Accounting Conservatism in Europe and the Impact of Mandatory IFRS Adoption: Do country, institutional and legal differences survive?

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Abstract

It is argued that IFRS put more emphasis on neutrality than conservatism. We examine the impact of the mandatory change to IFRS in 2005 by European firms on the level of accounting conservatism and check whether well documented differences in conservatism across countries and varied institutional and legal settings survive the change. We document that accounting conservatism has decreased after the adoption of IFRS overall and more specifically across French and German law origin countries and countries with important debt markets and with less developed equity markets. We also find a reduction in conservatism in countries where the tax book conformity was high. More importantly, we document that differences across countries, institutional and legal settings disappear after mandatory IFRS adoption. We only find weak evidence that insider economies with weak enforcement (Leuz et al. 2003's cluster 3 which includes Greece, Italy, Portugal, and Spain) continue to have a lower level of conservatism. Finally, the decrease in conservatism is most significant in countries which had the greatest difference with the new IFRS standards. Overall, we conclude that accounting standards do matter!

Key words: Earnings Quality, Conservatism, IFRS, Europe, Code Law, Common Law, Institutions, Governance

1.   INTRODUCTION

Following Basu (1997), studies have emphasized the importance of conservatism as an important metric of accounting quality within an international setting (Ball et al. 2000, Watts 2003 a and b, Ball et al. 2003, Barth et al. 2008, and Ball et al. 2008). Basu (1997) interprets accounting conservatism as accountants' tendency to require a higher degree of verification when recognizing good news over bad news. This is also termed 'asymmetric timeliness of earnings' or 'timely loss recognition' in the sense that economic losses are more quickly recognized in accounting earnings than are economic gains. Watts (2003a) argues that conservatism is an important feature of financial reporting in ensuring efficient contracting between shareholders and debt holders and between shareholders and managers by limiting managerial bias and the risk of opportunistic payments (e.g., compensation, dividends); in reducing the risk of litigation; in reducing the present value of taxes and in reducing the political costs to regulators of firms overstating net assets. Kothari et al. (2010) further argue that the demand for credible financial information from shareholders and debt holders leads to conservatism. Francis et al. (2004, 2006) and Dechow et al. (2010) consider timely loss recognition as an important attribute of earnings quality.

Nevertheless, as noted by Holthausen (2009), many forces shape the quality of financial reporting and accounting standards are only one of them. Country specific reporting incentives affect the quality of financial statement information and accounting standards alone cannot always mitigate these differences (Filip and Raffournier 2011). The focus on standards alone may be incomplete because financial reporting practice is sensitive to the incentives driving managers and auditors, which themselves are a consequence of market and political forces. We examine the impact of the mandatory change to IFRS by European firms on the level of accounting conservatism and check whether well documented differences in conservatism across countries and varied institutional and legal settings survive the change.

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The 2005 mandatory IFRS adoption for all listed European companies creates an ideal setting for testable hypotheses concerning the interaction between accounting standards, institutional settings and timely loss recognition. Following Watts' (2003b, 298) call for more time-series studies on the effect of GAAP changes on conservatism, we examine pre and post conditional conservatism for the sample of European firms adopting IFRS in 2005, comprising 7 378 firm-year observations over 2003 to 2007 and covering 16 countries (Austria, Belgium, Denmark, Germany, Finland, France, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). We use the empirical approach first suggested by Basu (1997) and subsequently used in numerous studies (Pope and Walker 1999, Ball et al. 2000, Ball et al. 2003, to name a few).

First, we confirm results in prior research that pre-IFRS there existed significant differences in conditional conservatism across European countries and across various legal and institutional regimes. We show that countries with more significant debt markets and countries with less concentrated ownership and stronger enforcement had greater conditional conservatism.

Second, we document that accounting conservatism has decreased after the adoption of IFRS overall and in many countries (France, Germany, Netherlands, Portugal, and Switzerland). Conservatism has also decreased across French and German law origin countries and countries with important debt markets and less developed equity markets. We also find a reduction in conservatism in countries where the tax book conformity was high.

Third and more importantly, we document that differences across countries, institutional and legal settings disappear after mandatory IFRS adoption. The level of conservatism post-IFRS is now not significantly different across the vast majority of EU countries (with the exception of Italy and Switzerland being less conservative), across legal traditions, across debt-based or equity-based economies or across more different tax-book

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conformity regimes. We only find weak evidence that insider economies with weak enforcement (Leuz et al. (2003)'s cluster 3 which includes Greece, Italy, Portugal, and Spain) continue to have a lower level of conservatism.

We contribute to the current debate on accounting changes and financial reporting quality. We conclude that accounting standards matter. Whereas legal incentives, financial systems and accounting traditions prior to IFRS lead to varying levels of conservatism, the mandatory IFRS adoption has reduced conservatism and more so, differences in the level of conditional conservatism across European listed firms.

The paper is organised as follows. First, we present a brief review of the literature and discuss factors that might affect conditional conservatism following the mandatory adoption of IFRS in Europe. Second, we develop our hypotheses. Third, we present our empirical model and sample. Third, we discuss our results and robustness tests. We conclude with implications of our research.

2.   CONSERVATISM IN ACCOUNTING

Dickhaut et al. (2010), citing Littleton (1941), suggest that conservatism has been around since the 15th century, pre-dating Pacioli's treatise on accounting bookkeeping. They argue that, by limiting the overstatement of net assets and income, conservatism constrains actions that could harm one's reputation in a multi-period world of exchanges based on reciprocity. Watts (2003a) offers four explanations for the demand for conservatism: contracting, shareholder litigation, taxation and regulation. For one, conservatism is an efficient contracting mechanism since it limits managerial opportunism and counters managerial bias which is beneficial to firm value since it constrains opportunistic payments to management itself (compensation) or other parties such as shareholders (dividends). Further, conservatism can limit litigation costs which are more likely when overstating a firm's net

assets and can reduce the present value of a firm's taxes. Finally, conservatism can reduce the political costs to standard setters and regulators from criticism if firms overstate net assets.

Up to recently, the IASB's and FASB's conceptual frameworks had a place for conservatism or prudence, a dimension of reliability that is one of the four principal qualitative characteristics of financial statements. Paragraph 37 of IASB's *Framework for the Preparation and Presentation of Financial Statements* (April 2001) states:

> The preparers of financial statements do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. <u>Prudence</u> is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

To the surprise of many, the new joint conceptual framework of the IASB and FASB adopted in September 2010 but on the table now for almost a decade (chapter 1 on the objectives of financial information and chapter 2 on the qualitative characteristics of financial reporting information) does not include conservatism or prudence as a desirable quality of financial reporting information (IASB 2010) and considers "faithful representation" as a fundamental quality characteristic of financial information which implies a focus on completeness, *neutrality*, and freedom from errors.

IFRS are more principle based than rule based. Examples of IFRS neutrality include greater use of fair values, impairment testing rather than amortization including the possibility to reverse prior impairments and clearer rules on how and when to book provisions (IAS37 is said by many to curtail 'cookie jar reserves or provisions' quite prevalent in Continental Europe, see Walton 2011 for discussion).

3. LITERATURE REVIEW

While Watts (2003b) surveys differences in conservatism in the US, we focus on time-series and across country differences in Europe[1] (see also Ryan 2006 for a survey for other types of conservatism studies). Ball et al. (2000) examine the effects of international institutional factors on the properties of accounting earnings. They find that accounting income in common-law countries (US, UK, Australia, Canada) is significantly more timely than in code-law countries (France, Germany, Japan) during the 1985-1995 period, due entirely to quicker incorporation of economic losses (income conservatism). While Ball et al. (2000) suggest that UK income is less conservative than other common-law countries, Pope and Walker (1999) analyse differences in the timeliness of income recognition between the US and UK during the 1979-1996 period and conclude that apparent differences in conservatism between the US and UK are sensitive to the inclusion or exclusion of extraordinary items in UK. Since under UK GAAP there is greater latitude in the accounting for extraordinary items, their results suggest that UK firms recognize bad news faster than US firms but that they classify the bad news differently. Giner and Rees (2001), looking at sample years 1990-1998 find weak evidence that asymmetric recognition is stronger in the UK (common law) than in France (code-civil law) or Germany (code law). Garcia Lara and Mora (2004) examine eight European countries (UK, Germany, France, Switzerland, the Netherlands, Italy, Spain and Belgium) and show that earnings conservatism practices between countries are not that pronounced.

Raonic et al. (2004) further examine a sample of European firms from 1987-1999. They conclude that conservatism and timeliness are present and increasing regardless of the legal tradition while the importance of the equity markets jointly with the level of enforcement can explain some differences. Bushman and Piotroski (2006) examine the joint impact of legal system, securities law, political economy and tax regime on the level of

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[1] Ball et al. (2003) examine East-Asian countries and Ball et al. (2000) examine an international setting.

asymmetric timeliness in 38 countries over the period of 1992 to 2001. They find greater conservatism in countries with high quality judicial systems after controlling for legal origin. Moreover, they find a similar result for countries with strong public enforcement from securities law but no impact from private enforcement aspects. They also show that managers adjust their financial reporting to the level of involvement of the state. Common law countries with low state involvement and civil law countries with greater state involvement exhibit greater conservatism. However, they find mixed and inconclusive results as to the impact of financial architecture and tax regime. Bushman et al. (2011) examine the impact of country specific conditional conservatism on capital allocation and find that investment responses to declining opportunities increase with conservatism, but not for increasing investment opportunities.

Gassen et al. (2006) examine 23 developed equity markets over the 1990-2003 period and show that cross-country differences in conditional conservatism are influenced by the effects of other accounting properties, mostly income smoothing and to a lesser extent unconditional conservatism. Gaio (2010) examines the relative importance of firm, industry and country characteristics in 38 countries over a similar time window ranging from 1990-2003 in explaining aggregate earnings quality based on many attributes including conservatism.

None of the above studies covers the most interesting period following the mandatory adoption of IFRS by European countries in 2005. While there have been numerous country-specific and cross-country studies on the impact of mandatory IFRS adoption on various dimensions of earnings quality such as value relevance (e.g., Capkun et al. 2008, Barth et al. 2008, Tsalavoutas et al. 2010, Filip 2010) or earnings management (Barth et al. 2008) and potential consequences, for example on the cost of equity (Daske et al. 2008, Li 2010), there are only a couple of concurrent working papers analysing the impact of IFRS on accounting

conservatism. Ahmed et al. (2010) examine both European and non-European countries (Australia, Hong Kong, Philippines and South Africa). They find a reduction in the timeliness of loss recognition after 2005, being more pronounced in countries with strong rule of law. Another concurrent paper examines accounting conservatism within Europe. Piot et al. (2010) contrast conditional and unconditional conservatism around the IFRS voluntary and mandatory adoption and the role of Big 4 auditors more specifically. Relative to the studies mentioned above, our focus is more specifically on European 2005 mandatory IFRS adopters and on country specific results. While our findings are consistent with the above cited working papers (all the working papers report a decrease in accounting conservatism following the IFRS adoption), we contribute to the literature by explaining this decrease of accounting conservatism with legal incentives, corporate governance mechanisms, enforcement, structure of the financial system, prior accounting traditions and tax book conformity.

4. HYPOTHESES

Conservatism and Mandatory IFRS Adoption

How the introduction of a more neutral accounting regime will play out overall and across different countries in Europe remains an open empirical question. If IFRS are more neutral than most national regimes in place, we would expect a decrease in conservatism. Further, if we do have convergence across countries, we should expect less difference across countries and institutional or legal regimes.

It is also difficult to conjecture on the interaction of the mandatory adoption of IFRS introducing a more neutral accounting system and of particular institutional factors present in each country which vary on many dimensions. As noted above, Watts (2003a) suggests explanations for conservatism: contracting, shareholder litigation, taxation and financial reporting standard/regulation. We look at cross-country variation in conservatism with respect

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to these factors prior IFRS and examine whether differences, if any, persist. More specifically, we examine differences in legal incentives, in the structure of the financial system, in the later combined with corporate governance and enforcement, and in tax book conformity in order to develop our main testable hypotheses. We thus formulate the following hypothesis:

> **Main Hypothesis: The mandatory adoption of IFRS in 2005 leads to an overall decrease in accounting conservatism and a decrease of differences in conservatism across countries and legal/institutional regimes post-IFRS.**

Legal Incentives

Ball et al. (2000) and Leuz et al. (2003) argue that legal differences can have an impact on the characteristics of financial reporting information. Ball et al. (2000) suggest that the stakeholder focus in code law countries leads to greater politisation and demand for income to determine the payout to labour, capital and government. This leads to a desire for less volatility and therefore more discretion than in the shareholder focused common law countries. It is documented that earnings management is more frequent in code law countries (especially of French and German law origin) than in common law countries (Leuz et al. 2003). Ball et al. (2000) also argue that the presence of other stakeholders in the governance structures reduces information asymmetry between parties further reducing the demand for conservatism. While Ball et al. (2000) do find support for this view, other papers looking at European firms in particular have found replicating these results difficult (Giner and Rees, 2001, Garcia Lara and Mora 2004, Raonic et al. 2004, Garcia Lara et al. 2005). As pointed out by Giner and Rees (2001), on other measures of conservatism (lower earnings or equity to some benchmark), German law origin countries are more conservative than French ones, both more conservative to English law origin countries (see Pownall and Schipper 1999). One can

also argue that countries where income distribution is more politised would prefer being conservative to limit distribution to other stakeholders.

Following Leuz et al. (2003), among many, and as it has become traditional in international studies, we split our sample in four different legal origins: English (Great Britain and Ireland); French (Belgium, France, Greece, Italy, Netherlands, Portugal, and Spain); German (Austria, Germany, and Switzerland) and Scandinavian (Denmark, Finland, Norway, and Sweden).

The Relative Importance of Equity Markets and Debt Markets

It has become traditional to oppose equity markets to debt markets. Ball et al. (2000, 2003) argue that in equity markets the demand for accounting quality is driven by a large number of stockholders. Inversely, in debt markets, the demand for high-quality accounting data is lower because information asymmetry is more likely to be resolved through insider communications with management. This view is supported by Ali and Hwang (2000) who finds that firms from countries with debt-oriented (as opposed to equity-oriented) financial systems exhibit lower value relevance of accounting data.

More recently, Ball et al. (2008) formulate the opposite hypothesis arguing that financial reporting quality (i.e. conservatism) is shaped by the debt rather than the equity market. From this costly contracting perspective, financial reporting affects various balance sheet and earnings-based financial ratios used in debt covenants to impose restrictions on leverage, dividends, stock repurchases, risky new investments and acquisitions. Using a cross-country research design, the results reported by Ball et al. (2008) are consistent with the hypothesis that timely loss recognition is associated with debt market size but not with equity market size. Peek et al. (2010) also show that creditor but not investor reporting demands explain the public versus private firm difference in asymmetric timeliness. Investors do

demand more symmetric timeliness to facilitate contracting and communication with firms as they get further removed from management.

The results of Ball et al. (2008) suggest that conservatism is driven by debt markets, and not by equity markets. Given the strong focus of the IFRS standards on equity markets and towards shareholders as the main users of financial statements, we could expect a greater decrease in debt market dominated countries unless the pressure from these forces dominates the introduction of more neutral IFRS.

Following Ball et al. (2008), we use the same constructs to measure the relative importance of debt markets and equity markets. Both ratios are taken from La Porta et al. (1997). *DEBTGNP* represents the ratio of the sum of bank debt of the private sector and outstanding non-financial bonds to the gross national product in 1994, or last available. A higher ratio denotes a higher importance of debt market. The average level for our sample is 0.64, with Austria, Finland, France, Germany, Great Britain, Netherlands, and Spain being classified as high importance of debt markets. *EQGNP* represents the ratio of the stock market capitalization held by minorities to gross national product in 1994. A higher ratio denotes a higher importance of the equity market. For our sample the average is 0.22, with equity oriented economies being Great Britain, Netherlands, Sweden, and Switzerland. We also use a measure developed by Leuz et al. (2003) synthesizing the three ratios proposed by La Porta et al (1997) to measure the importance of stock market in an economy (*MKIMP*): (1) market capitalization of minorities to gross national product; (2) number of listed domestic firms to the population; and (3) number of IPOs to the population. The average level of this index four our sample is 14.17. The countries classified as high market importance are Denmark, Great Britain, Ireland, Netherland, Norway, Sweden, and Switzerland.

Combining Legal, Governance, Enforcement and Market type

Leuz et al. (2003) perform a cluster analysis which groups countries based on similar legal and institutional characteristics into three groups: group #1 includes countries with outsider economies and large stock markets, dispersed ownership and strong investor rights and legal enforcement (Great Britain and Norway); group #2 have insider economies and less developed stock markets, concentrated ownership, weak investor rights but strong enforcement (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Sweden, and Switzerland); group #3 consists of insider economies with weak enforcement (Greece, Italy, Portugal, and Spain).

Beyond the discussions above, Bona-Sanchez et al. (2011) suggest that more insider economies should be less conservative since less minority shareholders and better monitoring of management. We do not attempt to sign the level of conservatism since it is difficult to determine which forces will dominate and how these will interact with the introduction of IFRS.

Tax Book Conformity

Firms from countries with high tax book conformity had incentives to recognise losses sooner (i.e. higher accounting conservatism) and recognise gains later. While taxes are generally computed on the individual financial statements (legal entities) and not on the consolidated statements, many of the entity's choices and policies flow through to the consolidated statements. Mandatory IFRS adoption is likely associated with a lower level of tax book conformity.

Tax-book conformity is taken from Hung (2000). *TAXBOOK* includes only countries in the Hung (2000) study, thus, excludes Austria, Greece and Portugal. *TAXBOOKADJ* considers these countries as having high tax-book conformity. Low tax book countries under

both classification schemes include Denmark, Great Britain, Ireland, Netherlands, and Norway. All other countries are considered as having high tax-book conformity.

Sensitivity Analysis: Accounting differences

As a sensitivity analysis, we examine whether changes in the level of conservatism are linked to the level of differences between national GAAP and IFRS. It is generally admitted that IFRS are more detailed than most national GAAPs that were previously in use in Europe. However, the level of precision was not the same for all former regulations. Some countries already had detailed and constraining accounting rules, whereas others had only general statements allowing multiple treatments (Ding et al. 2007). Accounting flexibility facilitates earnings management because it allows discretionary choices with respect to the recognition of revenues and expenses, which finally should enforce accounting conservatism.

Establishing differences between sets of accounting standards is not an easy exercise. We adopt a number of classification schemes, many having been derived from a survey under the supervision of Chris Nobes for seven large audit firms (Nobes 2001) that examined the differences between national accounting rules and IAS rules in 2001. A first metric can be found in Bae et al. (2008) which we label *IFRSDIF*. It uses a list of 21 key accounting items based on prior literature. Countries that do not conform to IAS receive a score of 1 so higher scores indicate greater distance from IAS. Great Britain and Ireland have the lowest score with only one item not conforming to IAS while Greece has the highest score with 17 differences. The average difference is 10.44 (median of 12).

The next two metrics are from Li (2010) who measures the additional disclosure required by IFRS relative to local standards (*ADDDISC*) and the number of inconsistencies between local standards and IFRS (*NOINC*). The Great Britain and Ireland have the lowest level of *ADDDISC* at zero, whereas Greece and Spain have the highest with 9. The average *ADDDISC* for our sample is 5.5 (median 6.5). As for *NOINC*, Netherlands and Norway have

the least number of inconsistencies with 5 and Spain having the highest number with 22. The average for our sample is 15.44 inconsistencies (median 16).

A fourth accounting differences comes from Ding et al. (2007). *DIVERGENCE* measures inconsistencies between national and IAS rules. Norway has the lowest level with 17 and Germany the highest with 38. The average is 29.67 (median of 31).

5.   EMPIRICAL MODEL, SAMPLING AND DATA COLLECTION

Consistent with prior research, we test the incremental timeliness of loss recognition by using the Basu (1997) model. The asymmetric treatment of losses and gains is captured by the linear regression of accounting earnings on stock returns:

$$E_{it} = \alpha_0 + \alpha_1 \, BN_{it} + \alpha_2 \, R_{it} + \alpha_3 \, BN_{it} \, R_{it} + \varepsilon_{it} \tag{1}$$

Where:

E_{it} is the net income of firm i in year t, scaled by beginning of the period market value;

R_{it} is the market return over 18 months (01.01.N to 30.06.N+1) net of dividends and capital contributions;

BN_{it} is a dummy variable equal to 1 if R_{it} is negative (indicating bad news) and 0 otherwise (indicating good news).

Following prior research (Barth et al. 2008), in order to take into account possible delays in the announcement of earnings and in order to ensure that accounting information is in the public domain, we calculated returns on an 18–months basis, from January 1 of year N to June 30 of year N+1. Coefficient α_2 on the stock return measures the timeliness of gain recognition or the responsiveness of earnings to good news, while the sum of $\alpha_2 + \alpha_3$ is measuring the timely loss recognition or the responsiveness of earnings to bad news. According to Pope and Walker (1999), the focus in this model is on the α_3 coefficient of the product of stock return by the return dummy which measures the *incremental timeliness of*

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loss recognition. A positive significant coefficient implies asymmetric timely loss recognition and therefore conditional conservative accounting (Pope and Walker 1999, Ball et al. 2000). A higher coefficient denotes more incremental timely loss recognition and therefore more conservative accounting.

In order to take into account the impact of IFRS, we transform the classic Basu (1997) model by adding another dummy variable (IFRS) and its interaction effects. This approach is inspired by Ball and Shivakumar (2005) who modify the model to allow for differences between subsamples. Therefore equation (1) becomes:

$$Y_{it} = \alpha_0 + \alpha_1\ BN_{it} + \alpha_2\ R_{it} + \alpha_3\ BN_{it}\ R_{it} + \qquad\qquad\qquad (2)$$

$$+ \alpha_4\ IFRS_{it} + \alpha_5\ IFRS_{it}\ BN_{it} + \alpha_6\ IFRS_{it}\ R_{it} + \alpha_7\ IFRS_{it}\ BN_{it}\ R_{it} + \varepsilon_{it}$$

Where:

$IFRS_{it}$ is a dummy variable that takes the value 1 if the year is 2005, 2006 or 2007, and 0 otherwise;

All other variables are defined above.

In equation (2), coefficient α_2 measures the responsiveness of earnings to good news before the IFRS adoption, while the sum of $\alpha_2 + \alpha_6$ is measuring the responsiveness of earnings to good news after the IFRS adoption. A positive significant coefficient α_6 implies incremental responsiveness of earnings to good news after IFRS adoption. The responsiveness of earnings to bad news before the IFRS adoption is measured by the sum of $\alpha_2 + \alpha_3$, while the responsiveness of earnings to bad news after IFRS adoption is measured by the sum $\alpha_2 + \alpha_3 + \alpha_6 + \alpha_7$. An incremental timeliness of loss recognition significantly higher for the post-IFRS period would imply a positive and significant coefficient α_7. A negative coefficient α_7 denotes less timely loss recognition after the IFRS adoption, i.e., less conservative accounting. We offer no prediction for the intercept and incremental intercept coefficients α_0, α_1, α_4, and α_5 measuring unconditional conservatism.

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Finally, in order to take into account the differences in the level of conservatism between our different institutional classification schemes, we further introduce another dummy variable that takes the value 1 if the observation belongs to the specific classification scheme, and zero otherwise. Therefore equation (2) becomes:

$$Y_{it} = \alpha_0 + \alpha_1\ BN_{it} + \alpha_2\ R_{it} + \alpha_3\ BN_{it}\ R_{it} + \tag{3}$$

$$+ \alpha_4\ IFRS_{it} + \alpha_5\ IFRS_{it}\ BN_{it} + \alpha_6\ IFRS_{it}\ R_{it} + \alpha_7\ IFRS_{it}\ BN_{it}\ R_{it} +$$

$$+ \alpha_8\ IF_{it} + \alpha_9\ IF_{it}\ BN_{it} + \alpha_{10}\ IF_{it}\ R_{it} + \alpha_{11}\ IF_{it}\ BN_{it}\ R_{it} +$$

$$+ \alpha_{12}\ IF_{it}\ IFRS_{it} + \alpha_{13}\ IF_{it}\ IFRS_{it}\ BN_{it} + \alpha_{14}\ IF_{it}\ IFRS_{it}\ R_{it} + \alpha_{15}\ IF_{it}\ IFRS_{it}\ BN_{it}\ R_{it} + \varepsilon_{it}$$

Where:

IF_{it} is a dummy variable that takes the value 1 if the firm belongs to a specific classification scheme, and 0 otherwise;

All other variables are defined above.

Within this context, coefficient α_3 is measuring the level of accounting conservatism before IFRS adoption for the classification scheme 0, while $\alpha_3 + \alpha_7$ after IFRS adoption. Coefficient α_7 is capturing the impact of IFRS on accounting conservatism for the classification scheme 0. Similarly, coefficient $\alpha_3 + \alpha_{11}$ is measuring the level of accounting conservatism before IFRS adoption for the classification scheme 1, while $\alpha_3 + \alpha_7 + \alpha_{11} + \alpha_{15}$ after IFRS adoption. Coefficient $\alpha_7 + \alpha_{11}$ is capturing the impact of IFRS on accounting conservatism for the classification scheme 1. A significant coefficient $\alpha_3 + \alpha_{11}$ ($\alpha_{11} + \alpha_{15}$) denotes significant differences in the level of accounting conservatism between the two classification schemes before (after) IFRS adoption. The test of differences is as follows:

	$IF_{it} = 0$	$IF_{it} = 1$	Δ
Before $IFRS_{it}$	α_3	$\alpha_3 + \alpha_{11}$	α_{11}
After $IFRS_{it}$	$\alpha_3 + \alpha_7$	$\alpha_3 + \alpha_7 + \alpha_{11} + \alpha_{15}$	$\alpha_{11} + \alpha_{15}$
Δ	α_7	$\alpha_7 + \alpha_{15}$	α_{15}

Sampling and Data Collection

Regulation no. 1606/2002 of the European Parliament requiring all public firms to prepare consolidated accounts on the basis of IFRS was issued in 2002, at a time when the EU was composed of 15 member states. In 2004, ten other countries joined the EU, followed by Romania and Bulgaria in 2007. To avoid ambiguity, our study focuses on the 15 "early" EU member states. Because Norway and Switzerland issued similar regulations, they are also included in our sample. Luxembourg was dropped from the sample because of an insufficient number of observations.

Panel A of Table 1 describes the sampling and data collection process. Our initial sample comes from the Worldscope database consisting of 6 186 active public firms from 16 European countries. Because banks, insurance companies and other financial institutions (WS.IndustryGroup 43xx) follow specific reporting regulations, they are deleted from the sample (1 390 firms). As our study focuses on 2005 IFRS adopters, firms that followed international accounting standards before 2005 (WS.AcctStandardsFollowed 02 or 23) and firms that follow other than IFRS accounting standards after 2005 are deleted from the sample. In order to reduce the possible risk of bias, all firms where data is not available are also deleted from the sample. This procedure leads to a sample of 2 477 firms adopting IFRS in 2005 (2005 IFRS adopters).

INSERT TABLE 1 ABOUT HERE

Next we collect the accounting and market data from the Worldscope database for the five year period 2003 to 2007. To avoid ambiguity, post-2007 years were not included in the present analyses since market data are strongly affected by the financial crisis and this could raise questions about the validity of the results. Data was not available for 4 815 firm-year

observations and another 192 observations were dropped from the sample due to negative equity or negative total assets. Our final sample consists therefore of 7 378 year observations.

Panel B of Table 1 provides the distribution of the observations per country. As usual in studies on European capital markets, most observations are from Great Britain (1 594) and France (1 439), while Austria (36) and Switzerland (65) are underrepresented because in these two countries the adoption of IFRS was possible even before 2005.

Following Barth et al. (2008 and 2011) we winsorise at 5% level all continuous variables used in our regressions in order to mitigate the effects of outliers on our inferences. Panel C of Table 1 presents some descriptive statistics for the main variables used in the empirical models for the pooled sample, as well as for the sub-periods.

6.   EMPIRICAL FINDINGS

Results: Overall and Country-by-Country

In the Basu (1997) model of conservatism, quality accounting earnings are deemed to reflect bad news more quickly than good news, while market returns capture both good news and bad news simultaneously. Table 2, panel A, reports the results of the regressions from equation (2) for the overall sample. The adjusted R^2 is 11% and is consistent with previous value relevance studies conducted in Europe[2]. Turning to the incremental timeliness of loss recognition (i.e. conditional conservatism), investors seem to react to bad news (α_3 $BN_{it}*R_{it}$ from model 2) as its value is positive and significant (0.224***). However, the change to IFRS (α_7 $IFRS_{it}*BN_{it}*R_{it}$) leads to a significant reduction in conditional conservatism (-0.092**). The level of conservatism after the IFRS change ($\alpha_{3\,+}\,\alpha_7$) is 0.132 and remains significant.

INSERT TABLE 2 ABOUT HERE

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[2] For a review of value relevance studies conducted in Europe, see Dumontier and Raffournier (2002).

Drawing conclusions from the country regressions is sometimes difficult due to inferences between the degrees of freedom of equation (2) and the sample sizes (the samples range from 36 observations for Austria to 1 594 for Great Britain). In order to mitigate this effect, we do not analyse the regressions separately, but focus on the pooled results with a dummy variable introduced subsequently for each country (equation 3) and tests of differences.

Timeliness of loss recognition has decreased after the mandatory adoption of IFRS in France, Germany, Netherlands, Portugal, and Switzerland (as measured by a significant negative coefficient $\alpha_7 + \alpha_{15}$). For all the other countries the mandatory IFRS adoption had no significant impact on the timeliness of loss recognition.

More importantly, if we look at the differences in conservatism across countries before the mandatory IFRS adoption as measured by the coefficient α_{11}, France, Germany, Netherlands, Portugal, and Switzerland have positive and significant differences. This denotes significantly higher levels of conditional conservatism before the IFRS adoption. After the mandatory IFRS adoption, the difference between them and the rest (coefficient $\alpha_{11} + \alpha_{15}$) generally becomes non significant, with the exception of Italy and Switzerland. The mandatory IFRS adoption seems to have reduced the differences existing between the countries. This is confirmed by a significant negative differences-in-differences coefficient α_{15} for France, Netherlands, Portugal, and Switzerland. For other, there was little difference before and after mandatory adoption of IFRS or with other European counterparts.

Results: Legal Incentives

Table 3 shows that conditional conservatism has decreased significantly for French (Belgium, France, Greece, Netherlands, Portugal, and Spain) and German (Austria, Germany, and Switzerland) law origin countries ($\alpha_7 + \alpha_{15}$ of -0.102** and -0.273**, respectively) but

not for English (Great Britain and Ireland) or Scandinavian (Denmark, Finland, Norway, and Sweden) law origin countries. All differences in the level of accounting conservatism between the classification schemes are insignificant after the mandatory IFRS adoption, with a noted significant within and across group change for German origin countries.

These pre-IFRS results somewhat contradict Ball et al. (2000)'s or Bushman and Piotroski (2006)'s findings that code law countries are less conservative using pre-IFRS worldwide samples, but other papers looking at European firms pre-IFRS have found replicating these results difficult (e.g., Giner and Rees, 2001, Garcia Lara and Mora, 2004, Raonic et al. 2004 and Garcia Lara et al. 2005). As pointed out by Giner and Rees (2001), on other measures of conservatism (lower earnings or equity to some benchmark), German law origin countries are more conservative than French ones, both more conservative to English law origin countries (see Pownall and Schipper 1999).[3] One can also argue that countries where income distribution is more politised might prefer being conservative to limit distribution to other stakeholders, something that IFRS now limits. Further, Doupnik and Perera (2012, pp.793) indicates that the predominance of the principle of prudence was clearly established in German law and German GAAP.

INSERT TABLE 3 ABOUT HERE

Results: Equity markets and Debt markets

Table 4 partitions the sample according to the relative importance of debt markets and equity markets. The structure of the financial system seems to have an impact on conditional conservatism. Our results confirm the conjecture of Ball et al. (2008) that conditional conservatism is shaped by the debt rather than the equity market before the mandatory IFRS

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[3] Giner and Rees (2001) further show how size matters. Smaller UK firms show higher levels of conditional conservatism. It should be noted that smaller AIM listed firms were not required to adopt IFRS until 2007 and that regulation 1606/202 also allowed postponing the application of IFRS to 2007 for companies which had only debt securities. These firms are not in our sample which may explain differences with prior UK studies.

adoption. Coefficient $\alpha_3 + \alpha_{11}$ of 0.324*** measuring conditional conservatism before IFRS adoption compares to only 0.125*** for countries with less developed equity markets. Partitioning the sample according to the importance of equity markets reveals no significant difference in the level of conditional conservatism before IFRS adoption (coefficient $\alpha_3 + \alpha_{11}$ of 0.212*** for high *EQGNP* versus 0.230*** for low *EQGNP*). The same observation holds for the other proxy of market importance *MKIMP* and is in line with the results of Ball et al. (2008).

INSERT TABLE 4 ABOUT HERE

Turning now to the impact of the mandatory IFRS adoption on the level of conditional conservatism, its value is negative and significant for high *DEBTGNP*, and for low *EQGNP* and *MKIMP*, thus the decrease in accounting conservatism is more pronounced in countries with important debt markets and in countries with less developed equity markets.

Finally, the results also reveal that the difference between classification schemes is significant only for *DEBTGNP* before IFRS adoption, and that this difference becomes insignificant after the mandatory IFRS adoption. Further, the coefficient α_{15} is negative and significant denoting a significant decrease in the differences between high and low *DEBTGNP* countries. This result is consistent with IFRS being more neutral and shareholder oriented.

Results: Combining Legal, Governance, Enforcement and Market type

We find (results reported in Table 5) that asymmetric loss recognition has significantly decreased for countries with more insider type economies and less developed stock markets, concentrated ownership, weak investor rights, but strong enforcement (i.e. cluster 2: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Sweden, and

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Switzerland). For countries with outsider economies and well-developed stock markets, dispersed ownership, and strong investor protection (i.e. cluster 1: Great Britain and Norway) the level of conditional conservatism does not seem to have changed significantly.

Nevertheless, consistent with the prior literature (Bushman and Piotroski 2003 and Bona-Sanchez et al. 2011), insider dominated economies where there should be less demand for conservatism combined with weak enforcement (i.e. cluster 3: Greece, Italy, Portugal, and Spain) does lead to lower conservatism before IFRS but still after IFRS.

INSERT TABLE 5 ABOUT HERE

Results: Tax Book Conformity

Table 6 presents results based on the prior level of tax-book conformity. *TAXBOOK* includes only countries in the Hung (2000) study, thus, excludes Austria, Greece and Portugal, and whereas *TAXBOOKADJ* considers these countries has having high tax-book conformity. Low tax book countries under both classification schemes include Denmark, Great Britain, Ireland, Netherlands, and Norway. All other countries are considered as having high tax-book conformity. Countries having high tax-book conformity under our classification schemes exhibit a significant decrease in conditional conservatism after mandatory IFRS adoption ($\alpha_7 + \alpha_{15}$ of -0.140*** and -0.095**, respectively).

INSERT TABLE 6 ABOUT HERE

Sensitivity analysis: Accounting differences

Table 7 examines what impact prior accounting differences between local GAAP and IFRS have on the change of conditional conservatism following mandatory adoption of IFRS.

Overall, we find that countries for which IFRS meant the greatest difference in both accounting standards and extra disclosure experience a reduction in conditional conservatism after adopting IFRS. More specifically, the change coefficient is negative and significant for groups with the highest level of difference[4] based on the Li (2010) *ADDDISC* and *NOINC* measures, the Ding et al. (2007*) DIVERG* measure, and the Bae at al. (2008) *IFRSDIF* measure, and (α_7 of -0.123***, -0.114**, -0.151***, and -0.114**, respectively).

INSERT TABLE 8 ABOUT HERE

Our results also show that the level of conditional conservatism was significantly higher before the mandatory IFRS adoption for countries with high differences between their accounting standards and IFRS (as measured by *DIVERG*). For these countries, IFRS meant a decrease in accounting conservatism making the level of conditional conservatism similar to the countries with low differences (i.e. coefficient $\alpha_{11} + \alpha_{15}$ is not significant). These results can be interpreted as evidence of convergence towards a similar level of conditional conservatism denoting an increase in the comparability of the accounting amounts after the mandatory IFRS adoption.

7.   ROBUSTNESS TESTS

Comparison with US firms

One of the common concerns in time series studies is that macro-economic conditions or other external shocks may influence the proxies of accounting quality used and drive our results. We address this concern in a first robustness test when we use as a benchmark a sample of US firms that have not experienced a change in accounting standards. We follow the same algorithm described in section 5 in order to collect data and construct our empirical

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[4] The groups are split based on the average score. Robustness tests splitting groups based on median give qualitatively similar results.

model. Our sample consists this time of 7 378 E.U. firm-year observations at which we add another 10 937 U.S. firm-year observations from the same time period 2003 to 2007. The results for the U.S. and E.U. samples, as well as the differences are presented in table 8.

INSERT TABLE 8 ABOUT HERE

Our previously reported results do not seem to be driven by external shocks as the decrease of conditional conservatism is only present in the E.U. sample of firm year observations. The level of conditional conservatism remains almost identical for U.S. firms for the pre- vs. post-adoption period (0.200 and 0.209, respectively). We can therefore infer that the reported decrease of conditional conservatism in Europe is a consequence of the mandatory IFRS adoption. More interesting, if before the IFRS adoption the level of conditional conservatism was similar in between E.U. and U.S. firms, after the mandatory adoption of IFRS, European firms seem to be significantly less conservative compared to their American pairs.

Eliminating the Transition Year

The year 2005 has been the transition year for the European mandatory adopters of IFRS. Capkun et al. (2008) provide evidence that managers used this transition period to improve their reported earnings and that this transition earnings management is present in all the countries, but its level is highest in those countries with weaker legal institutions and higher levels of pre-transition earnings management. As earnings management may be interlinked with other properties of accounting data such as value relevance and conservatism (Filip and Di Vito 2009) and in order to eliminate the risk of bias in our results, we repeat the regressions eliminating the year 2005 from the analysis. Table 9 reports the results of the regressions from 2003-2004 years (pre-IFRS) versus 2006-2007 (post-IFRS).

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The results are similar to the ones reported in the table 2 and suggest that firms exhibit less conservative financial reporting after they adopt IFRS. France, Germany, Netherlands, Portugal, and Switzerland experience a significant decrease in conditional conservatism following the mandatory IFRS adoption. The findings are therefore robust to dropping these observations.

Unexpected Earnings

Despite the common use of the Basu (1997) model, several researchers have identified considerable biases associated with the measure of conditional conservatism (Dietrich et al. 2007; Givoly et al. 2007). Patatoukas and Thomas (2010) show that prior findings regarding time-series and cross-sectional variation in differential timeliness are confounded by an important empirical regularity caused by the scale effect. The authors conclude that researchers should avoid using the Basu (1997) model for estimating conditional conservatism. However, Ball et al. (2011) regard this conclusion as excessively alarmist and provide evidence that the explanation lies in the correlation between the expected values of earnings and returns. The authors find that a simple inclusion of firm fixed effects fully explains and eliminates the bias. Therefore their recommendation is to control for firm-specific effects, at least as a robustness check to avoid potentially spurious inferences.

Following the approach suggested by Ball et al. (2011), we estimate for each two digit industry code an earnings expectation model and use it to compute unexpected earnings. The expectation model is given by a simple first order auto-regression of earnings with differential persistence between positive and negative earnings:

$$E_{it} = \beta_0 + \beta_1 D_{it-1} + \beta_2 E_{it-1} + \beta_3 D_{it-1} * E_{it-1} + \zeta_{it} \qquad (4)$$

Where:

D_{it-1} is a dummy variable equal to 1 if Y_{it-1} is negative and 0 otherwise;

ζ_{it} is the unexpected earnings component.

INSERT TABLE 10 ABOUT HERE

Unexpected earnings are then specified as the dependant variable in estimating our main model (3). The results are presented in table 11. As expected, the estimated coefficients measuring conditional conservatism are generally lower in magnitude and less significant, which suggests a bias due to failure to isolate expected earnings. The main finding is that for the pooled sample coefficient α_7 measuring the timeliness of loss recognition after the mandatory adoption of IFRS is negative, but not significant. However, if we look at country results we still have a significant decrease in conditional conservatism after the mandatory IFRS adoption in Belgium, France, Germany, Netherlands, and Switzerland. Even more interesting, after the mandatory IFRS adoption no country is significantly different with respect of the level of conditional conservatism. Therefore, we can conclude that our country results are not driven by the spurious effect of scale mentioned by Patatoukas and Thomas (2010).

8. CONCLUSION

We provide evidence of the effects of mandatory IFRS adoption on the timeliness of loss recognition in Europe. It is argued that IFRS put greater emphasis on neutrality at the expense of prudence. Our sample consists of 2 477 mandatory IFRS adopters from 16 European countries. We find evidence of a significant reduction in the asymmetric timeliness of loss recognition relative to gain recognition (conditional conservatism) for the post-IFRS

period. These results are driven by a decrease of conservatism in France, Germany, Greece, Netherlands, Portugal, Spain, and Switzerland.

We then examine factors that may explain the decrease in conditional conservatism by looking at legal and institutional incentives including governance and enforcement and looking at prior tax book conformity and prior accounting differences with IFRS. We document that conditional conservatism has decreased for French and German law origin countries, and for countries with more insider type economies and less developed stock markets. The decrease in conditional conservatism is more pronounced in countries with important debt markets and with less developed equity markets. We also find that countries for which IFRS meant the greatest difference in both accounting standards and extra disclosure experience a reduction in conditional conservatism. Finally, countries where the tax book conformity was high also experience a significant reduction in timely loss recognition.

We provide evidence that accounting standards do matter. Assessing whether the decrease in conditional conservatism is a good or a bad thing remains an object of current debate. While authors like Watts (2003a) argue that conservatism is a desirable quality of accounting information, the IASB and FASB have proposed a Conceptual Framework that eliminates conservatism or prudence as a desirable qualitative characteristic of reported financial information and focuses on the principle of faithful representation and neutrality (IASB 2010).

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Table 1. Sampling and data collection

Panel A: Sampling

Firms from the 16 countries	6 186
(–) Financial institutions	1 390
(–) Non 2005 IFRS adopters	2 319
(=) Firms included in the sample	2 477
(x 5) Firm-years observations for 2003 to 2007	12 385
(–) Observations with unavailable accounting and/or market data	4 815
(–) Observations with negative equity or negative total assets	192
(=) Final number of year observations	7 378

Panel B: Distribution of the sample by country

Country	Before	After	Pool
Austria	13	23	36
Belgium	20	112	132
Denmark	82	168	250
Finland	144	249	393
France	431	1 008	1 439
Germany	152	315	467
Great Britain	354	1 240	1 594
Greece	86	162	248
Ireland	18	57	75
Italy	239	450	689
Netherlands	94	186	280
Norway	89	240	329
Portugal	50	87	137
Spain	115	235	350
Sweden	321	573	894
Switzerland	15	50	65

Panel C: Descriptive statistics

Variable	Mean	Median	Standard deviation
Pool; N = 7 378			
E_{it}	0.037	0.060	0.105
R_{it}	0.362	0.246	0.631
BN_{it}	0.312		
Before; N = 2 223			
E_{it}	0.020	0.055	0.126
R_{it}	0.519	0.399	0.633
BN_{it}	0.199		
After; N = 5 155			
Eit	0.044	0.061	0.094
Rit	0.295	0.175	0.618
BN_{it}	0.360		

Where:

E_{it} is the net income of firm i in year t, scaled by beginning of the period market value;

R_{it} is the market return over 18 months (01.01.N to 30.06.N+1) net of dividends and capital contributions;

BN_{it} is a dummy variable equal to 1 if R_{it} is negative (indicating bad news) and 0 otherwise (indicating good news);

All continuous variables are winsorized at 5%.

Table 2. The impact of IFRS on the accounting conservatism in Europe: 2003-2004 vs. 2005-2007

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007.

Panel A: Overall results

Model: $E_{it} = \alpha_0 + \alpha_1 BN_{it} + \alpha_2 R_{it} + \alpha_3 BN_{it}*R_{it} + \alpha_4 IFRS_{it} + \alpha_5 IFRS_{it}*BN_{it} + \alpha_6 IFRS_{it}*R_{it} + \alpha_7 IFRS_{it}*BN_{it}*R_{it} + \varepsilon_{it}$

	N	α_0	α_1	α_2	α_3	α_4	α_5	α_6	α_7	F	Adj.R^2
Pool	7 378	0.041***	-0.043***	-0.003	0.224***	0.013***	0.039***	0.016**	**-0.092****	106.83***	0.11
		(8.94)	(-3.90)	(-0.51)	(6.54)	(2.63)	(3.28)	(2.09)	**(-2.54)**		

Post-IFRS conditional conservatism: $\alpha_3 + \alpha_7 = 0.224 -0.092 = 0.132$* (9.27)**

Table 2. The impact of IFRS on the accounting conservatism in Europe (cont'd)

Panel B: Test of differences within and across countries

Model: $E_{it} = \alpha_0 + \alpha_1 BN_{it} + \alpha_2 R_{it} + \alpha_3 BN_{it}*R_{it} + \alpha_4 IFRS_{it} + \alpha_5 IFRS_{it}*BN_{it} + \alpha_6 IFRS_{it}*R_{it} + \alpha_7 IFRS_{it}*BN_{it}R_{it} + \alpha_8 IF_{it} + \alpha_9 IF_{it}*BN_{it} + \alpha_{10}IF_{it}*R_{it} + \alpha_{11}IF_{it}*BN_{it}*R_{it} + \alpha_{12}IF_{it}*IFRS_{it} + \alpha_{13}IF_{it}*IFRS_{it}*BN_{it} + \alpha_{14}IF_{it}*IFRS_{it}*R_{it} + \alpha_{15}IF_{it}*IFRS_{it}*BN_{it}*R_{it} + \varepsilon_{it}$

Where:

E_{it} is the net income of firm i in year t, scaled by beginning of the period market value; R_{it} is the market return over 18 months (01.01.N to 30.06.N+1) net of dividends and capital contributions; BN_{it} is a dummy variable equal to 1 if R_{it} is negative (indicating bad news) and 0 otherwise (indicating good news); $IFRS_{it}$ is a dummy variable that takes the value 1 if the year is 2005, 2006 or 2007, and 0 otherwise; IF_{it} is a dummy variable that takes the value 1 if the firm belongs to the country, and 0 otherwise. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.109 to 0.117.

Reported measures of conservatism:

	$IF_{it} = 0$	$IF_{it} = 1$	Δ
Before $IFRS_{it}$	α_3	$\alpha_3 + \alpha_{11}$	α_{11}
After $IFRS_{it}$	$\alpha_3 + \alpha_7$	$\alpha_3 + \alpha_7 + \alpha_{11} + \alpha_{15}$	$\alpha_{11} + \alpha_{15}$
Δ	α_7	$\alpha_7 + \alpha_{15}$	α_{15}

	Rest	Austria	Δ	Rest	Belgium	Δ
Before	0.225***	0.362	0.137	0.225***	0.202**	-0.022
	(6.51)	(1.12)	(0.42)	(6.52)	(2.19)	(-0.23)
After	0.131***	0.344	0.214	0.132***	0.114	-0.018
	(9.17)	(1.60)	(0.99)	(9.18)	(0.95)	(-0.15)
Δ	-0.095***	-0.018	0.077	-0.093**	-0.088	0.004
	(-2.58)	(-0.04)	(0.16)	(-2.53)	(-0.59)	(0.03)
	Rest	Denmark	Δ	Rest	Finland	Δ
Before	0.227***	0.165	-0.062	0.228***	0.061	-0.168
	(6.47)	(1.10)	(-0.41)	(6.57)	(0.27)	(-0.74)
After	0.130***	0.176**	0.046	0.132***	0.152	0.020
	(9.02)	(2.44)	(0.62)	(9.32)	(1.49)	(0.20)
Δ	-0.097***	0.011	0.108	-0.097***	0.091	0.188
	(-2.61)	(0.06)	(0.56)	(-2.61)	(0.41)	(0.82)

Table 2. The impact of IFRS on the accounting conservatism in Europe (cont'd)

Panel B: Test of differences (cont'd)

	Rest	France	Δ	Rest	Germany	Δ
Before	0.190***	0.365***	0.175***	0.204***	0.422***	0.219*
	(4.85)	(5.53)	(2.28)	(5.81)	(3.97)	(1.95)
After	0.128***	0.148***	0.020	0.131***	0.157**	0.025
	(7.88)	(5.25)	(0.62)	(9.07)	(2.25)	(0.36)
Δ	-0.062	-0.218***	-0.155*	-0.072*	-0.265**	-0.193
	(-1.49)	(-3.15)	(-1.92)	(-1.95)	(-2.09)	(-1.46)
	Rest	Great Britain	Δ	Rest	Greece	Δ
Before	0.221***	0.242**	0.021	0.263***	0.110	-0.153
	(6.11)	(2.39)	(0.20)	(7.54)	(1.20)	(-1.57)
After	0.128***	0.144***	0.016	0.132***	0.149**	0.017
	(8.01)	(4.65)	(0.45)	(9.08)	(2.28)	(0.25)
Δ	-0.093**	-0.099	-0.006	-0.131***	0.039	0.170
	(-2.41)	(-0.94)	(-0.05)	(-3.53)	(0.35)	(1.43)
	Rest	Ireland	Δ	Rest	Italy	Δ
Before	0.223***	-0.107	-0.331*	0.234***	0.175**	-0.059
	(6.48)	(-0.63)	(-1.90)	(6.19)	(2.29)	(-0.70)
After	0.132***	0.082	-0.050	0.139***	0.067*	-0.072*
	(9.24)	(0.74)	(-0.45)	(9.16)	(1.74)	(-1.74)
Δ	-0.091**	0.189	0.280	-0.095**	-0.108	-0.013
	(-2.49)	(0.75)	(1.10)	(-2.37)	(-1.30)	(-0.14)
	Rest	Netherlands	Δ	Rest	Norway	Δ
Before	0.220***	0.855**	0.635*	0.226***	0.139	-0.087
	(6.31)	(2.41)	(1.78)	(6.48)	(0.79)	(-0.48)
After	0.132***	0.110**	-0.022	0.130***	0.171**	0.041
	(9.05)	(1.98)	(-0.38)	(8.97)	(2.53)	(0.59)
Δ	-0.089**	-0.745**	-0.656*	-0.096***	0.032	0.128
	(-2.39)	(-2.11)	(-1.85)	(-2.58)	(0.17)	(0.68)

Table 2. The impact of IFRS on the accounting conservatism in Europe (cont'd)

Panel B: Test of differences (cont'd)

	Rest	Portugal	Δ	Rest	Spain	Δ
Before	0.216***	0.639***	0.423***	0.225***	0.034	-0.191
	(6.20)	(5.58)	(3.53)	(6.53)	(0.10)	(-0.58)
After	0.131***	0.167	0.036	0.134***	0.106***	-0.028
	(9.25)	(1.00)	(0.21)	(9.08)	(2.73)	(-0.67)
Δ	-0.085**	-0.472**	-0.387*	-0.091**	0.072	0.163
	(-2.31)	(-2.16)	(-1.74)	(-2.47)	(0.23)	(0.51)
	Rest	Sweden	Δ	Rest	Switzerland	Δ
Before	0.242***	0.144*	-0.098	0.220***	0.616***	0.396***
	(6.51)	(1.82)	(-1.13)	(6.37)	(15.21)	(7.44)
After	0.131***	0.125***	-0.006	0.134***	-0.051	-0.185**
	(8.67)	(2.98)	(-0.13)	(9.34)	(-0.65)	(-2.33)
Δ	-0.111***	-0.019	0.093	-0.086**	-0.667***	-0.581***
	(-2.84)	(-0.21)	(0.95)	(-2.35)	(-8.29)	(-6.57)

Table 3. The relative importance of legal regime

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007. N = 7 378. Legal incentives classification schemes based on Leuz et al. (2003), among others. ORIGIN: English law origin (Great Britain and Ireland); French (Belgium, France, Greece, Italy, Netherlands, Portugal, and Spain); German (Austria, Germany, and Switzerland) and Scandinavian (Denmark, Finland, Norway, and Sweden).

Test of differences details, see Table 2. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.109 to 0.117.

	Rest	English	Δ
Before	0.220***	0.240**	0.020
	(6.04)	(2.45)	(0.19)
After	0.129***	0.140***	0.012
	(7.98)	(4.70)	(0.34)
Δ	-0.091**	-0.099	-0.008
	(-2.35)	(-0.98)	(-0.08)

	Rest	French	Δ
Before	0.229***	0.220***	-0.009
	(4.49)	(4.82)	(-0.13)
After	0.141***	0.118***	-0.023
	(6.86)	(6.40)	(-0.83)
Δ	-0.088	-0.102**	-0.014
	(-1.61)	(-2.13)	(-0.19)

	Rest	German	Δ
Before	0.200***	0.416***	0.216**
	(5.61)	(4.30)	(2.10)
After	0.132***	0.143**	0.010
	(9.05)	(2.41)	(0.17)
Δ	-0.067*	-0.273**	-0.206*
	(-1.79)	(-2.34)	(-1.68)

	Rest	Scandin.	Δ
Before	0.257***	0.143**	-0.114
	(6.51)	(2.27)	(-1.54)
After	0.127***	0.145***	0.019
	(8.11)	(4.43)	(0.51)
Δ	-0.130***	0.002	0.133
	(-3.13)	(0.04)	(1.64)

Table 4. The relative importance of equity markets and debt markets

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007. N = 7 313 for *DEBTGNP*, N = 7 378 for *EQGNP* and *MKIMP*. *DEBTGNP* and *EQGNP* are taken from La Porta et al. (1997). *DEBTGNP* represents the ratio of the sum of bank debt of the private sector and outstanding non-financial bonds to the gross national product in 1994, or last available. A higher ratio denotes a higher importance of debt market. *EQGNP* represents the ratio of the stock market capitalization held by minorities to gross national product in 1994. A higher ratio denotes a higher importance of the equity market. The measure *MKIMP* has been developed by Leuz et al. (2003). It averages three proposed measures of the importance of equity markets from La Porta et al. (1997): (1) market capitalization of minorities to gross national product; (2) number of listed domestic firms to the population; and (3) number of IPOs to the population. This variable reflects the prevailing financing mode in each country.

Test of differences details see Table 2. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.109 to 0.111.

DEBTGNP	Low	High	Δ
Before	0.125***	0.324***	0.198***
	(2.69)	(6.61)	(2.94)
After	0.120***	0.141***	0.021
	(5.26)	(7.63)	(0.72)
Δ	-0.006	-0.183***	-0.177**
	(-0.11)	(-3.62)	(-2.46)
EQGNP	**Low**	**High**	**Δ**
Before	0.230***	0.212***	-0.018
	(5.62)	(3.41)	(-0.24)
After	0.129***	0.137***	0.008
	(7.16)	(5.97)	(0.27)
Δ	-0.101**	-0.075	0.026
	(-2.33)	(-1.14)	(0.33)
MKIMP	**Low**	**High**	**Δ**
Before	0.237***	0.203***	-0.034
	(5.42)	(3.71)	(-0.49)
After	0.124***	0.140***	0.016
	(6.37)	(6.75)	(0.55)
Δ	-0.113**	-0.063	0.050
	(-2.45)	(-1.08)	(0.67)

Table 5. Combining Legal, Governance, Enforcement and Market Type

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007. N = 7 378. CLUSTER is a cluster analysis from Leuz et al. (2003) which groups countries based on similar legal and institutional characteristics into three (3) groups: Cluster 1 includes countries with outsider economies and large stock markets, dispersed ownership and strong investor rights and legal enforcement (Great Britain and Norway); Cluster 2 have insider economies and less developed stock markets, concentrated ownership, weak investor rights but strong enforcement (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Sweden, and Switzerland,); Cluster 3 consists of insider economies with weak enforcement (Greece, Italy, Portugal, and Spain).

Test of differences details, see Table 2. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.109 to 0.117.

	Rest	**Cluster 1**	**Δ**
Before	0.223***	0.223**	0.001
	(6.04)	(2.46)	(0.01)
After	0.126***	0.146***	0.020
	(7.66)	(5.20)	(0.63)
Δ	-0.097**	-0.077	0.020
	(-2.46)	(-0.82)	(0.19)
	Rest	**Cluster 2**	**Δ**
Before	0.160***	0.287***	0.127*
	(3.07)	(6.59)	(1.87)
After	0.122***	0.140***	0.018
	(6.05)	(7.02)	(0.63)
Δ	-0.037	-0.146***	-0.109
	(-0.68)	(-3.12)	(-1.50)
	Rest	**Cluster 3**	**Δ**
Before	0.272***	0.116*	-0.156**
	(6.80)	(1.84)	(-2.08)
After	0.143***	0.089***	-0.054*
	(8.75)	(3.13)	(-1.66)
Δ	-0.129***	-0.028	0.101
	(-3.04)	(-0.41)	(1.27)

Table 6. The relative importance of tax book conformity

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007. N = 6 957 for *TAXBOOK* and N = 7 378 for *TAXBOOKADJ*. Tax-book conformity is taken from Hung (2000) where 1 is high and 0 low conformity. Adjusted measure classifies countries not in Hung (2000) based on our own assessment.

Test of differences details, see Table 2. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.111 to 0.117.

TAXBOOK	Low	High	Δ
Before	0.218***	0.261***	0.042
	(3.01)	(6.42)	(0.51)
After	0.146***	0.121***	-0.025
	(6.03)	(6.63)	(-0.82)
Δ	-0.072	-0.140***	-0.067
	(-0.95)	(-3.24)	(-0.77)
TAXBOOKADJ	Low	High	Δ
Before	0.218***	0.219***	0.001
	(3.01)	(5.63)	(0.01)
After	0.146***	0.124***	-0.022
	(6.03)	(7.05)	(-0.74)
Δ	-0.072	-0.095**	-0.023
	(-0.95)	(-2.30)	(-0.27)

Table 7. The relative importance of accounting standards

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007. N = 7 378 , except for *DIVERG* N = 7 313. Test of differences details, see Table 2. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.109 to 0.111.

IFRSDIF	**Low**	**High**	**Δ**
Before	0.193***	0.237***	0.045
	(3.26)	(5.67)	(0.61)
After	0.141***	0.124***	-0.018
	(6.50)	(6.62)	(-0.61)
Δ	-0.051	-0.114**	-0.062
	(-0.82)	**(-2.55)**	**(-0.81)**
ADDDISC	**Low**	**High**	**Δ**
Before	0.190***	0.243***	0.054
	(3.43)	(5.62)	(0.76)
After	0.144***	0.120***	-0.024
	(6.85)	(6.26)	(-0.83)
Δ	-0.046	-0.123***	-0.077
	(-0.78)	(-2.69)	(-1.04)
NOINC	**Low**	**High**	**Δ**
Before	0.212***	0.234***	0.022
	(4.02)	(5.20)	(0.31)
After	0.144***	0.119***	-0.025
	(7.00)	(6.11)	(-0.87)
Δ	-0.068	-0.114**	-0.046
	(-1.21)	(-2.43)	(-0.63)
DIVERG	**Low**	**High**	**Δ**
Before	0.118**	0.283***	0.165**
	(2.14)	(6.60)	(2.36)
After	0.137***	0.132***	-0.005
	(5.68)	(7.42)	(-0.17)
Δ	0.019	-0.151***	-0.170**
	(0.32)	(-3.35)	(-2.29)

Table 8. Comparison with US firms

Sample consists of U.S. firms and European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007. N = 18 315.

Test of differences details, see Table 2. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 equals 0.116.

	E.U.	U.S.A.	Δ
Before	0.224***	0.200***	-0.024
	(6.54)	(10.02)	(-0.60)
After	0.132***	0.209***	0.077***
	(9.280)	(19.83)	(4.35)
Δ	-0.092**	0.008	0.101**
	(-2.54)	(0.38)	(2.37)

Table 9. The impact of IFRS on the accounting conservatism: 2003-2004 vs. 2006-2007

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2004 and 2006-2007. N = 5 786.
Test of differences details, see Table 2. All continuous variables are winsorized at 5%. Standard errors adjusted for clustering at firm level. t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.108 to 0.117.

	Rest	**Austria**	**Δ**	**Rest**	**Belgium**	**Δ**
Before	0.225***	0.362	0.137	0.225***	0.202**	-0.022
	(6.51)	(1.12)	(0.42)	(6.52)	(2.18)	(-0.22)
After	0.142***	0.208***	0.067	0.143***	0.056	-0.087
	(9.25)	(4.65)	(1.41)	(9.26)	(0.47)	(-0.74)
Δ	-0.084**	-0.154	-0.071	-0.082**	-0.147	-0.065
	(-2.24)	(-0.46)	(-0.21)	(-2.19)	(-1.28)	(-0.54)
	Rest	**Denmark**	**Δ**	**Rest**	**Finland**	**Δ**
Before	0.227***	0.165	-0.062	0.228***	0.061	-0.168
	(6.47)	(1.10)	(-0.41)	(6.57)	(0.27)	(-0.74)
After	0.142***	0.109*	-0.033	0.140***	0.204*	0.064
	(9.14)	(1.73)	(-0.50)	(9.26)	(1.80)	(0.56)
Δ	-0.085**	-0.055	0.030	-0.088**	0.143	0.231
	(-2.25)	(-0.33)	(0.17)	(-2.35)	(0.64)	(1.02)
	Rest	**France**	**Δ**	**Rest**	**Germany**	**Δ**
Before	0.190***	0.365***	0.175***	0.204***	0.422***	0.219*
	(4.85)	(5.53)	(2.28)	(5.81)	(3.97)	(1.95)
After	0.138***	0.152***	0.015	0.140***	0.184**	0.043
	(7.84)	(5.22)	(0.43)	(9.04)	(2.36)	(0.55)
Δ	-0.052	-0.213***	-0.161	-0.064*	-0.239*	-0.175
	(-1.23)	(-3.04)	(-1.96)	(-1.69)	(-1.77)	(-1.25)
	Rest	**Great Britain**	**Δ**	**Rest**	**Greece**	**Δ**
Before	0.221***	0.242**	0.021	0.263***	0.110	-0.153
	(6.11)	(2.39)	(0.20)	(7.54)	(1.20)	(-1.57)
After	0.136***	0.161***	0.025	0.142***	0.155**	0.014
	(7.97)	(4.80)	(0.66)	(9.07)	(2.20)	(0.19)
Δ	-0.085**	-0.081	0.004	-0.121***	0.046	0.167
	(-2.15)	(-0.77)	(0.03)	(-3.22)	(0.39)	(1.35)

Table 9. The impact of IFRS on the accounting conservatism: 2003-2004 vs. 2006-2007 (cont'd)

	Rest	Ireland	Δ	Rest	Italy	Δ
Before	0.223***	-0.107	-0.331*	0.234***	0.175**	-0.059
	(6.48)	(-0.63)	(-1.90)	(6.19)	(2.29)	(-0.70)
After	0.144***	0.011	-0.132***	0.150***	0.062	-0.088**
	(9.31)	(0.25)	(-2.78)	(9.19)	(1.54)	(-2.02)
Δ	-0.080**	0.118	0.198	-0.084**	-0.113	-0.029
	(-2.15)	(0.65)	(1.07)	(-2.08)	(-1.29)	(-0.30)
	Rest	Netherlands	Δ	Rest	Norway	Δ
Before	0.220***	0.855**	0.635*	0.226***	0.139	-0.087
	(6.31)	(2.41)	(1.78)	(6.47)	(0.79)	(-0.48)
After	0.140***	0.152***	0.012	0.142***	0.146**	0.003
	(8.95)	(2.73)	(0.20)	(9.11)	(1.97)	(0.05)
Δ	-0.080**	-0.703**	-0.623*	-0.084**	0.006	0.090
	(-2.12)	(-1.98)	(-1.74)	(-2.23)	(0.03)	(0.48)
	Rest	Portugal	Δ	Rest	Spain	Δ
Before	0.216***	0.639***	0.423***	0.225***	0.034	-0.191
	(6.20)	(5.57)	(3.53)	(6.53)	(0.10)	(-0.58)
After	0.142***	0.131	-0.011	0.143***	0.127***	-0.016
	(9.35)	(0.57)	(-0.05)	(9.03)	(2.90)	(-0.35)
Δ	-0.075**	-0.508*	-0.434	-0.082**	0.093	0.175
	(-2.00)	(-1.87)	(-1.58)	(-2.19)	(0.29)	(0.55)
	Rest	Sweden	Δ	Rest	Switzerland	Δ
Before	0.242***	0.144*	-0.098	0.220***	0.616***	0.396***
	(6.51)	(1.82)	(-1.13)	(6.37)	(15.20)	(7.44)
After	0.140***	0.144***	0.004	0.144***	-0.021	-0.165**
	(8.77)	(3.05)	(0.08)	(9.34)	(-0.28)	(-2.10)
Δ	-0.102***	0.000	0.102	-0.076**	-0.637***	-0.561***
	(-2.57)	(0.00)	(1.01)	(-2.05)	(-7.97)	(-6.36)

Table 10. Unexpected earnings and the impact of IFRS on the accounting conservatism

Sample consists of European mandatory adopters of IFRS in 2005 from 16 countries (Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland). Sample period spans 2003-2007. N = 7 374.

Model: $E_{it} - E[E_{it}] = \alpha_0 + \alpha_1 BN_{it} + \alpha_2 R_{it} + \alpha_3 BN_{it}R_{it} + \alpha_4 IFRS_{it} + \alpha_5 IFRS_{it}BN_{it} + \alpha_6 IFRS_{it}R_{it} + \alpha_7 IFRS_{it}BN_{it}R_{it} + \alpha_8 IF_{it} + \alpha_9 IF_{it}BN_{it} + \alpha_{10}IF_{it}R_{it} + \alpha_{11}IF_{it}BN_{it}R_{it} + \alpha_{12}IF_{it}IFRS_{it} + \alpha_{13}IF_{it}IFRS_{it}BN_{it} + \alpha_{14}IF_{it}IFRS_{it}R_{it} + \alpha_{15}IF_{it}IFRS_{it}BN_{it}R_{it} + \varepsilon_{it}$

Where: E_{it} is the net income of firm i in year t, scaled by beginning of the period market value; E[.] is the expectation operator; within 2 digit industry code, the following expectation model is estimated in order to compute unexpected earnings: $Y_{it} = \beta_0 + \beta_1 D_{it-1} + \beta_2 Y_{it-1} + \beta_3 D_{it-1}Y_{it-1} + \zeta_{it}$; R_{it} is the market return over 18 months (01.01.N to 30.06.N+1) net of dividends and capital contributions; BN_{it} is a dummy variable equal to 1 if R_{it} is negative (indicating bad news) and 0 otherwise (indicating good news); $IFRS_{it}$ is a dummy variable that takes the value 1 if the year is 2005, 2006 or 2007, and 0 otherwise; IF_{it} is a dummy variable that takes the value 1 if the firm belongs to the country, and 0 otherwise; All continuous variables are winsorized at 5%; Standard errors adjusted for clustering at firm level; t-statistics into brackets; *, **, *** indicates statistically significant at 0.10, 0.05 and 0.01 respectively. Adjusted R^2 ranges from 0.094 to 0.098.

Reported measures of conservatism:

	$IF_{it} = 0$	$IF_{it} = 1$	Δ
Before $IFRS_{it} = 0$	α_3	$\alpha_3 + \alpha_{11}$	$\alpha_3 + \alpha_{11}$
After $IFRS_{it} = 1$	$\alpha_3 + \alpha_7$	$\alpha_3 + \alpha_7 + \alpha_{11} + \alpha_{15}$	$\alpha_{11} + \alpha_{15}$
Δ	α_7	$\alpha_7 + \alpha_{15}$	α_{15}

	Rest	Austria	Δ	Rest	Belgium	Δ
Before	0.091***	-0.123	-0.214	0.089***	0.216***	0.127***
	(4.02)	(-0.28)	(-0.48)	(3.93)	(9.99)	(4.05)
After	0.067***	0.175	0.109	0.068***	0.051	-0.017
	(6.66)	(1.50)	(0.93)	(6.69)	(0.71)	(-0.23)
Δ	-0.025	0.298	0.323	-0.021	-0.165**	-0.144*
	(-1.00)	(0.55)	(0.60)	(-0.87)	(-2.23)	(-1.85)
	Rest	Denmark	Δ	Rest	Finland	Δ
Before	0.088***	0.139	0.051	0.093***	-0.053	-0.146
	(3.80)	(1.54)	(0.55)	(4.07)	(-0.37)	(-1.00)
After	0.067***	0.080	0.013	0.067***	0.086	0.019
	(6.60)	(1.59)	(0.25)	(6.69)	(1.36)	(0.30)
Δ	-0.021	-0.059	-0.038	-0.026	0.140	0.166
	(-0.84)	(-0.52)	(-0.33)	(-1.05)	(0.89)	(1.04)

Table 10. Unexpected earnings and the impact of IFRS on the accounting conservatism (cont'd)

	Rest	France	Δ	Rest	Germany	Δ
Before	0.059**	0.214***	0.156***	0.076***	0.265***	0.190**
	(2.34)	(4.62)	(2.95)	(3.22)	(3.73)	(2.53)
After	0.066***	0.072***	0.006	0.065***	0.116***	0.051
	(5.83)	(3.51)	(0.27)	(6.37)	(2.67)	(1.13)
Δ	0.007	-0.142***	-0.149***	-0.010	-0.149*	-0.139
	(0.27)	(-2.94)	(-2.69)	(-0.40)	(-1.80)	(-1.61)
	Rest	Great Britain	Δ	Rest	Greece	Δ
Before	0.092***	0.073	-0.019	0.108***	0.019	-0.089
	(3.92)	(1.07)	(-0.26)	(4.57)	(0.34)	(-1.44)
After	0.067***	0.070***	0.004	0.067***	0.096**	0.030
	(6.08)	(3.09)	(0.14)	(6.50)	(2.06)	(0.62)
Δ	-0.026	-0.003	0.023	-0.042	0.077	0.119
	(-0.99)	(-0.04)	(0.30)	(-1.63)	(1.06)	(1.54)
	Rest	Ireland	Δ	Rest	Italy	Δ
Before	0.091***	-0.119	-0.210*	0.102***	0.021	-0.081
	(4.00)	(-0.95)	(-1.65)	(4.17)	(0.38)	(-1.32)
After	0.067***	0.115	0.048	0.071***	0.036	-0.036
	(6.63)	(1.54)	(0.64)	(6.66)	(1.33)	(-1.24)
Δ	-0.024	0.234	0.258	-0.031	0.014	0.045
	(-0.97)	(1.40)	(1.52)	(-1.16)	(0.23)	(0.66)
	Rest	Netherlands	Δ	Rest	Norway	Δ
Before	0.088***	0.676***	0.588***	0.095***	-0.078	-0.172
	(3.82)	(3.85)	(3.32)	(4.12)	(-0.75)	(-1.61)
After	0.067***	0.070	0.003	0.068***	0.053	-0.015
	(6.62)	(1.20)	(0.05)	(6.67)	(1.12)	(-0.30)
Δ	-0.021	-0.606***	-0.585***	-0.026	0.131	0.158
	(-0.83)	(-3.45)	(-3.30)	(-1.06)	(1.22)	(1.43)

Table 10. Unexpected earnings and the impact of IFRS on the accounting conservatism (cont'd)

	Rest	Portugal	Δ	Rest	Spain	Δ
Before	0.087***	0.283***	0.196**	0.091***	-0.075	-0.165
	(3.78)	(3.41)	(2.28)	(4.00)	(-0.35)	(-0.77)
After	0.067***	0.074	0.007	0.067***	0.070**	0.002
	(6.71)	(0.81)	(0.07)	(6.48)	(2.42)	(0.08)
Δ	-0.020	-0.209	-0.189	-0.023	0.144	0.168
	(-0.79)	(-1.59)	(-1.42)	(-0.95)	(0.67)	(0.78)
	Rest	Sweden	Δ	Rest	Switzerland	Δ
Before	0.101***	0.029	-0.072	0.089***	0.179***	0.090***
	(4.16)	(0.48)	(-1.12)	(3.89)	(8.57)	(2.93)
After	0.069***	0.054*	-0.015	0.068***	-0.032	-0.100
	(6.52)	(1.84)	(-0.49)	(6.83)	(-0.35)	(-1.11)
Δ	-0.032	0.025	0.057	-0.020	-0.211**	-0.191**
	(-1.22)	(0.37)	(0.78)	(-0.81)	(-2.27)	(-1.98)