

1 ***The Effect of International Financial Reporting Standards (IFRS) adoption***
2 ***on the Value Relevance of Financial Reporting: case of Russia***

3 Garanina Tatiana A. (corresponding author)

4 Ph.D., Senior Lecturer

5 Department of Finance and Accounting

6 Director, Master in Management Programs

7 Graduate School of Management

8 St.Petersburg University

9 E-mail: garanina@gsom.pu.ru

10 Postal address: 199004 Volkhovsky per., 1

11 St.Petersburg, Russia

12 Tel.: +7 812 323 84 48 (ext.613)

13 Fax.: +7 812 329 32 34

14

15 Kormiltseva Polina

16 Graduate of Master in Management Program

17 Graduate School of Management,

18 St.Petersburg University

19

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21 *Purpose* – The purpose of this study is to empirically examine the influence of International
22 Financial Reporting Standards (IFRS) adoption by Russian public companies on the value
23 relevance of financial reporting in Russia.

24 *Design/methodology/approach* – We selected 67 Russian public companies that report both
25 under RAS and IFRS for four consecutive years (2006 – 2009).

26 *Research limitations* – The main limitation of the paper is the sample, but this can be explained
27 by the fact that only 67 companies in Russia report under two standards (RAS and IFRS). So the
28 sample could not be increased as there are no other companies that fulfill the characteristics of
29 the sample.

30 *Findings* – The obtained results show that on the Russian market there is no evidence of
31 increased value relevance of financial reporting to external users of financial information after
32 adopting IFRS when comparing and evaluating the two regimes (RAS and IFRS)
33 unconditionally. Such results can be explained by the notion of mock compliance which
34 originates due to the institutional differences between the RAS and IFRS development
35 environments.

36 *Originality/value* – Adoption of IFRS by companies in emerging markets has been a subject of
37 interest for a lot of researchers, but this is the first research of the kind in the field of value
38 relevance of adoption of IFRS on the Russian market.

39 ***Key words:*** IFRS, Russian accounting standards, adoption, value relevance

40 ***Introduction***

41 The emergence and development of multinational concerns, the growth of international
42 financial markets and changing investor behavior have contributed to the internationalization of
43 economic activity. As a result financial reporting has spread beyond national borders. However,
44 interpretation and understanding of financial information at the international level is hindered by

45 a multitude of factors, including the diversity of the accounting principles and rules governing
46 the preparation of reports in different countries.

47 Thus since the 1970s considerable efforts have been made by various bodies, such as
48 International Accounting Standards Board (IASB), to harmonize accounting and financial
49 reporting standards in different countries in order to improve the usefulness and comparability of
50 financial information in the international context. In 2002 such initiatives have resulted in the
51 approval of the regulation which provides for the mandatory application of International
52 Financial Reporting Standards (IFRS) by companies listed on European regulated stock markets
53 as of January 2005. This regulatory change did not only affect the equity financing initiatives by
54 putting additional pressure on issuers to adopt new reporting standards but also on the debt
55 finance raising activities as more and more international, and especially Europe-based, banks
56 started requiring their clients to comply with IFRS in order to be able to obtain syndicated loans.

57 The results of the International Financial Reporting Standards campaign are quite
58 astonishing: in 2009 already more than 100 countries have adopted IFRS¹ (in a form of
59 requiring, permitting or converging with IFRS), and a number of other economically important
60 countries, including Japan and Canada, had programs in place to converge their national
61 standards with IFRS. The most impressive break-through in the international convergence debate
62 took place in 2007 when the US Securities and Exchange Commission announced its adoption of
63 rules under which it will accept filings from foreign private issuers containing financial
64 statements prepared in accordance with IFRS without requiring reconciliation to US generally
65 accepted accounting principles, US GAAP. This change has eliminated what has historically
66 been one of the main obstacles for foreign private issuers to enter and to remain in the US public
67 markets.

68 The emergence and adoption of IFRS has particular consequences for transition economies
69 too: since these countries do not possess the financial reporting infrastructure that developed
70 countries already enjoy, the lack of credibility of reported financial information adversely affects
71 these countries' ability to attract foreign capital. Adopting IFRS is seen as one way to overcome
72 this barrier and many transition economies are adopting IFRS as a means of giving credibility to
73 corporate financial statements. On one hand, adopting IFRS in these circumstances can be seen
74 as an economic decision aiming at reducing the cost of acquired capital and increasing its
75 amount for the large national enterprises. On the other hand, it can be assessed as a political
76 decision aiming at "joining the club" of developed and well established countries. Some authors

¹ Data taken from AICPA IFRS Resources: <http://www.ifrs.com>

77 including Walter (2008) see the IFRS adoption by emerging countries much more as a politics-
78 based rather than economics-based decision due to the fact that most of the emerging economies
79 lack the institutional infrastructure (i.e. law enforcement structures, accounting educational
80 institutions, professional associations etc.) which limits the full-scale IFRS adoption in those
81 countries.

82 Russian Federation is one of the emerging countries that has outlined a plan for gradual
83 IFRS adoption with a number of accounting reforms taking place during the last decade. The
84 current plan aims to achieve the full-scale IFRS adoption by 2015 by the means of evolutionary
85 convergence of the Russian Accounting Standards (RAS) with IFRS. Currently there are over
86 200 Russian public companies that report under IFRS, which is slightly more than 50% of all
87 Russian listed companies. In addition to that, since 2007 the main Russian stock exchange, the
88 Russian Trade Systems (RTS), requires IFRS filings for all the listed companies. The other stock
89 exchange in Russia – MICEX does not require IFRS from the companies listed there. In the
90 presented paper we will investigate voluntary adoption of IFRS. Voluntary adoption in this case
91 is considered from the perspective that it is not required by state's law. Considering
92 that Russia has two stock exchanges and only one requires IFRS, any company applying IFRS to
93 get public applies it voluntary as it can choose from any of the two platforms to trade on.
94 Another important point is that now more companies in Russia start to report under IFRS
95 consequently from year to year that also leads us to the research question discussed in this paper.

96 Taking into consideration all the aspects of IFRS adoption in transition economies
97 outlined above, the convergence between the Russian Accounting Standards and the
98 International Financial Reporting Standards poses a few research questions connected to the
99 comparative value relevance of these two reporting standards and the potential ability of IFRS to
100 fulfill its role of providing relevant and reliable information in the Russian institutional
101 environment.

102 In these circumstances the IFRS application cannot fully embrace its function of
103 providing financial reporting users with relevant and reliable information on the company's
104 performance, and thus national reporting standards in conjunction with existing institutional
105 framework might provide more relevant and adequate information representation rather than
106 IFRS. If the last statement holds true, the company's stakeholders are better off by relying on the
107 information provided in accordance with the national financial reporting standards.

108 The main research objective of the present paper is to explore the influence of IFRS
109 adoption by Russian public companies on the value relevance of financial reporting in Russia.
110 Thus this study focuses on the following research question (mainly derived from the analysis of

111 previous studies of the issue carried out mostly in European countries): Does the voluntary
112 adoption of IFRS in Russia increase the value relevance of financial reporting?

113 The paper consists of several parts. The first three parts represent information about
114 adoption of IFRS in emerging markets and specific situation of implementation of IFRS in
115 Russia. The main definitions of quality of financial reporting and value relevance are also
116 represented over there. Then the hypothesis is outlined and the sample is defined. The main
117 results and steps for further research are represented at the last parts of the paper.

118 The obtained results show that on the Russian market there is no evidence of increased
119 value relevance of financial reporting to external users of financial information after adopting
120 IFRS when comparing and evaluating the two regimes (RAS and IFRS) unconditionally. Such
121 results can be explained by the notion of mock compliance which originates due to the
122 institutional differences between the RAS and IFRS development environments.

123 This study focuses on the needs of external users of financial information reported by the
124 companies, mainly non-majority shareholders and potential investors, who do not have access to
125 private information channels in the so called “insider” economy of the Russian Federation.

126 ***1. Consequences of IFRS Adoption: Emerging Markets***

127 Currently, since mandatory IFRS application by the EU countries, there is an ongoing
128 debate over the process, scale, and consequences of IFRS adoption over the world, especially in
129 the emerging economies that in most cases do not share the historical development and
130 institutional background of the Anglo-Saxon countries, and more generally of the developed
131 countries. With regard to this discrepancy our further investigation is devoted to the main
132 benefits associated with IFRS adoption, and the explanatory factors of the decision to adopt or
133 not adopt the International Financial Reporting Standards both on the country and business level.
134 Let us now look more closely into the main challenges the full IFRS adoption faces in the
135 emerging economies, the reasons for the “two-standard” approach, and superficial compliance.

136 Scholars questioning the positive effect of IFRS relate to the following obstacles usually
137 associated with IFRS implementation in any emerging country: the lack of expertise and the
138 underdeveloped accounting profession; the questionable practices of professionals; the lack of
139 resources for regulation and enforcement; the need to educate the business environment about
140 IFRS implications (including tax authorities, investors, and analysts); the culture of secrecy and
141 fraud; the link between financial reporting and tax laws; the lack of IFRS knowledge; and the
142 need to change the mindset of finance personnel (Ali et al. 2009). In most cases these
143 institutional obstacles and differences lead to the IFRS implementation which is successful only

144 on the surface, and may cover up real differences and accounting figures' manipulations under a
145 veneer of international convergence.

146 It is also important to note that the group of developing countries is not homogeneous,
147 because they have a different historical background, different stages in their economical
148 development and different levels of development of the groups interested in accounting (i.e.
149 accounting profession, stock exchange, auditors, users etc.). Albu et al. (2011) in their literature
150 review point out that there are four distinguished groups, one of them being the European
151 communist bloc countries. Previous studies in ex-communist countries (such as Poland,
152 Hungary, Czech Republic and Romania) show that even if the changes towards substance over
153 form and a focus on investor interests have been attempted, the emphasis on proper bookkeeping
154 and on adhering to tax regulations has continued to persist (Albu et al. 2011). Also, problems
155 associated with lack of clarity in the fiscal law, a variable level of understanding of IFRS by the
156 regulators and preparers, the persistence of the communist mentality among accountants who
157 gained their knowledge and skills prior to the transition, the accountants' preference for more
158 prescriptive regulation and less choice of accounting treatments were also documented.

159 These remarks are extremely interesting for the purposes of the current study as further the
160 process and consequences of IFRS adoption in Russia will be examined.

161 Most of the literature devoted to the adoption of IFRS focuses on the consequences of
162 accounting principles transition and the determinants of accounting quality that are likely to
163 influence the transition. Thus numerous empirical studies investigate whether the adoption of
164 IFRS has caused significant changes to consolidated financial statements. These studies
165 investigate *the effects of the change on various attributes of accounting* (e.g. Bartov et al. 2005),
166 liquidity and cost of capital (e.g. Daske et al. 2008) of the affected companies, as well as on
167 analysts' forecasts via *regression analysis*. On the other hand, the adoption of IFRS is analyzed
168 by *survey based studies* and the capital market reactions by *event studies*. Furthermore, empirical
169 studies examine the application of options offered in IFRS. In addition, *descriptive studies*
170 address the impact of the adoption of IFRS in comparison to local GAAPs on equity and net
171 income (e.g. Hung and Subramanyam, 2007).

172 During the last decade, several studies devoted to value–relevance have been conducted on
173 different markets of Eastern and Central Europe: Poland (Dobija and Klimczak, 2007; Gornik-
174 Tomaszewski and Jermakowicz, 2001), the Czech Republic (Hellström, 2006; Jindrichovska,
175 2001), Romania (Filip and Raffournier, 2010) and the Baltic states (Jarmalaite Pritchard, 2002).
176 This paper is the first one that is going to be devoted to the Russian market.

177 Due to the limited papers on this topic on the emerging markets there is no much empirical
178 research on the value relevance of accounting information. The relationship of accounting
179 information and market values on the data of Polish listed companies is studied in (Gornik-
180 Tomaszewski and Jermakowicz, 2001) examine the relationship between accounting numbers
181 and market values for a sample of listed companies. The study takes place on the data from 1996
182 to 1998 when Polish accounting standards totally complied with European Union Directives.
183 According to the results of this study both earnings and book value of equity are positively
184 associated with stock prices. In (Dobija and Klimczak, 2007) the research shows that during the
185 period 1997 – 2007 the value relevance of Polish accounting information is increasing due to the
186 development of the capital market in the country.

187 Another study in conducted on the market of Czech Republic by (Jindrichovska, 2001).
188 The author study the relationship between market returns and earnings per share over the period
189 1993–1998. The results reveal the relationship between earning-to-price ratios and price
190 relatives. The value relevance of accounting information of Czech versus Swedish companies is
191 studied in (Hellström, 2006). In compliance with the expectations the results showed that even
192 though the value relevance of accounting information in the Czech Republic increases over time,
193 during the period 1994–2001 in the Czech Republic the accounting information was less value
194 relevant than in Sweden.

195 The issue of value relevance in Baltic countries (Estonia, Latvia, and Lithuania) is studied
196 in (Jarmalaite Pritchard, 2002). According to the results of this research during 1995–2000
197 Lithuania has the weakest relationship between returns and earnings and Estonia has the highest
198 value relevance. In the research of (Jindrichovska, 2001) it is noted that information that is
199 reflected in stock prices is much more valuable than that in earnings shown in accounting
200 statements.

201 In the study conducted by (Filip, Raffournier, 2010) the value relevance of earnings and
202 earning changes in Romania is measured. The results show that the relationship between
203 accounting earnings and stock returns is comparable to the levels reported by studies conducted
204 on more mature markets, and that it is higher for securities issued by small companies.

205 There has been no research of this kind on the Russian market that can be compared to the
206 studies mentioned above.

207 Value relevance, as defined in the academic literature, is not a stated criterion of the FASB.
208 Rather, tests of value relevance represent one approach to operationalization of the FASB's
209 stated criteria of relevance. In the extant literature, an accounting amount is defined as value
210 relevant if it has a predicted significant association with equity market values (Barth et al. 2001).

211 Thus an accounting amount will be value relevant only if it reflects information relevant to
212 investors in valuing the firm and is measured reliably enough to be reflected in share prices. The
213 first study we are aware of that uses the term “value relevance” to describe this association is
214 (Beaver and Dukes, 1972). The topic of value relevance and the impact of IAS/IFRS voluntary
215 or mandatory adoption on value relevance and accounting quality are widely discussed in (Barth
216 et al., 2008; Goodwin et al., 2008; Cormier et al., 2009; Chen et al., 2010; Devalle et al., 2010;
217 Aubert and Grudnitski, 2011). Interestingly, but in the Russian Accounting Standards value
218 relevance is not discussed, at least not in any official pronouncements.

219 It is essential to mention that value relevance research needs only assume that share prices
220 reflect investors’ consensus beliefs based on publicly available information, by which we mean
221 that further empirical inferences will relate to the extent to which the accounting amounts under
222 study reflect the amounts implicitly assessed by investors and reflected in equity prices. Thus
223 value relevance research does not require assuming market efficiency (Barth et al. (2001) specify
224 that the price model for value relevance research (the model implemented in the current study)
225 does not require an assumption of market efficiency).

226 It is essential to note that the value relevance of accounting numbers is related to the
227 confidence that investors place on the accounting standards used to prepare them (which is
228 reflected in the consensus beliefs of investors) together with institutional and corporate
229 environment of the firm (Ball, 2006).

230 Holthausen and Watts (2001) classify the value-relevance studies into three categories.

231 1) *Relative association studies* compare the association between stock market values (or
232 changes in values) and alternative bottom-line measures. For example, a study might examine
233 whether the association of an earnings number, calculated under a proposed standard, is more
234 highly associated with stock market values or returns than earnings calculated under existing
235 GAAP. Other examples compare the associations of foreign GAAP and US GAAP earnings.
236 These studies usually test for differences in the R-squared or adjusted R-squared of regressions
237 using different bottom line accounting numbers.

238 2) *Incremental association studies* investigate whether the accounting number is helpful in
239 explaining value or returns. That accounting number is typically deemed to be value relevant if
240 its estimated regression coefficient is significantly different from zero. Some incremental
241 association studies make additional assumptions about the relation between accounting numbers
242 and inputs to a market valuation model in order to predict coefficient values. Differences
243 between the estimated and predicted values are often interpreted as evidence of measurement
244 error in the accounting number.

245 3) *Marginal information content studies* investigate whether a particular accounting
246 number adds to the information set available to investors. They typically use event studies to
247 determine if the release of an accounting number is associated with value changes. Price
248 reactions are considered to be evidence of value relevance.

249 The results of this paper will contribute to the group of relative association studies. This
250 paper also contributes to the stream of literature looking at the value relevance of reconciliations
251 between accounting numbers under two different standards. The existing papers in that stream
252 cannot evaluate the way value relevance of reconciled items evolves over time. In (Horton and
253 Serafeim, 2010) it is revealed that IFRS appears to reveal timely value-relevant information.
254 That is why with regards to the results of the present study we believe that the market reacts to
255 the IFRS reconciliations and incorporates this information into stock prices later. This
256 assumption is consistent with the mandatory disclosures revealing news and with the overall
257 advantage of increasing transparency throughout the market (Horton and Serafeim, 2010).

258 ***2. IFRS Adoption: The Case of Russia***

259 “The accounting system in any society is directly related to the level of political,
260 economic and legal development of that country...and is always a result of the environment in
261 which it exists” (McGee and Preobragenskaya 2004). Thus, in order to understand the roots and
262 character of the current accounting system in Russia, it is essential to look at how it has been
263 developing during the last few decades.

264 During the period 1917-1985 the Russian accounting system was adapted to structures of
265 a centrally planned economy, which meant that the main emphasis was put on control and
266 measurement function of accounting. During that time a set of Accounting Standards (RAS –
267 Russian Accounting Standards), more or less corresponding with IFRS, was developed and put
268 into force.

269 As the original plan by the Russian Finance Ministry to fully adopt all IAS by 2000
270 failed, a new accounting reform plan was issued in July 2004 by the Ministry of Finance for
271 2004-2010 with the several potential outcomes (Bagaeva 2008) according to which by 2010, all
272 companies should prepare (in addition to RAS statements) consolidated financial statements in
273 accordance with IFRS.

274 Several steps outlined by the plan have been delayed and the reform is still on-going with
275 an approximate new target of the year 2015 for the full adoption of IFRS for consolidated
276 financial statements (Bagaeva 2008). IFRSs in Russia will not replace national financial
277 reporting standards: preparing consolidated financial statements under IFRS will only be

278 required for companies with publicly traded securities, banks and insurance companies whereas
279 standalone financial statements of these entities will be prepared under statutory rules.

280 In spite of the accounting reform taking place in Russia for a few years now and Russian
281 accounting standards partly embracing IFRS, assimilating IFRS in practice still presents a
282 number of challenges because of fundamental differences between national and international
283 attitudes and practices that arise from diverse historical, cultural and legal traditions.

284 As stated by a few scholars (Ostrenko 2010, Volegova 2011) there is still quite a
285 discrepancy between the IFRS requirements and the revised Russian Accounting Standards,
286 which manifests itself in quite a few technical differences, but more importantly in the
287 application of the principles that lay the basis for IFRS. The other question is cost expenses that
288 arise from publishing the financial statements according to two different standards. Thus here we
289 focus our attention not on the issue of partial legal adoption of IFRS, but we rather address the
290 issue of real adoption of new standards by companies and accounting profession, as there is a
291 difference between the accounting and reporting practices adopted and stated in legal documents
292 and the practices observed in the business reality. Hence based on the research done by scholars
293 and auditing companies², we outline the following main impediments to full adoption of IFRS in
294 Russia:

- 295 • *Persistence of strong linkages between accounting and taxation coupled with no tradition of*
296 *using financial reports for purposes of market-oriented decision-making;*

297 Although the legal separation between tax and financial accounting exists, the majority of
298 people involved in accounting and reporting still consider the tax service to be the main user of
299 the information they prepare. In accounting practice this attitude becomes apparent when
300 accountants ignore accounting rules aimed at providing useful information that could be used for
301 decision making purposes when the rules do not affect the tax calculation.

- 302 • *Differences in fundamental definitions and accounting concepts and practices coupled with*
303 *complicated nature of some IFRS/IAS;*

304 Another reason why accounting rules are not always implemented is the difficulty of
305 implementing them both due to conceptual differences and lack of methodological support. Thus
306 with a started adoption of IFRS a number of concepts and tools that had never been used in
307 Soviet practice have been introduced into the Russian accounting.

308 One of them is the “substance over form” concept, which is at the heart of the IFRS
309 implementation problem. IFRS are written in a conceptual way and can be characterised as a

² See IAS Plus: <http://www.iasplus.com>

310 “substance over form” approach to accounting. On the contrary, Russian legislation and
311 regulations are very specific and prescriptive which is partly connected with the code nature of
312 the Russian law that is based on quite precise and strict instructions which should be followed
313 according to the situation. Thus unlike IFRS, transactions in RAS are accounted for in
314 accordance with their legal form. Another new accounting concept concerns the “true and fair
315 view”, which is one of the most investor-centered concepts in IFRS. Due to the lack of long-
316 standing market-orientation tradition, the fair value concept is not widely applied under RAS,
317 except for investments in market traded securities. Similarly, financial statements are generally
318 prepared on a historical cost basis with only limited use of impairments.

319 • *Lack of consequently professional judgment;*

320 Based on the main conceptual discrepancies between IFRS and RAS, a number of
321 technical differences in the implementation of the accounting standards emerge. As the Big 4
322 companies provide regular and comprehensive updates on the major differences in reporting and
323 accounting practices with regards to local jurisdictions, here we present just a few examples in
324 order to illustrate the nature of those differences:

325 • *Consolidation and group accounting;*

326 Under IFRS the determination of whether or not entities are consolidated by a reporting
327 enterprise is based on the concept of “de facto” control, with control being the parent’s ability to
328 govern the financial and operating policies of an entity to obtain benefits. In RAS, on the
329 contrary, there is presently no such category as “consolidated financial statements”, although
330 there is a requirement for the parent company to prepare separate and consolidated financial
331 statements if it has subsidiaries (as legally defined).

332 • *Intangible assets;*

333 In general, intangible assets that are acquired outside of a business combination are
334 recognized at fair value under IFRS, and at cost under RAS. Moreover, internal costs related to
335 the research phase of research and development are expensed as incurred under IFRS accounting
336 models, whereas RAS allow for internally developed intangibles and research and development
337 costs to be recognized if they will bring future economic benefit. Finally, goodwill is never
338 amortized in accordance with IFRS, whereas in accordance with RAS, goodwill is amortized
339 over 20 years, but not longer than the economic life of the acquiree.

340 • *Valuation of assets and Impairment;*

341 Generally, under RAS valuation of assets is still tax-driven, e.g. standardized
342 amortization periods and depreciation methods are determined by governmental authorities for
343 taxation purposes, regular impairment reviews do not have to be undertaken and residual values

344 are not taken into account in determining depreciation. With regards to revaluation, IFRS require
345 goodwill and intangible assets with indefinite lives to be reviewed at least annually for
346 impairment and more frequently if impairment indicators are present. Unlike IFRS, in RAS there
347 is no accounting guidance for assessing the impairment of long-lived assets (except for
348 mentioning the accounting for impairment in RAS 14/2007 Accounting for Intangible Assets).

349 These are just a few examples of technical differences between IFRS and RAS which
350 illustrate that there is still a wide gap between the two standards with regards to legalized
351 practices, and even more with regards to real day-to-day implementation.

352 It important to say that internationalisation of the transitional economy, either through
353 foreign customers and suppliers or through foreign investors entering capital markets or foreign
354 companies establishing themselves in the country, changes the informational environment of
355 transitional economies (Hellström, 2007). Entrance of investors from well functioning markets
356 into the transitional economy encourages domestic enterprises to be more responsive and
357 accountable to a larger number of stakeholders. It has a positive effect on the change in business
358 environment. That is why the importance of IFRS standards increases.

359 ***3. Research Hypothesis and Sample***

360 As stated in the Introduction section, the research objective of the present study is to
361 answer the following research question: Does the voluntary adoption of IFRS in Russia increase
362 the value relevance of financial reporting?

363 One way to look at the value relevance relationship between the two reporting standards
364 under study in the present paper is to assume that International Financial Reporting Standards
365 should be more value relevant for emerging economies than their local reporting standards due to
366 differences in institutional environments and financial reporting incentives, i.e. the focus of
367 emerging economies' reporting standards on tax authorities or banking institutions as the main
368 users of financial and accounting information rather than shareholders or potential investors.
369 Thus the local standards are supposed to give less valuable information for the stock market as
370 they do not take it into consideration. There is another argument in favour of IFRS being more
371 value relevant than local standards of developing countries voiced by Hove (1986): "existing
372 accounting practice in almost all developing countries was imposed by developed countries
373 initially through colonialism and then through operations of transnational corporations ... rather
374 than in response to the societal needs of those countries". Thus Hove (1986) sees the local
375 standards being more representative of the differing needs of market actors and more appropriate
376 for the nature of institutional arrangements in emerging economies, on the one hand, and

377 international standards being more representative (and thus value relevant) of the developed
378 market needs connected with the stock market and investment activities, on the other hand.
379 Following this argument we can hypothesize that IFRS being developed for the Anglo-Saxon
380 economic model, which is based on financial markets functioning and independent accounting
381 profession, should be more value relevant for its main institution, i.e. the stock market, than the
382 local standards developed mainly with accordance to the needs of financial (lenders) and
383 governmental (tax authorities) institutions.

384 On the other hand, the stock market itself is a part of the national institutional framework,
385 meaning that stock prices on the national market might reflect the underlying economic
386 performance of the companies in a way that is different from how this is represented on other
387 national markets within a different institutional setting, which leads to the conclusion that local
388 accounting standards might incorporate more value relevance information with regards to
389 national peculiarities. Another argument for this proposition is grounded in the fact most of the
390 value relevance studies executed in transition economies (e.g. Lin and Chen 2005) with
391 institutional framework closer to Russia than to the Anglo-Saxon world have shown that their
392 local accounting standards prove to be more value relevant in comparison to IFRS.

393 Walter (2008) points out that there is an overall underestimation of the “often large gaps
394 that can persist between formal rules and institutions, on the one hand, and actual policy and
395 actor behaviour, on the other”. Thus Walter (2008) proposes a notion of “mock compliance” (i.e.
396 superficial rather than substantial compliance) which is especially pronounced in developing
397 countries that have gone through major economic crises. In these circumstances external and
398 domestic pressures have made it difficult for many emerging countries to openly oppose
399 compliance with international standards, as deep crises have the effect of de-legitimizing existing
400 policies and practices. However, because such compliance can be very costly for particular
401 politically influential domestic interests, it takes the form of window dressing without deep
402 substantive compliance with the new norms and standards. Following this argument we can
403 hypothesize that Russian adoption of IFRS might follow the same way: in this situation there
404 should not be much difference observed in the value relevance of RAS vs. IFRS, as effectively
405 only the old RAS norms might be applied in practice. In support to this statement, there are a few
406 articles discussing the practical implementation of IFRS in Russia, being quite a long way from
407 the full adoption of most standards (Ostrenko 2010). Apart from unresolved conceptual
408 differences, there are a few institutional drawbacks that inhibit the practical implementation of
409 IFRS in Russia (e.g. lack of appropriate enforcement), which again point at the fact that actual
410 IFRS adoption is still in its first phases with a conclusion that the yet not fully implemented and

411 enforced standards can not lead to higher value relevance in a institutional setting they were not
412 designed for.

413 The final argument with regards to non-significant differences in value relevance between
414 IFRS and RAS concerns the opportunities for managerial discretion and manipulation. In fact
415 there are incentives for earnings management under both standards: for tax reduction purposes
416 under RAS and for investor attraction purposes under IFRS (as these standards are mostly
417 voluntary adopted by companies seeking access to the foreign capital). In this respect one could
418 expect downward earnings manipulation under RAS and upward under IFRS. In addition to that,
419 the natural flexibility of IFRS and a variety of accounting choices provided can lead to even
420 higher accounting numbers manipulation in the circumstances of a code law country with low
421 investor protection and weak standards enforcement mechanisms.

422 Overall, in spite of the empirical research results supporting the higher value relevance for
423 local GAAP in emerging economies in comparison to IFRS, from the theoretical point of view
424 we find the proof of IFRS being more value relevant than local financial reporting standards of
425 the developing countries if adopted in the full version and followed in practice. However, when
426 introducing the “mock compliance” issue and the discrepancies in institutional environments, we
427 find the proof for non-significant difference in value relevance between IFRS and local standards
428 due to partial adoption and non-compliance in practice, and the fact that “accounting quality is a
429 function of overall institutional settings” (Soderstrom and Sun, 2007).

430 Thus the following *hypothesis* is to be tested in the present study:

431 *H1: There is no significant difference between the value relevance of financial information*
432 *disclosed by Russian public companies under Russian Accounting Standards and the value*
433 *relevance of financial information disclosed by Russian public companies under International*
434 *Financial Reporting Standards.*

435 We examine this hypothesis in subsequent sections of the paper.

436 The sample consists of Russian public and listed companies that voluntarily report under
437 IFRS for at least two years. This condition is introduced in order to avoid significant differences
438 in accounting numbers attributed only to the first adoption of IFRS. In this study we use annual
439 financial data for the following time period: 2006-2009.

440 Overall there are 233 Russian companies reporting under IFRS. Firstly, from these we
441 exclude all banking and financial institutions (insurance companies, brokerages, depositaries,
442 stock exchanges etc.) as their business specifics do not allow us to compare them with other
443 production or service firms. These exclusions account for 89 companies. Secondly, to study the
444 value relevance issue we need only companies traded on Russian stock exchanges. That is why

445 we exclude companies that are not open joint stock. These exclusions account for 39 companies.
 446 Thirdly, there are Russian open joint stock companies that are actually not traded: their shares
 447 are distributed through closed auctions or among cofounders. These exclusions account for 29
 448 companies. Finally, there is a number of companies with non-sufficient or absent data: with no
 449 annual data presented, with IFRS data reported in non-Russian currency, with a lack of
 450 information on the number of shares outstanding or on share prices (due to low liquidity). These
 451 exclusions account for 9 companies. As a result the sample is comprised of 67 companies.

452 **Table 1**

453 **Sample distribution by industry / business area**

| Industry | Number of sample companies |
|----------------------|----------------------------|
| Power generation | 21 (31.34%) |
| Manufacturing | 19 (28.35%) |
| Telecommunications | 11 (16.42%) |
| Natural resources | 4 (5.97%) |
| Wholesale and Retail | 4 (5.97%) |
| Transport | 3 (4.48%) |
| Real estate | 3 (4.48%) |
| Services | 2 (2.97%) |

454

455 It is essential to note that all the 67 sample companies adopted IFRS prior to the year
 456 2006, which means that we do not have to take into account the accounting consequences of the
 457 first-year IFRS adoption. In all four years the size of the sample allows us to make statistically
 458 valid inferences. The study is based only on the primary information taken from the companies'
 459 annual reports.

460 **4. Research Design**

461 The study of the influence of IFRS adoption in Russia on the value relevance of financial
 462 reporting encompasses examining the impact of IFRS adoption on the difference between the
 463 book and market value of companies (the market-to-book ratio). This variable can be
 464 operationally determined as the ratio of the market capitalization of the company to its book
 465 value. Theoretically it shows how relevant the financial reporting is (i.e. to which degree the
 466 financial reported information shows the real value of the company and its financial situation).
 467 This variable is chosen because one of the reasons for the adoption of international standards in
 468 Europe was to ensure the generation of useful information for the stock market, which would
 469 imply narrowing the gap between a company's book and market value.

470 In this paper we use price regression model (deflated by book value per share to reduce
 471 scale effects (Barth and Kallapur, 1996; Brown et. al., 1999; Easton and Sommers, 2003) to
 472 ensure comparability of the future results with already existing ones and to determine to what

473 extent the market value of the firm implied by stock market investors is reflected in accounting
474 numbers (Gjerde et al. 2008).

475 The following model is used in this paper:

476
$$P'_t/BVPS'_t = \theta_0 + \theta_1 * 1/BVPS'_t + \theta_2 * EPS_t/BVPS'_t + \varepsilon_t, \text{ where} \quad (4)$$

477 • P'_t – inefficiency-adjusted share price quoted in the stock market at the end of year t : $P'_t =$
478 $P_{t+0.5} / (1+k_r)$, where k_r is the required rate of return in the first half of year $t+1$. Here we
479 assume that time lag in market reaction to reported financial information averages 6 months.

480 Data collection is based on the presumption that share market prices should be the same for
481 two regressions (for RAS and IFRS) in order to preserve consistency and to control for
482 differences in external factors over time (thus fixing external factors' effects).

483 We use the following logic to choose the appropriate time lag. Firstly, comparable studies
484 assume there is a time lag between the publication of financial statements and the stock
485 market reaction, on average equal to 3 months. Thus for RAS the time lag should be equal to
486 6 months, as the reports are usually available 3 months after the fiscal year end. Secondly,
487 most of the Russian companies adopting IFRS publish their IFRS statements by the end of
488 June (6 months after the fiscal year end), i.e. earlier than required by the stock exchange
489 authorities. Finally, when the second set of accounts is published under a different standard
490 the reaction should be more or less immediate, as the investors etc. already possess
491 information from the RAS accounts. Thus the time lag assumed in this study equals 6
492 months.

493 $P_{t+0.5}$ is the closing share price in a range of one week (7 days) around the end of June (in
494 case no deals were made on 30th June).

495 The adjustment rate used in the study is the refinancing rate of the Russian Central Bank
496 applied for half a year (6 months) as a discount rate to make financial figures and market
497 share prices comparable over time. We have chosen this interest rate as it is a good
498 approximation of the deposit rates in the banking market.

499 • $BVPS'_t = BVPS_t - EPS_t$, where $BVPS_t$ is the reported book value of equity per share at the
500 end of year t and EPS_t is the reported net profit per share in year t . EPS_t is subtracted from
501 $BVPS_t$ to reduce collinearity.

502 In order to calculate book value of equity per share and earnings per share we use the
503 weighted yearly average of outstanding ordinary shares adjusted for treasury stock. In most
504 cases this figure already accounts for stock splits and reverse stock splits that happened after
505 the reporting date (companies provide this information in the “Subsequent events” section of
506 their annual financial reports).

507 In addition to that, one more adjustment is needed in order to calculate earnings per share,
508 i.e. we should check for existence of preference shares, look at their characteristics, and then
509 deduct income attributable to preference shareholders from the net income (thus obtaining
510 the net income attributable to ordinary shareholders). This adjustment is required because we
511 analyse the value relevance based on the market price of ordinary shares only.

- 512 • θ_0 ; θ_1 ; and θ_2 – unknown parameters;
- 513 • ε_t – random error.

514 As the first step of the analysis we study the presence of significant differences in the
515 market-to-book ratios ($P_t'/BVPS_t'$) under IFRS and RAS. The study of these differences is
516 performed by applying *parametric and non-parametric tests* depending on whether the variables
517 in question follow a normal distribution or not.

518 If the differences do not prove to be significant, then we will conclude that IFRS adoption
519 does not influence value relevance of financial reporting, at least on the analyzed sample of
520 Russian public companies. If the differences prove to be significant, we can move to the second
521 step of analysis to determine which standard is more value relevant.

522 As the second step we analyze the comparative value-relevance of book value of equity
523 per share and earnings per share by comparing the *adjusted R-squared from price regressions*.
524 The difference between two sets of accounting standards is analyzed by a two-sample
525 unconditional comparison test focusing on differences in adjusted R-squared (*Cramer test*). The
526 reporting standard with significantly higher adjusted R-squared will be regarded as more value
527 relevant in comparison to the other one.

528 In the next section of the paper we present the results obtained during the empirical study
529 and hypothesis testing.

530 **5. Results**

531 In this section we present the results of the empirical study on the comparative value
532 relevance between the financial information presented under the Russian Accounting Standards
533 versus the financial information presented under the International Financial Reporting Standards
534 (IFRS) with a main focus on testing the developed hypothesis on the sample of Russian public
535 listed companies.

536 Table 2 presents the descriptive statistics for the three variables ($P_t'/BVPS_t'$, $1/BVPS_t'$, and
537 $EPS_t'/BVPS_t'$) for four subsequent years under the two different reporting regimes for 67
538 companies in the selected sample.

539

Table 2

Descriptive statistics of variables

| Variable name | Mean | Median | Standard deviation |
|----------------------|-------------|---------------|---------------------------|
| P'06/BVPS'06_RAS | 0.4616 | 0.1671 | 1.1194 |
| P'06/BVPS'06_IFRS | 0.3037 | 0.1360 | 0.6105 |
| 1/BVPS'06_RAS | 0.5569 | 0.0654 | 1.4007 |
| 1/BVPS'06_IFRS | 0.4579 | 0.0555 | 0.9491 |
| EPS06/BVPS'06_RAS | 0.2533 | 0.1409 | 0.4869 |
| EPS06/BVPS'06_IFRS | 0.2148 | 0.1723 | 0.2349 |
| P'07/BVPS'07_RAS | 0.2453 | 0.1105 | 0.4386 |
| P'07/BVPS'07_IFRS | 0.2043 | 0.1085 | 0.3724 |
| 1/BVPS'07_RAS | 0.7111 | 0.0555 | 2.4068 |
| 1/BVPS'07_IFRS | 1.2586 | 0.0502 | 6.4727 |
| EPS07/BVPS'07_RAS | 0.2017 | 0.1134 | 0.2733 |
| EPS07/BVPS'07_IFRS | 0.2062 | 0.1524 | 0.2335 |
| P'08/BVPS'08_RAS | 0.2233 | 0.0313 | 0.4401 |
| P'08/BVPS'08_IFRS | 0.2081 | 0.0297 | 0.4719 |
| 1/BVPS'08_RAS | 1.9289 | 0.0696 | 8.1069 |
| 1/BVPS'08_IFRS | 1.8674 | 0.0419 | 6.6477 |
| EPS08/BVPS'08_RAS | 0.1487 | 0.0423 | 0.5579 |
| EPS08/BVPS'08_IFRS | 0.1019 | 0.0674 | 0.2856 |
| P'09/BVPS'09_RAS | 0.2884 | 0.0396 | 0.6352 |
| P'09/BVPS'09_IFRS | 0.3942 | 0.0354 | 1.5216 |
| 1/BVPS'09_RAS | 0.5243 | 0.0643 | 1.0009 |
| 1/BVPS'09_IFRS | 0.6533 | 0.0396 | 1.5811 |
| EPS09/BVPS'09_RAS | 0.1095 | 0.0549 | 0.2294 |
| EPS09/BVPS'09_IFRS | 0.0557 | 0.0781 | 0.2106 |

541

542 Following the data presented in Table 2, let us look more closely at the differences
543 between the variables reported under RAS vs. those reported under IFRS, and examine if these
544 differences show some sort of tendency over the four years that the present study encompasses.

545 In Table 3 the results of comparing P'/BVPS' (the adjusted share price to the adjusted
546 book value per share) ratios under RAS and IFRS over the years 2006-2009 are presented.

547

Table 3

548

RAS vs. IFRS - Differences in P'/BVPS'

| Variable name | Mean | Mean_RAS/Mean_IFRS |
|----------------------|-------------|---------------------------|
| P'06/BVPS'06_RAS | 0.4616 | 1.5199 |
| P'06/BVPS'06_IFRS | 0.3037 | |
| P'07/BVPS'07_RAS | 0.2453 | 1.2007 |
| P'07/BVPS'07_IFRS | 0.2043 | |
| P'08/BVPS'08_RAS | 0.2233 | 1.0730 |
| P'08/BVPS'08_IFRS | 0.2081 | |
| P'09/BVPS'09_RAS | 0.2884 | 0.7316 |
| P'09/BVPS'09_IFRS | 0.3942 | |

549

550 As can be seen from the table, over the years 2006-2008 there has been a pronounced
 551 tendency of convergence between the P'/BVPS' ratios under the two reporting standards (from
 552 52% to 7% difference, with the P'/BVPS' ratio under RAS being higher than the P'/BVPS' ratio
 553 under IFRS). However, in 2009 the P'/BVPS' ratio under RAS proved to be around 27% lower
 554 than the same ratio under IFRS. Considering that the prices (P') used to calculate the ratios are
 555 the same under the two reporting standards, the differences in the P'/BVPS' ratio can be
 556 attributed only to the differences in the BVPS' variable (which is computed as BVPS diminished
 557 by EPS). Table 4 thus presents the results of comparing BVPS (i.e. book value per share)
 558 variable under RAS and IFRS over the years 2006-2009, which show that BVPS has been
 559 consistently lower under RAS compared to IFRS by around 10%.

560
561

Table 4

RAS vs. IFRS - Differences in BVPS

| Interim variable name | Mean | Mean_RAS/Mean_IFRS |
|-----------------------|----------|--------------------|
| BVPS06_RAS | 137.5105 | 0.8927 |
| BVPS06_IFRS | 154.0377 | |
| BVPS07_RAS | 180.6478 | 0.9304 |
| BVPS07_IFRS | 194.1681 | |
| BVPS08_RAS | 218.8787 | 0.8914 |
| BVPS08_IFRS | 245.5551 | |
| BVPS09_RAS | 194.1543 | 0.9062 |
| BVPS09_IFRS | 214.2556 | |

562

563 In addition to that, Table 5 presents the results of comparing EPS (i.e. earnings per share
 564 or net income per share) variable under RAS and IFRS over the years 2006-2009, which show a
 565 general tendency for EPS under RAS to converge with and even exceed the EPS under IFRS
 566 over the examined time period (from EPS under IFRS being higher than EPS under RAS by 32%
 567 in 2006 to the difference of 21% in the inverse direction in 2009³).

568
569

Table 5

RAS vs. IFRS - Differences in EPS

| Interim variable name | Mean | Mean_RAS/Mean_IFRS |
|-----------------------|---------|--------------------|
| EPS06_RAS | 30.8422 | 0.6841 |
| EPS06_IFRS | 45.0867 | |
| EPS07_RAS | 40.1109 | 0.9034 |

³ The results for 2006-2008 are consistent with the notion that under RAS earnings (i.e. net income) should be lower than those reported under IFRS due to the still persisting tax link in the Russian accounting system. The result obtained for 2009 does not contradict that notion because it is based on the net income attributable to ordinary shareholders only rather than on overall net income. In fact, the overall net income (attributable to all shareholders, both ordinary and preference) in the year 2009 on the sample under examination is lower under RAS as compared to IFRS by approximately 10%.

| | | |
|------------|---------|--------|
| EPS07_IFRS | 44.4022 | |
| EPS08_RAS | 3.3746 | 0.7406 |
| EPS08_IFRS | 4.5565 | |
| EPS09_RAS | 25.9795 | 1.2089 |
| EPS09_IFRS | 21.4899 | |

570

571 Consequently, Table 6 presents the results of comparing BVPS' (i.e. book value per share
572 adjusted by earnings per share) variable under RAS and IFRS over the years 2006-2009, which
573 show the consistently increasing difference between RAS and IFRS with regards to BVPS' being
574 lower under IFRS. Considering that we have found no consistent change for BVPS, this
575 tendency should be mostly attributed to the increasing difference in the EPS variable under the
576 two reporting standards.

577

Table 6

578

RAS vs. IFRS - Differences in BVPS'

| Interim variable name | Mean | Mean_RAS/Mean_IFRS |
|------------------------------|-------------|---------------------------|
| BVPS'06_RAS | 88.6584 | 0.9186 |
| BVPS'06_IFRS | 96.5110 | |
| BVPS'07_RAS | 140.5369 | 0.9384 |
| BVPS'07_IFRS | 149.7659 | |
| BVPS'08_RAS | 215.5041 | 0.8942 |
| BVPS'08_IFRS | 240.9986 | |
| BVPS'09_RAS | 168.1748 | 0.8724 |
| BVPS'09_IFRS | 192.7657 | |

579

580 Finally, Table 7 presents the results of comparing EPS/BVPS' (i.e. earnings per share to
581 adjusted book value per share) variable under RAS and IFRS over the years 2006-2009, which
582 show the overall tendency of increasing difference between the two standards with EPS/BVPS'
583 being higher under RAS compared to IFRS by 18% in 2006 and by 97% in 2009 consistent with
584 the observations outlined above.

585

Table 7

586

RAS vs. IFRS - Differences in EPS/BVPS'

| Variable name | Mean | Mean_RAS/Mean_IFRS |
|----------------------|-------------|---------------------------|
| EPS06/BVPS'06_RAS | 0.2533 | 1.1792 |
| EPS06/BVPS'06_IFRS | 0.2148 | |
| EPS07/BVPS'07_RAS | 0.2017 | 0.9782 |
| EPS07/BVPS'07_IFRS | 0.2062 | |
| EPS08/BVPS'08_RAS | 0.1487 | 1.4593 |
| EPS08/BVPS'08_IFRS | 0.1019 | |
| EPS09/BVPS'09_RAS | 0.1095 | 1.9659 |

| | |
|--------------------|--------|
| EPS09/BVPS'09_IFRS | 0.0557 |
|--------------------|--------|

587

588 Before studying the value relevance levels differences between the financial information
589 reported under International Financial Reporting Standards and Russian Accounting Standards,
590 we first check for the presence of any statistically significant differences in the adjusted market-
591 to-book ratios (i.e. P'/BVPS') between the statements prepared under IFRS and RAS for four
592 subsequent years (i.e. 2006-2009) on the selected sample of Russian public listed companies.

593 Table 8 presents the results of distribution normality check for the dependent variables
594 (P'/BVPS') both for IFRS and RAS data.

595

Table 8

596

Distribution normality test results (one-sample Kolmogorov-Smirnov test)

| | <i>RAS</i> | | | | <i>IFRS</i> | | | |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | P'09/BV PS'09 | P'08/BV PS'08 | P'07/B VPS'07 | P'06/B VPS'06 | P'09/B VPS'09 | P'08/B VPS'08 | P'07/B VPS'07 | P'06/BV PS'06 |
| <i>Normal parameters</i> | | | | | | | | |
| Mean | 0.2884 | 0.2233 | 0.2453 | 0.4616 | 0.3942 | 0.2081 | 0.2042 | 0.3037 |
| Std. dev. | 0.6352 | 0.4401 | 0.4386 | 1.1194 | 1.5216 | 0.4719 | 0.3724 | 0.6105 |
| <i>Most extreme differences</i> | | | | | | | | |
| Absolute | 0.329 | 0.334 | 0.352 | 0.414 | 0.398 | 0.336 | 0.323 | 0.342 |
| Positive | 0.329 | 0.334 | 0.352 | 0.414 | 0.360 | 0.336 | 0.342 | 0.342 |
| Negative | -0.325 | -0.306 | -0.287 | -0.351 | -0.398 | -0.330 | -0.332 | -0.332 |
| Kolmogorov -Smirnov Z | 2.252 | 2.584 | 2.462 | 2.654 | 2.727 | 2.606 | 2.259 | 2.191 |
| Asymp. Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |

597

598 One-sample Kolmogorov-Smirnov test has shown that in all cases the data is not
599 distributed normally (two-tailed significance levels in all cases do not exceed 0.05). Thus in
600 further steps of the study only non-parametric tests should be applied.

601 The results of a non-parametric two related samples test with regards to differences
602 between P'/BVPS' under RAS vs. P'/BVPS' under IFRS are presented in Table 9.

603

Table 9

604

Wilcoxon signed ranks test results

| | | Ranks | | |
|--|----------------|--------------|-----------|--------------|
| | | N | Mean Rank | Sum of Ranks |
| P'09/BVPS'09_IFRS -P'09/BVPS'09_RAS | Negative Ranks | 39 | 24.89 | 697.00 |
| | Positive Ranks | 26 | 21.33 | 384.00 |
| | Ties | 2 | | |
| | Total | 67 | | |
| P'08/BVPS'08_IFRS -P'08/BVPS'08_RAS | Negative Ranks | 39 | 29.10 | 1018.50 |
| | Positive Ranks | 25 | 634.5 | 634.50 |
| | Ties | 3 | | |
| | Total | 67 | | |

| | | | | |
|--|--|--|--|--|
| P'07/BVPS'07_IFRS -P'07/BVPS'07_RAS | Negative Ranks | 45 | 24.97 | 824.00 |
| | Positive Ranks | 22 | 25.06 | 401.00 |
| | Ties | 0 | | |
| | Total | 67 | | |
| P'06/BVPS'06_IFRS -P'06/BVPS'06_RAS | Negative Ranks | 39 | 23.17 | 556.00 |
| | Positive Ranks | 28 | 17.94 | 305.00 |
| | Ties | 0 | | |
| | Total | 67 | | |
| Test Statistics | | | | |
| | P'09/BVPS'09_IFRS -P'09/BVPS'09_RAS | P'08/BVPS'08_IFRS -P'08/BVPS'08_RAS | P'07/BVPS'07_IFRS -P'07/BVPS'07_RAS | P'06/BVPS'06_IFRS -P'06/BVPS'06_RAS |
| Z | -1.710 | -1.526 | -2.104 | -1.626 |
| Asymp. Sig. (2-tailed) | 0.087 | 0.127 | 0.035 | 0.104 |

605 According to the test results there is no statistically significant correlation between
606 compared samples (two-tailed significance levels in most cases exceed 0.05), which means that
607 there is a statistically significant difference between the adjusted market-to-book ratios (i.e.
608 P'/BVPS') calculated on the basis of IFRS and RAS data in all studied time periods except for
609 the year 2007. Thus the study of differences in value relevance between the two sets of financial
610 information reported under different standards makes sense with this only exception. However,
611 in the further research we would still keep the year 2007 observations for comparison and
612 consistency reasons.

613 As the next step (before directly comparing the level of value relevance between IFRS
614 and RAS applied by a sample of Russian companies) we run eight separate OLS regressions
615 according to price regression model (in which the accounting-based variables specified
616 according to the two reporting regimes enter simultaneously to explain the corresponding
617 market-based variable) to see if the price regression model and coefficients (i.e. the estimates of
618 the unknown parameters) are statistically significant. Results of the regressions are presented in
619 Table 10.

620 *Table 10*

621 **OLS price regression results**

| RAS: 2006 | | | IFRS: 2006 | | |
|---------------------------|--------------|------------|---------------------------|--------------|------------|
| Variables | Coefficients | Sig. level | Variables | Coefficients | Sig. level |
| 1/BVPS'06_RAS | 0.005 | 0.965 | 1/BVPS'06_IFRS | -0.048 | 0.653 |
| EPS06/BVPS'06_RAS | 1.028 | 0.004* | EPS06/BVPS'06_IFRS | -0.052 | 0.905 |
| Constant | 0.198 | 0.326 | Constant | 0.337 | 0.029 |
| R² | | | R² | | |
| | 0.446 | | | 0.074 | |
| Stand. Error | | | Stand. Error | | |
| | 1.0278 | | | 0.6247 | |
| R² adj. | | | R² adj. | | |
| | 0.157 | | | -0.047** | |
| Model sig. level | | | Model sig. level | | |
| | 0.015* | | | 0.902 | |
| RAS: 2007 | | | IFRS: 2007 | | |
| Variables | Coefficients | Sig. level | Variables | Coefficients | Sig. level |

| | | | | | |
|-----------------------|--------------|------------|---------------------|--------------|------------|
| 1/BVPS'07_RAS | 0.014 | 0.584 | 1/BVPS'07_IFRS | -0.007 | 0.431 |
| EPS07/BVPS'07_RAS | 0.479 | 0.040* | EPS07/BVPS'07_IFRS | 0.364 | 0.021* |
| Constant | 0.159 | 0.053 | Constant | 0.138 | 0.058 |
| RAS: 2008 | | | | | |
| R ² | 0.320 | | R ² | 0.240 | |
| Stand. Error | 0.4244 | | Stand. Error | 0.3693 | |
| R ² adj. | 0.063 | | R ² adj. | 0.017 | |
| Model sig. level | 0.043* | | Model sig. level | 0.049* | |
| IFRS: 2008 | | | | | |
| Variables | Coefficients | Sig. level | Variables | Coefficients | Sig. level |
| 1/BVPS'08_RAS | -0.004 | 0.606 | 1/BVPS'08_IFRS | -0.002 | 0.814 |
| EPS08/BVPS'08_RAS | 0.144 | 0.165 | EPS08/BVPS'08_IFRS | -0.015 | 0.947 |
| Constant | 0.209 | 0.001 | Constant | 0.214 | 0.003 |
| RAS: 2009 | | | | | |
| R ² | 0.198 | | R ² | 0.032 | |
| Stand. Error | 0.4389 | | Stand. Error | 0.4799 | |
| R ² adj. | 0.005 | | R ² adj. | -0.034** | |
| Model sig. level | 0.231 | | Model sig. level | 0.971 | |
| IFRS: 2009 | | | | | |
| Variables | Coefficients | Sig. level | Variables | Coefficients | Sig. level |
| 1/BVPS'09_RAS | -0.03 | 0.979 | 1/BVPS'09_IFRS | 0.015 | 0.904 |
| EPS09/BVPS'09_RAS | 0.021 | 0.960 | EPS09/BVPS'09_IFRS | -3.847 | 0.000* |
| Constant | 0.287 | 0.21 | Constant | 0.599 | 0.008 |
| RAS: 2006-2009 | | | | | |
| R ² | 0.009 | | R ² | 0.533 | |
| Stand. Error | 0.6494 | | Stand. Error | 1.3168 | |
| R ² adj. | -0.045** | | R ² adj. | 0.251 | |
| Model sig. level | 0.998 | | Model sig. level | 0.001* | |

622 * Significant at the 0.05 level (2-tailed).

623 ** An adjusted R-squared tries to allow for the fact that an independent variable that is really completely unrelated to the dependent variable will probably have some
624 relationship to the dependent variable in a data set just by luck. The adjusted R-squared reduces the R-squared by how much fit would probably happen just by luck. Sometimes
625 this reduction is more than the calculated R-squared, so a negative adjusted R-squared appears.

626 To increase the power of the test we also ran pooled regressions (all years, all RAS vs all
627 years, all IFRS) presented in Table 11:

628

Table 11

| RAS: 2006-2009 | | | IFRS: 2006-2009 | | |
|-----------------------|--------------|------------|------------------------|--------------|------------|
| Variables | Coefficients | Sig. level | Variables | Coefficients | Sig. level |
| 1/BVPS'06_RAS | 0.009 | 0.874 | 1/BVPS'06_IFRS | 0.001 | 0.883 |
| EPS06/BVPS'06_RAS | 0.728 | 0.004* | EPS06/BVPS'06_IFRS | -0.252 | 0.035* |
| Constant | 0.258 | 0.226 | Constant | 0.398 | 0.035 |
| RAS: 2006-2009 | | | | | |
| R ² | 0.357 | | R ² | 0.294 | |
| Stand. Error | 0.5781 | | Stand. error | 0.5968 | |
| R ² adj. | 0.294 | | R ² adj. | 0.205 | |
| Model sig. level | 0.025* | | Model sig. level | 0.048 | |

629 * Significant at the 0.05 level (2-tailed).

630 The overall results obtained in the paper are the following:

- 631 • On the analysed sample, for RAS regressions in 2008 and 2009 the price regression model
632 applied in this study is statistically non-significant (two-tailed significance levels in all cases
633 exceed 0.05) with the R-squared being equal to 19.8% and 0.9% respectively; and all
634 coefficients are non-significant (two-tailed significance levels in all cases exceed 0.05);
- 635 • On the analysed sample, for RAS regressions in 2006 and 2007 the price regression model
636 applied in this study is statistically significant (two-tailed significance levels in all cases do
637 not exceed 0.05) with the R-squared being 44.6% and 32% respectively, but with only one
638 statistically significant positive coefficient (two-tailed significance level does not exceed
639 0.05). This coefficient corresponds to the following independent variable: EPS/BVPS', and
640 equals 1.028 in 2006 and 0.479 in 2007;
- 641 • On the analysed sample, for IFRS regressions in 2006 and 2008 the price regression model
642 applied in this study is statistically non-significant (two-tailed significance levels in all cases
643 exceed 0.05) with the R-squared being equal to 7.4% and 3.2% respectively; and all
644 coefficients are non-significant (two-tailed significance levels in all cases exceed 0.05);
- 645 • On the analysed sample, for IFRS regressions in 2007 and 2009 the price regression model
646 applied in this study is statistically significant (two-tailed significance levels in all cases do
647 not exceed 0.05) with the R-squared being 24% and 53.3% respectively, but with only one
648 statistically significant coefficient (two-tailed significance level does not exceed 0.05). This
649 coefficient corresponds to the following independent variable: EPS/BVPS', and equals 0.364
650 in 2007 and -3.847 in 2009.
- 651 • The results on pooled sample (all years, all RAS vs all years, all IFRS) show that both
652 models are significant (with significance level equal to 0.05). The explanatory power of RAS
653 model is slightly higher than the one with IFRS data (R-squared of 35,7% versus R-squared
654 of 29,4%). Again only one coefficient out of two is significant (EPS/BVPS').

655 Let us now summarize the empirical results obtained after running price regressions both
656 for RAS and IFRS samples.

657 Firstly, it is interesting to note that in the year 2008 the price regression model applied in
658 the current study proved to be statistically non-significant both for RAS and IFRS samples with
659 no statistically significant coefficients as well, while in the year 2007 the price regression model
660 applied proved to be statistically significant both for RAS and IFRS samples with a single
661 statistically significant positive coefficient (being the one for the EPS/BVPS' independent
662 variable). Thus years 2007 and 2008 are the ones when the price regression analysis results for
663 RAS and IFRS samples correspond to each other.

664 On the contrary, years 2006 and 2009 present an inversely different case: in 2006 the
 665 price regression model is statistically significant for the RAS sample, while in 2009 the price
 666 regression model is statistically significant for the IFRS sample with a single statistically
 667 significant coefficient (being the one for EPS/BVPS' independent variable) in both cases.
 668 However, the coefficient for the EPS/BVPS' independent variable was positive for the RAS
 669 2006 sample, and negative for the IFRS 2009 sample.

670 Hence, we can see that on the analysed sample of Russian public listed companies over
 671 the years 2006-2009 the income statement accounting components are more value relevant than
 672 the balance sheet accounting components.

673 Even though for some years during the analysed time period the price regression model did
 674 not prove to be statistically significant, we are still interested in the incremental difference
 675 between the value relevance of financial information presented under the Russian Accounting
 676 Standards versus the value relevance of financial information presented under the International
 677 Financial Reporting Standards.

678 To test if there is any statistically significant difference between RAS and IFRS with
 679 regards to the value relevance we apply the two sample unconditional test focusing on the
 680 differences in the R-squared.⁴ We estimate significance levels for all comparisons of R-squared
 681 using the procedure outlined in Cramer (1987). Statistical comparisons are based on the
 682 expectations and variance of R-squared: Z-statistic is computed as $\frac{R_1^2 - R_2^2}{\sqrt{(\sigma_1^2 R_1^2 + \sigma_2^2 R_2^2)}}$, and has an
 683 approximate normal distribution under the null hypothesis of no difference in R-squared. The t-
 684 value of differences in R-squared is based on the assumption of two independent samples.

685 Table 12 presents the results of the Cramer test.

686 *Table 12*

687 **Cramer test results**

| 2006 | | | | |
|---------------------|--------|--|-------------------------------|--------------|
| | | R ² RAS - R ² IFRS | Z-statistic | t-statistic* |
| R ² RAS | 0.4460 | 0.3720 | 0.5261 | 2.0244 |
| R ² IFRS | 0.0740 | | Z <t: H ₀ accepted | |
| σ ² RAS | 1.0564 | | | |
| σ ² IFRS | 0.3903 | | | |
| 2007 | | | | |
| | | R ² RAS - R ² IFRS | Z-statistic | t-statistic* |
| R ² RAS | 0.3200 | 0.0800 | 0.2661 | 2.0129 |

⁴ Initially we were planning to test the differences between adjusted R-squared as they have a lesser upward bias in small samples compared to R-squared. However, in three regression pairs out of four the adjusted R-squared is negative (see Table 10), which does not allow for proper comparison. Thus in further tests we focus on R-squared.

| | | | | |
|-----------------|--------|------------------------|----------------------|--------------|
| R^2 IFRS | 0.2400 | | Z <t: H_0 accepted | |
| σ^2 RAS | 0.1801 | | | |
| σ^2 IFRS | 0.1364 | | | |
| 2008 | | | | |
| | | R^2 RAS - R^2 IFRS | Z-statistic | t-statistic* |
| R^2 RAS | 0.1980 | 0,1660 | 0.7781 | 2.0025 |
| R^2 IFRS | 0.0320 | | Z <t: H_0 accepted | |
| σ^2 RAS | 0.1926 | | | |
| σ^2 IFRS | 0.2303 | | | |
| 2009 | | | | |
| | | R^2 RAS - R^2 IFRS | Z-statistic | t-statistic* |
| R^2 RAS | 0.0090 | -0.5240 | -0.5439 | 2.0154 |
| R^2 IFRS | 0.5330 | | Z <t: H_0 accepted | |
| σ^2 RAS | 0.4217 | | | |
| σ^2 IFRS | 1.7340 | | | |

688 * Two-tailed test at the significance level of 0.05.

689 We observe that in all the four observation years the differences in the R-squared of the
690 price regressions between RAS and IFRS are quite substantial: 37.2% in 2006, 8.0% in 2007,
691 16.6% in 2008 (all the higher values of the R-squared attributed to RAS), and 52.4% in 2009
692 (with the higher value of the R-squared attributed to IFRS). These computed differences could
693 intuitively suggest that the statistically significant difference in the R-squared should be present.
694 However, as can be seen from the table below in all observed cases the H_0 hypothesis was
695 accepted meaning that no statistically significant differences have been found between the R-
696 squared reported for price regressions under RAS and IFRS. The explanation to this
697 phenomenon is the following: even in cases when the absolute differences between the R-
698 squared were quite substantial, they were leveled out by substantial standard errors of the R-
699 squared estimation (e.g. σ^2 RAS in 2006 equals 1.056, and σ^2 IFRS in 2009 equals 1.734).

700 Therefore we state that on the examined sample of Russian public listed companies
701 applying both RAS and IFRS during the time period 2006-2009 there is no statistically
702 significant difference between the value relevance of the financial information reported under the
703 Russian Accounting Standards and the value relevance of the financial information reported
704 under the International Financial Reporting Standards. This implies that the performed empirical
705 study has proved the hypothesis stated earlier in the paper with regards to no comparative value
706 relevance difference between the two sets of financial reporting standards under examination in
707 the Russian financial accounting settings.

708

709 **6. Conclusion and Further Research**

710 The present research paper is devoted to the issue of International Financial Reporting
711 Standards adoption in Russia (by public listed companies) with the main focus on its affect on
712 the value relevance of financial reporting on the Russian market. Due to the wide presence of
713 private information channels for financial and accounting data in the Russian “insider” economy,
714 in the current study we focused on the needs of external users of financial reporting information,
715 i.e. non-majority shareholders and potential investors who do not have an access to the
716 privileged sources of information.

717 Overall, empirical studies on the value relevance of accounting information under IFRS
718 found mixed results, with some studies showing that the change to IFRS improves value
719 relevance (Barth et al. 2008; Bartov et al. 2005; Horton and Serafeim 2006), and others that it
720 worsens value relevance (Lin and Chen 2005), while yet others find no conclusive evidence
721 either way (Niskanen et al. 2000). Based on an extensive review of theoretical and empirical
722 literature on the issue of IFRS formation, adoption and practical implementation both in
723 developed and emerging economies, we formulated the following research hypothesis: “There is
724 no significant difference between the value relevance of financial information disclosed by
725 Russian public companies under Russian Accounting Standards and the value relevance of
726 financial information disclosed by Russian public companies under International Financial
727 Reporting Standards”. Next we tested the comparative value relevance between International
728 Financial Reporting Standards and Russian Accounting Standards by the means of OLS price
729 regression (on book values of equity and net income figures) adjusted for scale effects on a
730 sample of 67 Russian public listed companies that voluntary report under IFRS during the period
731 of four consecutive years (2006-2009).

732 Tests applied in the study showed that in all observed cases no statistically significant
733 differences have been found between the R-squared reported for price regressions under RAS
734 and the R-squared reported for price regressions under IFRS, meaning that on the examined
735 sample of Russian public listed companies applying both RAS and IFRS during the time period
736 2006-2009 there was no statistically significant difference found between the value relevance of
737 the financial information reported under the Russian Accounting Standards and the value
738 relevance of the financial information reported under the International Financial Reporting
739 Standards. Thus the empirical study has proved the formulated research hypothesis. It is
740 interesting to note here that the results obtained in the present study go in line with the results
741 obtained in the empirical studies of developing economies’ accounting practices, which in most
742 cases found that the local standards are no worse than IFRS or even outperform IFRS on the

743 reported financial information value relevance criterion (Hellström, 2006, Niskanen et al., 2000,
744 Callao et al., 2007).

745 One of the explanations can be that the costs associated with IFRS disclosure are quite
746 high relatively to the benefits. In this case disclosure is less desirable, since it leads to a reduction
747 in firm value (Verrechia 1983, Cuijpers and Buijink, 2005).

748 Finally, we should go back and answer the main research question of the present study:
749 Reporting under which standard (RAS or IFRS) provides more value relevant information?
750 According to the empirical results there is no statistically significant difference in the value
751 relevance between RAS and IFRS, thus meaning that for external users of financial information
752 (predominantly potential investors and non-majority shareholders) there should be no reason to
753 prefer one over another with regards to making inferences for future investment decisions.

754 In order to prepare this study to be further used for obtaining theoretical and empirical
755 insights, we should first outline a number of limitations of the present research.

756 First potential criticism refers to only 67 observations that might give little statistical
757 power to reject the null hypothesis of IFRS and RAS being equally value-relevant. This criticism
758 is correct if we were analyzing a sample and could expand the sample size. In our case, we have
759 all observations available (i.e. there are no more companies that report under IFRS and have
760 enough accounting and trading information to perform the price regressions). The sample could
761 be expanded by including other countries, but this approach will change the carefully selected
762 benchmark for testing the value-relevance of adopting IFRS.

763 Secondly, the self-selection bias is present in the sampling technique as the IFRS
764 adoption is still voluntary in Russia even for public listed companies: e.g. RTS requires the
765 companies to report under IFRS to be listed, whereas MICEX does not have any similar
766 requirement, thus making the putting IFRS reporting initiative totally under the company
767 management discretion. Even though the non-random sampling might bias the obtained
768 empirical results, so far this is the only sampling technique available on the Russian market.

769 Finally, it is essential to remember that the results obtained in this study are not
770 generalizable to other countries (neither developed, nor emerging), as the RAS institutional
771 specifics are quite unique for the Russian environment.

772 There are several directions for further research. First, is to go on with the analysis and to
773 replicate it from 2009 to subsequent years. This will help us to make the comparison with the
774 results we got. Another possible direction is to work with the model and to adapt it to the
775 specifics of emerging markets (for example, adjust data for inflation, see (Filip and Raffournier,
776 2010) or to test another model (for example, see Horton, Serafeim, 2010). The results may then

777 be more specified for the highly inflated Russian market. One more valuable research would be
778 to compare the value relevance of accounting information presented according to different
779 standards before and after implementation of the new accounting regulations that will require
780 IFRSs for all Russian companies (since 2015).

781 According to accounting theory more transparency and better corporate governance
782 increases firm value as a result of managers' decisions improvement (Lambert, 2001). As IFRS
783 increases transparency then disclosure has a positive effect on firm value that will increase the
784 global competitiveness of Russian stock market. Armstrong et al. (2009) finds the positive
785 reaction of investors towards IFRS adoption as the benefits for investors increase over time.

786 With regards to the results obtained we see that there is a high demand for IFRS adoption
787 in Russia, especially from users of accounting information, leading Russian companies and a lot
788 of international companies working in Russia.

789 In addition to that we also believe that further research in this area is needed in order to
790 track the changes in financial reporting value relevance over time with regards to change in the
791 Russian institutional environment and economic development.

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