	5.50*** (9.25)	- 0.49*** (-8.88)	69.6%	122.19	159

$PPS_{it-30,t+60}$ = price per share for firm i over a period which includes 30 days before the first IFRS financial statements, issued at time t , and 60 days after;

$NIPS_{it}$ = net income per share for firm i in the first IFRS financial statements, issued at time t ;

$BVPS_{it}$ = book value equity per share for firm i in the first IFRS financial statements, issued at time t ;

*, **, *** Coefficients are statistically significant at the 10%, 5%, 1% levels. T-statistics are in parentheses.

Results are robust to heteroskedasticity.