

Trading Volume Reaction to the Earnings Reconciliation from IFRS to U.S. GAAP: Further Evidence

By

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Abstract

The U.S. SEC approved in December 2007 to accept financial statements prepared under IFRS as issued by the IASB without reconciliation to U.S. GAAP for foreign firms. Using a sample of foreign firms that use IFRS and reconcile to U.S. GAAP from 2005 to 2006, we find that earnings reconciliation from IFRS to U.S. GAAP is positively and significantly associated with abnormal trading volume in the U.S. markets around the Form 20-F filing dates. We also document that the trading volume reaction in the U.S. markets is weaker for firms that use IFRS as issued by the IASB than for firms that use other versions of IFRS. Moreover, the trading volume reaction in the U.S. markets exists for firms with low institutional holdings and for first-time IFRS users but disappears for firms with high institutional holdings and for continuous IFRS users. Furthermore, we do not find any evidence that earnings reconciliation is significantly associated with abnormal trading volume in the local markets for the full sample and for any partitioned sample. Our evidence is of interest to the SEC when evaluating the effectiveness of its no-reconciliation rule and considering allowing U.S. domestic firms to prepare financial statements under IFRS.

Keywords earnings reconciliation; IFRS; trading volume reaction

JEL Descriptors M41, G15

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1. Introduction

In December 2007, the U.S. Securities and Exchange Commission (SEC) eliminated the reconciliation requirement to U.S. Generally Accepted Accounting Principles (GAAP) for foreign registrants that report financial information under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) (SEC 2007d). Such an action is consistent with the SEC's long-term effort to reduce the accounting differences between the U.S. and other countries and to foster a single set of high-quality globally accepted accounting standards. The proponents argue that the reconciliation information is redundant and difficult to understand (SEC 2007d), while the opponents point out that IFRS is not yet high-quality accounting standards and the timing is not ripe yet to adopt IFRS without reconciliation to U.S. GAAP (SEC 2007d). Despite different viewpoints, the SEC went further to propose allowing U.S. domestic firms to prepare financial statements under IFRS (SEC 2007c; SEC 2008).

We examine whether there still exists any short-term trading volume reaction in the U.S. and local markets to the earnings reconciliation from IFRS to U.S. GAAP, using foreign firms in years 2005 and 2006 that prepare financial statements under IFRS. We also investigate how traders react differently to firms applying IFRS as issued by the IASB and firms applying other versions of IFRS. Lastly, we investigate whether trading volume reaction to the earnings reconciliation differs between sophisticated investors and unsophisticated investors and between first-time IFRS users and continuous IFRS users.

Chen and Sami (2008) (hereafter CS) examine the short-term trading volume reaction to the earnings reconciliation from International Accounting Standards (IAS) to U.S. GAAP during the period of 1995-2004. They find that investors in the U.S. markets trade on the earnings reconciliation information from IAS to U.S. GAAP during this time period. They also find weak evidence that there is a short-term trading volume reaction in the local markets to the same earnings reconciliation information. Our paper extends CS in three ways. First, many countries and regions including European Union (EU) and Australia adopted IFRS in 2005. As of the end of 2008, nearly 200 jurisdictions permit or require the use of IFRS as the primary GAAP for external financial reporting purpose. In addition, the IASB, in an effort to improve the quality of accounting standards, issued a series of new international financial reporting standards, most of which were effective on or after January 1, 2005. Thus, our paper can assess the effects of improved international accounting standards on the trading volume reaction to the earnings reconciliation information from IFRS to U.S. GAAP, and to a much broader array of companies.

Second, we examine whether the trading volume reaction differs between firms using IFRS as adopted by the IASB and firms using other versions of IFRS, while CS do not make such an investigation. This is very important, because the SEC only accepted financial statements prepared under IFRS as issued by the IASB without further reconciliation. Currently, a firm can either adopt a jurisdictional version of IFRS or adopt IFRS as issued by the IASB. A jurisdictional version of IFRS can deviate from IFRS as adopted by the IASB in some dimensions. For example, IFRS as adopted by the EU modifies IFRS as adopted by the IASB in IAS 39, “Financial Instruments: Recognition and Measurement”, and offers more flexibility in hedge accounting. We directly address

whether investors still find the earnings reconciliation from *IFRS as issued by the IASB* to U.S. GAAP useful in their trading decision, which is more pertinent to the SEC's decision to abolish the reconciliation requirement.

Third, we explore two mechanisms that might affect the trading volume reaction to the earnings reconciliation information: institutional investors and first-time filers. We argue that institutional investors are sophisticated investors and are able to understand the financial statements prepared under IFRS without any reconciliation to U.S. GAAP, and thus firms with more institutional investors exhibit weaker trading volume reaction to the earnings reconciliation information. We also argue that when a firm adopts IFRS for the first time and reconciles to U.S. GAAP, investors may not be familiar with the differences between IFRS and U.S. GAAP, and thus a first-time IFRS filer may experience a stronger trading volume reaction to the earnings reconciliation. However, investors can learn over time and gain more confidence on financial information prepared under IFRS without further reconciliation. As a result, we expect that the reaction will be weaker for a continuous filer. Overall, our two mechanisms are consistent with the SEC's emphasis on the importance of investor understanding and education on adopting IFRS without further reconciliation (SEC 2007d).

To evaluate the abnormal trading reaction in the U.S. markets, we use 220 foreign firm-years that reconcile their earnings from IFRS to U.S. GAAP during the period 2005-2006. We find that consistent with CS, the magnitude of earnings reconciliation information is positively and significantly associated with abnormal trading volume in the U.S. markets around Form 20-F filing dates (from day -1 to day +1, where day 0 is the Form 20-F filing date). Our results do not change when we employ different measures

of abnormal trading volume. In addition to CS, we show that trading volume reaction in the U.S. markets is weaker for firms using IFRS as issued by the IASB than for firms using other versions of IFRS, suggesting reconciliation is less of a concern for firms consistently and faithfully applying IFRS as issued by the IASB. Moreover, when we divide the sample into firms with above-median institutional holdings and firms with below-median institutional holdings, the trading volume reaction in the U.S. markets is only significant for firms with below-median institutional holdings. This is consistent with the notion that sophisticated U.S. investors have greater ability to understand the differences between IFRS and U.S. GAAP than unsophisticated U.S. investors. We also document that trading volume reaction in the U.S. markets is evident only for first-time IFRS users, but not for continuous IFRS users, suggesting the importance of investor education in removing reconciliation requirements.

CS argue that U.S. investors may trade foreign stocks in their home country markets with less cost than in the U.S. markets. In addition, investors in the local markets may trade on the earnings reconciliation from IFRS to U.S. GAAP. However, CS show that earnings reconciliation from IAS to U.S. GAAP is only marginally associated with abnormal trading volume in the local markets. We conjecture that if a U.S. investor trades foreign stocks in the local markets, the investor is more likely a sophisticated investor who can understand the accounting differences between IFRS and U.S. GAAP and hence do not need the earnings reconciliation information. Also, a local investor may care about the earnings information prepared under the local GAAP (including IFRS if a firm uses IFRS as the primary accounting standard) much more than that under U.S. GAAP. Based on these two reasons, we expect that there is weak or no trading volume reaction in the

local markets to the earnings reconciliation from IFRS to U.S. GAAP. Nevertheless, to be consistent with CS, we test all our hypotheses also in the local markets using 216 firm-year observations with available local market data. We do not find any relation between earnings reconciliation from IFRS to U.S. GAAP and abnormal trading volume in the local markets around the Form 20-F filing dates. Nor do we document any such relation when we partition the sample into firms using IFRS as issued by the IASB and other versions of IFRS, firms with high and low institutional holdings, and first-time and continuous IFRS users.

Two concurrent working papers (e.g., Gordon et al. 2008; Henry et al. 2008) document that earnings reconciliation from IFRS to U.S. GAAP is value relevant in return/price models in the U.S. markets after 2005. Our evidence, *from trading volume perspective*, is generally consistent with concurrent papers that earnings reconciliation from IFRS to U.S. GAAP captures information that is useful in U.S. investors' trading decision after 2005. More importantly, beyond the results of these two studies, we document that the reconciliation is less informative to U.S. traders for firms applying IFRS as issued by the IASB than for firms applying other versions of IFRS. In addition, trading volume reaction disappears for firms with above-median institutional holdings and for continuous IFRS users.

Overall, our results, coupled with concurrent research, provide important insights into the SEC's decision to eliminate the reconciliation requirement for firms that use IFRS as issued by the IASB. The SEC acknowledges that "there are still a number of differences between U.S. GAAP and IFRS as issued by the IASB", but its decision to remove the reconciliation requirement focuses on whether investors can understand and

work with IFRS as issued by the IASB regardless of the differences between two sets of accounting standards (SEC 2007d). Our results, based on the data from the most two recent years before the elimination of the reconciliation requirement, suggest that U.S. investors in general use the earnings reconciliation from IFRS to U.S. GAAP in their trading decision and hence may not completely understand the IFRS-based financial statements. Our results also indicate that the trading volume reaction in the U.S. markets to the earnings reconciliation information may reduce or disappear through improved investor understanding and education and strictly applying IFRS as adopted by the IASB. From this perspective, our research directly tackles the SEC's consideration when making its final decision. Moreover, our research is also informative to the SEC's consideration of adopting IFRS for U.S. domestic firms. We cannot empirically test the trading volume reaction to the IFRS-based earnings for U.S. domestic firms based on any existing data. However, at a minimum, our results highlight the importance of investor understanding and education and the use of IFRS as adopted by the IASB in understanding the IFRS-based financial statements.

The remainder of the paper is organized as follows. Section 2 develops the hypotheses. Section 3 explains the research design and Section 4 presents the empirical results. The last section concludes the paper.

2. Prior Literature and Hypotheses

Overall trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP

The U.S. SEC proposed a rule in July 2007, to eliminate the reconciliation requirement to U.S. GAAP for foreign firms that prepared financial statements in accordance with IFRS as issued by the IASB (SEC 2007a). The proposal received many

responses from academics and accounting professionals, including two responses from the American Accounting Association (AAA 2008a; 2008b). The AAA summarizes the existing literature on the U.S. GAAP-IFRS reconciliation and concludes “that the elimination of the U.S. GAAP-IFRS reconciliation requirement was premature” (AAA 2008a, 238). In spite of this, the SEC issued a final rule in December 2007 to eliminate the reconciliation requirement (SEC 2007d). According to this final rule, a foreign firm listed in the U.S., could prepare financial statements under IFRS as issued by the IASB without reconciliation to U.S. GAAP on or after March 4, 2008, or earlier if the firm consulted with the SEC. The SEC’s decision came under pressure from various parties, especially from the EU counterpart, to ease the costs of foreign firms to prepare financial statements under dual standards and promote global convergence.

As a further step, the SEC surprised the market and released a conceptual rule in August 2007 to solicit comments to accept financial statements prepared under IFRS from U.S. domestic firms (SEC 2007c). In November 2008, the SEC issued a roadmap to prepare U.S. domestic firms towards reporting financial statements under IFRS as issued by the IASB. The roadmap, if achieved, could result in the requirement of IFRS for U.S. firms as early as 2014 (SEC 2008).

However, the empirical evidence on whether the earnings reconciliation from IFRS to U.S. GAAP provides useful information to investors is incomplete and at most mixed. Most of the research on the Form 20-F reconciliation was conducted before year 2005, when IFRS was not widely accepted throughout the world. For example, Street et al. (2000) document that the adjustment to earnings from IAS to U.S. GAAP is narrowing though still significant during the period 1995-97. Haverty (2006) uses a sample of U.S.-

listed firms from the People's Republic of China (PRC) from 1996 to 2002 that prepare financial statements under IFRS and reconcile to U.S. GAAP. He reports that net income under IFRS is materially different from net income under U.S. GAAP and the most significant difference comes from revaluations of property, plant, and equipment permitted under IFRS. Moreover, Harris and Muller (1999) investigate the value-relevance of earnings and book value reconciliation information using the market valuation model for IAS-based foreign firms from 1992 to 1996. They find that earnings reconciliation per share from IAS to U.S. GAAP is not associated with price per share, although they document a positive relation between earnings reconciliation and market value of equity. CS, using trading volume to measure market reaction, document that abnormal trading volume around the Form 20-F filing date is positively associated with the magnitude of earnings reconciliation from IAS to U.S. GAAP for firm-year observations from 1995 to 2004.

Two concurrent working papers focus on the reconciliation information after 2005. Henry et al. (2008) examine the reconciliation from IFRS to U.S. GAAP for EU firms listed in the U.S. in years 2005 and 2006 and find that both net income reconciliation and shareholders' equity reconciliation are value relevant in the market valuation model, although net income reconciliation is not significant in the long-term return model. Gordon et al. (2008), using all IFRS-based foreign firms from 2004 to 2006, document that the accrual reconciliation, the difference between U.S. GAAP and IFRS accruals, is incrementally informative beyond IFRS accruals in the long-term return model. However, both papers examine long-term association rather than short-term market reaction and use market valuation or return models.

We examine short-term trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP for all IFRS-based foreign firms from 2005 to 2006. As noted by Holthausen and Watts (2001, 3), “Unless those underlying theories are descriptive of accounting, the value-relevance literature’s reported associations between accounting numbers and common equity valuations have limited implications or inferences for standard setting: they are mere associations.” On the contrary, the short-term reaction study of trading volume enables us to directly test the information content of earnings reconciliation to traders and thus is informative to the standard setters. Moreover, while stock price reaction is determined by the average investor’s belief about a specific event, trading volume reaction is induced by the different beliefs about the future price among individual investors (e.g., Beaver 1968; Bamber and Cheon 1995). As a result, the trading volume reaction can exist without the price reaction and vice versa. Further, Cready and Mynatt (1991) and Cready and Hurtt (2002) point out that trading volume reaction is more powerful than the price reaction in small sample settings. We argue that since the number of IFRS-based foreign firms is limited in our sample, trading volume reaction appears to be more appropriate in our setting.¹

If investors find earnings reconciliation from IFRS to U.S. GAAP not informative, there will be no short-term trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP. However, a trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP may exist even after 2005, because of the following three reasons. First, the difference between IFRS and U.S. GAAP is material despite the convergence process. Henry et al. (2008) argue that earnings (shareholders’ equity) based on IFRS is still higher (lower) than that based on U.S. GAAP during the period of 2004-

2006 for most foreign IFRS-based firms. The mean difference between IFRS-based and U.S. GAAP-based net income is \$310.25 millions in our sample. Compared to CS, the difference is actually much larger (\$10.13 millions in Panel A of Table 3 in CS for the period of 1995-2004). Second, prior literature (e.g., Henry et al. 2008; Gordon et al. 2008) documents value-relevance of earnings reconciliation from IFRS to U.S. GAAP from 2004 to 2006. Third, although sophisticated investors can figure out the differences between IFRS and U.S. GAAP, unsophisticated investors are unlikely to undo the differences by themselves. Thus, the divergent beliefs before the release of earnings reconciliation and the different interpretations of earnings reconciliation during the release of earnings reconciliation among unsophisticated investors could induce more trading activities from the earnings reconciliation information. We state our first hypothesis as follows:

HYPOTHESIS 1. The short-term trading volume reaction to earnings reconciliation is positively associated with the magnitude of earnings reconciliation from IFRS to U.S. GAAP for IFRS-based foreign firms.

IFRS as issued by the IASB

Under the SEC's final rule, a foreign firm is eligible to omit the reconciliation requirement if the firm elects to use IFRS as issued by the IASB and the independent auditor opines on whether the financial statements comply with IFRS as issued by the IASB. If a firm prepares its financial statements under a jurisdictional variation of IFRS, but not IFRS as issued by the IASB, the reconciliation requirement is still a necessity. By only allowing IFRS as issued by the IASB without reconciliation, the SEC intended to promote the development of a single set of high-quality globally accepted accounting standards (SEC 2007d). A jurisdictional version of IFRS is IFRS modified by a country

or region, such as IFRS as adopted by EU or Australian equivalents to IFRS (A-IFRS). A jurisdictional version of IFRS is not completely consistent with IFRS as issued by the IASB because a country or region amends IFRS to accommodate its legal and political needs. The major differences between a jurisdictional version of IFRS and IFRS as issued by the IASB vary from region to region. For example, IFRS as adopted by the EU has only one significant difference in IAS 39 from IFRS as issued by the IASB. However, as of September 2005, the key differences between A-IFRS and IFRS are in at least 14 areas, including business combinations and segment reporting (Deloitte 2005). Consistent with the SEC's position, we argue that the reconciliation information becomes more informative for a firm using a jurisdictional version of IFRS, because U.S. investors generally are more familiar with a single set of IFRS as issued by the IASB than different modified versions of IFRS. As a result, trading volume reaction to the earnings reconciliation should be more pronounced for firms applying modified versions of IFRS than for firms applying IFRS as issued by the IASB. Our second hypothesis is,

HYPOTHESIS 2. The short-term trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP is weaker for firms using IFRS as issued by the IASB than for firms using other versions of IFRS.

Institutional holdings

When the SEC proposed the rule to remove the reconciliation requirement, it posed the questions about the investors' ability to understand the financial statements prepared under IFRS without reconciliation to U.S. GAAP and whether the ability depends upon the size and nature of the investors (SEC 2007b). In its final rule, the SEC was encouraged by the fact that institutional investors are generally more comfortable and familiar with IFRS-based financial statements without reconciliation (SEC 2007d).

The SEC also noted that some individual investors might not be familiar with IFRS-based financial statements (SEC 2007d). We also argue that institutional investors have more resources and sophistications to educate themselves of the current and future differences between IFRS and U.S. GAAP than individual investors. Thus, when a firm possesses high institutional holdings, trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP is weaker due to the lower information content of earnings reconciliation to institutional investors. However, when a firm has low institutional holdings and the majority of investors are individual investors, the divergent beliefs and different interpretations of earnings reconciliation numbers among these individual investors may drive the stronger trading volume reaction. We formalize this argument in the following hypothesis:

HYPHTHESIS 3. The short-term trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP is weaker for firms with high institutional holdings than for firms with low institutional holdings.

First-time IFRS users

When a foreign firm uses IFRS for the first time and reconciles its earnings to U.S. GAAP, its investors may not be familiar with IFRS and the differences between IFRS and U.S. GAAP with regard to the impact on accounting numbers of such a firm. After the first time, some of the reconciliation items are repetitive given that the firm does not change its operation dramatically from year to year. Hence, the investors of such a firm are generally more comfortable with IFRS and can educate themselves better about the differences between IFRS and U.S. GAAP applicable to such a firm. This argument is consistent with the SEC's consideration of the importance of investor education in removing the reconciliation requirement (SEC 2007d). The above discussion leads to the following hypothesis:

HYPOTHESIS 4. *The short-term trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP is stronger for first-time IFRS users than for continuous IFRS users.*

3. Model specification

To test our hypotheses, we employ the following empirical model:

$$ABVOL = \alpha_0 + \alpha_1 LEARN20F + \alpha_2 LBV20F + \alpha_3 LSIZE + \alpha_4 ABSRET + \alpha_5 VOLATILITY \quad (1)$$

where

<i>ABVOL</i>	=	cumulative median-adjusted daily percentage of outstanding shares traded from day -1 to day $+1$, where day 0 is the Form 20-F filing date;
<i>LEARN20F</i>	=	the natural logarithm of the absolute value of the difference between earnings per share under U.S. GAAP and earnings per share under IFRS, deflated by the price per share on day -2 , where day 0 is the Form 20-F filing date;
<i>LBV20F</i>	=	the natural logarithm of the absolute value of the difference between book value per share under U.S. GAAP and book value per share under IFRS, deflated by the price per share on day -2 , where day 0 is the Form 20-F filing date;
<i>LSIZE</i>	=	the natural logarithm of the market value of equity on day -2 , where day 0 is the Form 20-F filing date;
<i>ABSRET</i>	=	the absolute value of cumulative raw returns from day -1 to day $+1$, where day 0 is the Form 20-F filing date; and
<i>VOLATILITY</i>	=	the standard deviation of daily raw returns from day -47 to day -2 , where day 0 is the Form 20-F filing date.

Consistent with CS, we test our hypotheses first in the U.S. markets and then in the local markets. When we test the U.S. (local) markets, the trading volume, price, and return data used in Model (1) are from the U.S. (local) markets.

Trading volume measure

A foreign firm can trade in the form of either shares or American Depository Receipts (ADRs) in the U.S. stock markets. In the case of ADRs, a firm puts its shares called American Depository Shares (ADSs) into a U.S. depository bank. The bank holds

these ADSs and then issues ADRs to investors, with each ADR representing some multiple of one issued share. Consistent with CS, the daily percentage of outstanding shares traded in the U.S. markets, is computed as the number of shares/ADRs traded in the U.S. over the total number of shares/ADRs outstanding in the U.S., depending upon whether the firm trades shares or ADRs in the U.S. markets. For brevity, we call it “daily percentage of outstanding shares traded”, although it could be daily percentage of outstanding ADRs traded. We define the daily percentage of outstanding shares traded in the local markets as the number of shares traded divided by the total number of shares outstanding in the local markets, both measured in the local markets.

Following CS, we employ our dependent variable abnormal trading volume (*ABVOL*) as the median-adjusted trading volume. The median-adjusted trading volume fits better than the mean-adjusted trading volume in this study because the latter is not stable and is more easily influenced by a sharp increase in the non-event-period trading for reasons other than liquidity (Bamber et al. 1997). We do not use the market-adjusted trading volume in the main analyses either, because investors of a foreign firm generally trade much less frequently than investors of an average U.S. domestic firm in the U.S. markets. Hence, trading activities of an average U.S. firm do not provide a valid benchmark for normal trading activity for a foreign firm. Nevertheless, section 4 shows that our results are not sensitive to the use of median-, mean- or market-adjusted trading volume.

To be more specific, the median-adjusted trading volume, is computed as the daily percentage of outstanding shares traded in the event period minus the median daily percentage of outstanding shares traded for the same firm in the non-event period,

cumulated from day -1 to day $+1$, where day 0 is the Form 20-F filing date. Prior research (e.g., Bamber et al. 1997) suggests that most of the trading activities occur during the three-day window $(-1, +1)$, so we cumulate the median-adjusted trading volume over the three-day window.² Following CS and Bamber et al. (1997), the non-event period expands from 249 days before to 2 days before the Form 20-F filing date. We use the median daily percentage of outstanding shares traded during this non-event period to proxy for the “normal trading” for a foreign firm.

Earnings reconciliation measure

The test variable *LEARN20F* is defined as the natural logarithm of the absolute difference between earnings per share under U.S. GAAP and earnings per share under IFRS deflated by the price per share on day -2 . Consistent with CS, we deflate the absolute earnings reconciliation per share by the price per share on day -2 and take the natural logarithm for the price deflated earnings reconciliation.³ According to H1, we expect a positive coefficient on *LEARN20F*.

Control variables

Our control variables are based on prior work. CS find that the relation between book value reconciliation and abnormal trading volume around the Form 20-F filing date is positive and weakly significant. As a result, we control for book value reconciliation *LBV20F* and expect a positive coefficient on *LBV20F*.⁴

Prior literature (e.g., Atiase 1987; Bamber 1987) argues that larger firms experience more media exposure than smaller firms. Prior research (e.g., Atiase 1980) also suggests that investors of larger firms including analysts have more incentive to collect private predislosure information than investors of smaller firms. Hence,

everything else being equal, the trading volume reaction to earnings reconciliation is weaker for larger firms than for small firms because of the richer predisclosure information environment for larger firms. *LSIZE* is defined as the natural logarithm of market value of equity on day -2 in the U.S. or local markets. We use the market value of equity in the U.S. (local) markets rather than the total market value of equity for the whole firm, because we measure the pre-Form-20F disclosure environment in the U.S. (local) markets that may relate to the trading volume around the Form 20-F filing date in the U.S. (local) markets.⁵

We also control for the absolute value of cumulative raw returns in the U.S. (local) markets during the event period. Prior research (e.g. Karpoff 1987; Bamber et al. 1997) argues that trading volume increases with the absolute price change. As a result, we include *ABSRET* to control for the belief revision of average investors during the event period.

As in CS, we add price volatility prior to Form 20-F filing date in the U.S. (local) markets (*VOLATILITY*) to proxy for the disagreement (or consensus) construct based on Kim and Verrecchia (1991). The relation between trading volume and price volatility can be two-fold depending upon whether the consensus or informedness effect dominates. Hence, we do not predict any sign for *VOLATILITY*.

4. Empirical results

Sample selection

We start with all foreign firms listed in the U.S. in years 2005 and 2006. We obtain the list of such firms from the SEC website.⁶ From this list, we search each firm's Form 20-F in each year to identify the primary accounting standard used. Through this

process, we identify 311 firm-years that use IFRS as the primary accounting standard and reconcile its earnings and book value to U.S. GAAP under item 17 or 18 of Form 20-F. The earnings and book value under U.S. GAAP and IFRS and Form 20-F filing dates are collected from Form 20-Fs. The earnings and book value reconciliation numbers are translated into U.S. dollar numbers using exchange rate specified in Form 20-Fs. Trading volume, return, and price data for testing the trading volume reaction in the U.S. (local) markets are from CRSP (Compustat Global).⁷ The institutional holdings data used to test H3 are from Thomson Reuters CDA/Spectrum institutional (13F) holdings database. After deleting missing observations, our final sample consists of 220 (216) firm-years from 26 (24) countries in the U.S. (local) markets. The sample distribution is summarized in Table 1. The year and country distribution in the U.S. markets is quite close to that in the local markets, with highest concentration (above 50 firm-year observations) in the United Kingdom.

Insert Table 1 Here

Descriptive statistics

Panel A and Panel B of Table 2 present the descriptive statistics for the U.S. and local markets, respectively. We winsorize all continuous variables at the 1% and 99% levels to mitigate the effect of outliers. In Panel A, the cumulative median-adjusted daily percentage of shares traded in the U.S. markets has a mean of 0.876 percent and a median of 0.282 percent. This suggests that on average, trading volume in the event period is greater than the “normal trading volume” during the non-event period. The mean *ABVOL* (three-day basis), converted into a daily basis, is 0.292 percent ($0.876/3=0.292$). In Panel B, the mean *ABVOL* is 0.499 percent over the three-day window (or 0.166 percent on a

daily basis). These numbers suggest that investors trade more heavily in the U.S. markets around event date during our sample period (2005-06) compared to the local markets. The average of *LEARN20F* and that of *LBV20F* are -2.228 and -0.549 in the U.S. markets (Panel A) and -5.045 and -3.431 in the local markets (Panel B), respectively. The relative larger absolute mean numbers for *LEARN20F* and *LBV20F* in the local markets are due to the relative higher deflator (market value of equity) in the local markets as shown below.⁸ On average, the natural-logarithm-transformed market value of equity in the U.S. markets in Panel A (mean = 6.510) is smaller than that in the local markets in Panel B (mean = 9.437). It is reasonable that net assets in the local markets are larger than those in the U.S. markets for foreign firms. The averages of *ABSRET* and *VOLATILITY* are very close in both markets.

Insert Table 2 Here

Table 3, Panel A presents the Pearson correlations for the U.S. markets. Consistent with H1, abnormal trading volume (*ABVOL*) is positively and significantly correlated with earnings reconciliation (*LEARN20F*). As predicted, *ABVOL* is also positively and significantly correlated with book value reconciliation (*LBV20F*), and absolute value of raw returns (*ABSRET*), and negatively and significantly correlated with firm size (*LSIZE*). The positive and significant correlation between *ABVOL* and price volatility (*VOLATILITY*) indicates that informedness effect may dominate the consensus effect. Turning to the control variables, most of the correlations are significant. The highest correlation among control variables is 0.649, between earnings reconciliation and book value reconciliation. This is expected, because net income number, eventually, passes through the balance sheet.

Panel B of Table 3 shows the Pearson correlations for the local markets. Abnormal trading volume (*ABVOL*) is not significantly correlated with either earnings (*LEARN20F*) or book value (*LBV20F*) reconciliation. The largest correlations in absolute value in Panel B, are a significant negative correlation of -0.674 between *LSIZE* and *VOLATILITY*, followed by a significant positive correlation of 0.465 between *LEARN20F* and *LBV20F*. Further examination of variance inflation factors (VIFs) for the U.S. and local markets indicates no serious multicollinearity since all VIFs are below 3.

Insert Table 3 Here

Regression results

Table 4, Panel A presents the multivariate regression results to test our first hypothesis for the U.S. markets. The adjusted R^2 (10.67%) is higher than that reported in CS (5.81%). We control for possible year effect by including a year dummy in all regressions. For brevity, the results on the year dummy are not reported. As predicted, the coefficient for *LEARN20F* is positive and significant ($t = 2.50$). This is consistent with the view that earnings reconciliation still provides information content to traders in the U.S. markets.⁹ Among the control variables, *LBV20F* is positively but not significantly associated with abnormal trading volume. The coefficient on *LSIZE* is negative and significant at the 5% level ($t = -1.91$). This is consistent with Bamber (1987) that larger firms have more predisclosure information available than smaller firms and thus less trading volume reaction to the earnings announcement. *ABSRET* is positively associated with abnormal trading volume ($t = 2.79$), suggesting the comovement of return and trading volume.¹⁰ The coefficient on *VOLATILITY* is insignificant indicating that neither consensus nor informedness dominates the other one. Overall, the results support our first

hypothesis that, in the U.S. markets, the short-term trading volume around the Form 20-F filing date is positively associated with the magnitude of earnings reconciliation from IFRS to U.S. GAAP.¹¹

Insert Table 4 Here

Panel B of Table 4 tests our first hypothesis in the local markets. The coefficients on both *LEARN20F* and *LBV20F* are not significant, suggesting that local market investors may not trade on the earnings reconciliation information. As we argue in the introduction section, this result is not completely unexpected, because (1) U.S. investors who cross-trade in the local markets are more likely to be sophisticated institutional investors and they may be able to figure out the difference between U.S. GAAP and IFRS even before the release of the earnings reconciliation information; and (2) local investors may focus more on the financial information prepared under local GAAP (including IFRS) than that prepared under U.S. GAAP. The significantly positive coefficient on *LSIZE* is unexpected. One possible reason may be that, in general, larger firms have more investors and thus more trading activities than smaller firms. The coefficient on *ABSRET* is positive and significant. The coefficient on *VOLATILITY* is not significant, again, indicating that neither consensus nor informedness dominates the other one.

Mean- or market-adjusted trading volume

Our results in Table 4 are based on the median-adjusted trading volume. We do not measure the dependent variable as the mean-adjusted trading volume because mean trading volume during the non-event period is easily influenced by an outlier. Nor do we use the market-adjusted trading volume because the market trading index created from most U.S. domestic firms may not provide a good benchmark to proxy the average

trading activity for a foreign firm. Nevertheless, we take a more prudent approach to try the mean- or market-adjusted trading volume as the dependent variable in this subsection. The results are shown in Table 5. We cannot employ market-adjusted trading volume for the local markets because the market benchmark is not available for the local markets. Overall, the results herein are similar to those reported in Table 4. That is, the coefficient on *LEARN20F* is positively significant in the U.S. markets, but not so in the local markets.

Insert Table 5 Here

IFRS as issued by the IASB

The SEC only accepts the financial statements prepared under IFRS *as issued by the IASB* without reconciliation to U.S. GAAP. To directly evaluate whether markets react differently for the versions of IFRS used, we partition our sample into firms that use IFRS as issued by the IASB and firms that use other versions of IFRS. Ideally, our sample of IFRS as issued by the IASB should be firms that assert in an appropriate note to their financial statements that they use IFRS as issued by the IASB and the auditors should also opine on the compliance with IFRS as issued by the IASB in the auditors' reports, as required by the SEC. However, only 17 auditors in our sample explicitly opine the compliance with IFRS as issued by the IASB in the auditors' reports, although 134 firms state in a note that their financial statements are in compliance with IFRS as issued by the IASB. As noted by the SEC (2007b), "the vast majority of companies asserted compliance with a jurisdictional version of IFRS and that most also asserted compliance with IFRS as published by the International Accounting Standards Board, commonly referred to as the IASB. In the vast majority of the companies we reviewed, the company's auditor opined on the company's compliance with the jurisdictional version of

IFRS that the company used, but did not opine on the company's compliance with IFRS as published by the IASB.” As a result, we relax the requirement of opining by the auditors on the company's compliance with IFRS as issued by the IASB for testing our H2. We searched the Form 20-F of each sample firm. As long as firms stated the compliance with IFRS as issued by the IASB in a note with or without auditors’ opinions on the compliance, we included them in the IFRS as issued by the IASB group.

The partitioned results are shown in Panels A and B of Table 6. In the U.S. markets (Panel A), the coefficient on *LEARN20F* is 0.098 and weakly significant ($t = 1.48$) for the IFRS as issued by the IASB group. The same coefficient is 0.247 and significant at the 5% level ($t = 2.21$), when we restrict the sample to the firms using other versions of IFRS. When we apply a t-statistics as in Koo and Hong (1980) to test the difference of coefficients on *LEARN20F* in two groups, the untabulated t-value is 1.71 (significant at the 5% level). This suggests a weaker U.S. trading volume reaction to the earnings reconciliation information for firms using IFRS as issued by the IASB. Note that our IFRS as issued by the IASB group is not yet 100 percent IFRS as issued by the IASB users as required by the SEC (although they use IFRS as issued by the IASB, for most of them, the auditor did not opine on this). We conjecture that a strict use of IFRS as required by the SEC including an acknowledgment in the auditor report might yield even weaker U.S. trading volume reaction. In the local markets (Panel B), we do not find any significant coefficient on *LEARN20F* for either firms using IFRS as issued by the IASB or firms using other versions of IFRS.

Insert Table 6 Here

Institutional holdings

The SEC argues that the ability to understand the financial statements without reconciliation might depend upon the nature of investors (SEC 2007d). Hence, we test whether the trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP differs between sophisticated investors and unsophisticated investors. We partition the sample into firms with high institutional holdings (proxy for more sophisticated investors) and low institutional holdings (proxy for more unsophisticated investors) using the median for institutional holdings as the cutoff. Panel A of Table 7 presents the results for the U.S. markets. The coefficient on *LEARN20F* is not significant in above-median institutional holdings group. On the contrary, the coefficient on *LEARN20F* is positive and significant at the 5% level in below-median institutional holdings group. Overall, our results in the U.S. markets are consistent with the SEC's consideration of the different ability to understand and adjust for differences between U.S. GAAP and IFRS for different investor groups. In Panel B of Table 7, we do not find any evidence that earnings reconciliation is associated with abnormal trading volume in the local markets for either investor group.

Insert Table 7 Here

First-time IFRS users

Lastly, we investigate whether first-time and continuous IFRS users have different trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP. First-time IFRS users are foreign firms that use IFRS as the primary accounting standards for the first time in their 20-Fs and reconcile to U.S. GAAP. Continuous IFRS users have used IFRS before in their 20-Fs and reconcile to U.S. GAAP. Investors of a first-time

IFRS user might lack the experience of using IFRS-based financial statements and of understanding the differences between IFRS and U.S. GAAP, hence creating the divergence of beliefs among individual investors. We separate first-time IFRS users from continuous IFRS users in Table 8. Panel A reports the results for the U.S. markets. The numbers of first-time and continuous IFRS users are 103 and 117, respectively.¹² We find that the significant coefficient on *LEARN20F* only exists for first-time IFRS users, but not for continuous filers. This is consistent with the view that U.S. investors can learn over time about the differences between IFRS and U.S. GAAP and understand better the IFRS-based financial statements without reconciliation after the first time use of IFRS. We also show the results of such partition for the local markets in Panel B. Again, neither coefficient on *LEARN20F* is significant.

Insert Table 8 Here

5. Conclusion

The U.S. SEC approved in December 2007 to eliminate the reconciliation requirement for foreign firms that prepare financial statements under IFRS as issued by the IASB (SEC 2007d). This is a significant step towards global convergence. It is worthwhile to examine whether the earnings reconciliation is still useful in investors' trading decision since 2005 and under what circumstances earnings reconciliation may or may not possess its information content to the U.S. and local investors.

To answer these questions, we examine the short-term trading volume reaction to the earnings reconciliation from IFRS to U.S. GAAP, using the data from 2005 to 2006. We find that the magnitude of earnings reconciliation from IFRS to U.S. GAAP is positively and significantly associated with abnormal trading volume in the U.S. markets

around Form 20-F filing dates. In addition, the short-term trading volume reaction in the U.S. markets to the earnings reconciliation is weaker for firms that use IFRS as issued by the IASB than for firms that use other versions of IFRS. Further, the trading volume reaction in the U.S. markets is driven by firms with low institutional holdings and first-time IFRS users. However, we do not find any relation between earnings reconciliation from IFRS to U.S. GAAP and abnormal trading volume in the local markets.

Overall, we conclude that investors in the U.S. markets still find earnings reconciliation from IFRS to U.S. GAAP informative in their trading decision. However, the information content of earnings reconciliation to traders in the U.S. markets is lower for firms that prepare financial statements under IFRS as issued by the IASB and disappears for high institutional holdings firms and continuous IFRS users. Our evidence, combined with the evidence in previous research that earnings reconciliation from IFRS to U.S. GAAP is still value relevant in the U.S. markets (e.g., Henry et al. 2008; Gordon et al. 2008), should be of interest to the SEC when evaluating the efficacy of its final rule and contemplating to allow the use of IFRS by U.S. domestic firms. More specifically, our study shows some justification for the SEC position requiring no reconciliation only for foreign firms that use IFRS as issued by the IASB.

Some unanswered questions remain in this study. First, we show that investors in the U.S. markets find earnings reconciliation from IFRS to U.S. GAAP informative in their trading decision to some degree. Given the usefulness of earnings reconciliation from IFRS to U.S. GAAP to U.S. investors, why the SEC approves eliminating the reconciliation requirement? What is on the other side of the equation that supports the SEC's action? One possible reason could be that U.S. markets may lose the ability to

attract more foreign firms due to the reconciliation requirement. The results of our study point to another possible reason. Those at SEC may believe that complete compliance with IFRS as issued by the IASB and education and training over future years should eliminate the information content of reconciliation. Second, as the SEC removes the reconciliation requirement, one can test that, absent earnings reconciliation from IFRS to U.S. GAAP, whether U.S. investors can compare financial information prepared under IFRS with that under U.S. GAAP efficiently.

Endnotes

1. Although much more foreign firms adopted IFRS since 2005, the final sample only consists of around 220 firm-years from 2005 to 2006. Compared with thousands of U.S. domestic firms, this sample is a small subset of all U.S.-listed firms.
2. We also cumulate the median-adjusted trading volume over 2-, 4-, and 5-day windows and we obtain similar results.
3. Similar to CS, we add a small constant term 2.55E-07 to the price deflated earnings reconciliation before taking natural logarithm. This is done to avoid taking the log of zero. The smallest number before taking natural logarithm is 3.46E-05. The result of adding 2.55E-08 or 2.55E-09 is similar.
4. Similarly, we add a small constant term 2.55E-09 to the price deflated book value reconciliation before taking natural logarithm. The smallest nonzero number before the log is 9.76E-07. The result of adding 2.55E-10 or 2.55E-11 is similar.
5. As a sensitivity test, we also define *LSIZE* as the natural logarithm of market value of equity for the whole firm. *LSIZE* is positive and insignificant in the U.S. markets and positive and significant at the 10% level in the local markets. The result on the test variable does not change. Hence, measuring *LSIZE* in terms of U.S. markets yields better results for *LSIZE* in the U.S. markets in Table 4.
6. The website address is <http://www.sec.gov/divisions/corpfin/internatl/companies.shtml>.
7. We use the Compustat Global database to obtain the stock market data in the local markets, while CS rely on the Datastream database to get the local data. Our number of observations in the local markets is very close to that in the U.S. markets by using the Compustat Global database. The former number is much lower than the latter number in CS (156 vs 201) by using the Datastream database.
8.
$$LEARN20F = LOG \left| \frac{(EARN_{U.S.GAAP} - EARN_{IFRS}) / \text{number of shares outstanding}}{\text{market value of equity} / \text{number of shares outstanding}} \right|$$
, so the difference in *LEARN20F* between U.S. and local markets is due to the difference in market value of equity between two markets. The same logic applies to *LBV20F*.
9. The coefficient on *LEARN20F* is positive and significant in the U.S. markets and negative and insignificant in the local markets when we restrict our sample to EU firms only.
10. We obtain qualitatively the same results when we eliminate *ABSRET* from the regressions.
11. Our results do not change if we employ Newey-West tests to correct for the standard errors in pooled data rather than adding the year dummy.
12. The number of first-time IFRS users is equal to the number of the observations in year 2005 for the U.S. markets. However, only 72 out of 103 observations are both first-time IFRS users and in year 2005 for the U.S. markets. To ensure that our results are not driven by the year effect, we control for the year effect in either regression (the results on the year dummy are not reported in the table).

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TABLE 1
Sample distribution by country and year

Panel A: Sample distribution for the U.S. markets

Country	year 2005	year 2006	Total
Australia	2	10	12
Austria	0	1	1
Belgium	1	1	2
Bermuda	1	1	2
China	9	8	17
Denmark	2	2	4
Finland	4	4	8
France	12	13	25
Germany	7	5	12
Hungary	1	1	2
Ireland	3	5	8
Italy	7	5	12
Luxembourg	4	4	8
Mexico	1	1	2
Netherlands	8	11	19
New Zealand	0	1	1
Norway	1	0	1
Papua New Guinea	1	0	1
Portugal	2	1	3
Russia	1	1	2
South Africa	0	3	3
Spain	6	5	11
Sweden	2	2	4
Switzerland	3	4	7
Turkey	0	1	1
United Kingdom	25	27	52
Total	103	117	220

(This table is continued on the next page)

TABLE 1 (Continued)

Panel B: Sample distribution for the local markets			
Country	year 2005	year 2006	Total
Australia	4	10	14
Austria	0	1	1
Belgium	1	1	2
Bermuda	1	1	2
China	8	7	15
Denmark	3	2	5
Finland	4	4	8
France	12	11	23
Germany	6	6	12
Hungary	1	1	2
Ireland	2	5	7
Italy	7	5	12
Luxembourg	2	2	4
Mexico	0	0	0
Netherlands	8	12	20
New Zealand	0	1	1
Norway	1	0	1
Papua New Guinea	1	1	2
Portugal	2	1	3
Russia	0	1	1
South Africa	0	3	3
Spain	6	3	9
Sweden	3	3	6
Switzerland	3	4	7
Turkey	0	0	0
United Kingdom	27	29	56
Total	102	114	216

TABLE 2
Descriptive statistics

Panel A: Descriptive statistics for the U.S. markets (n = 220)					
Variable	Mean	Std Dev	Q1	Median	Q3
<i>ABVOL</i>	0.876	1.853	-0.073	0.282	1.122
<i>LEARN20F</i>	-2.228	2.781	-3.250	-2.071	-0.758
<i>LBV20F</i>	-0.549	2.352	-1.685	-0.257	0.784
<i>LSIZE</i>	6.510	2.063	5.360	6.644	7.888
<i>ABSRET</i>	0.028	0.031	0.009	0.020	0.037
<i>VOLATILITY</i>	0.018	0.009	0.012	0.016	0.020
Panel B: Descriptive statistics for the local markets (n = 216)					
Variable	Mean	Std Dev	Q1	Median	Q3
<i>ABVOL</i>	0.499	0.983	-0.093	0.194	0.850
<i>LEARN20F</i>	-5.045	2.069	-5.713	-4.700	-4.013
<i>LBV20F</i>	-3.431	1.560	-4.437	-3.395	-2.314
<i>LSIZE</i>	9.437	1.818	8.630	9.710	10.801
<i>ABSRET</i>	0.024	0.021	0.009	0.020	0.031
<i>VOLATILITY</i>	0.017	0.009	0.011	0.015	0.021

Variables are defined as bellows:

<i>ABVOL</i>	=	cumulative median-adjusted daily percentage of outstanding shares traded from day -1 to day +1, where day 0 is the Form 20-F filing date;
<i>LEARN20F</i>	=	the natural logarithm of the absolute value of the difference between earnings per share under U.S. GAAP and earnings per share under IFRS, deflated by the price per share on day -2, where day 0 is the Form 20-F filing date;
<i>LBV20F</i>	=	the natural logarithm of the absolute value of the difference between book value per share under U.S. GAAP and book value per share under IFRS, deflated by the price per share on day -2, where day 0 is the Form 20-F filing date;
<i>LSIZE</i>	=	the natural logarithm of the market value of equity on day -2, where day 0 is the Form 20-F filing date;
<i>ABSRET</i>	=	the absolute value of cumulative raw returns from day -1 to day +1, where day 0 is the Form 20-F filing date; and
<i>VOLATILITY</i>	=	the standard deviation of daily raw returns from day -47 to day -2, where day 0 is the Form 20-F filing date.

The trading volume, price, and return data used to compute variables are from the U.S. (local) markets in Panel A (B).

TABLE 3
Pearson correlations

Panel A: Pearson correlations for the U.S. markets (n= 220)

	<i>ABVOL</i>	<i>LEARN20F</i>	<i>LBV20F</i>	<i>LSIZE</i>	<i>ABSRET</i>	<i>VOLATILITY</i>
<i>LEARN20F</i>	0.224***	1.000				
<i>LBV20F</i>	0.170**	0.649***	1.000			
<i>LSIZE</i>	-0.241***	-0.210***	-0.222***	1.000		
<i>ABSRET</i>	0.183***	-0.146**	-0.165**	-0.253***	1.000	
<i>VOLATILITY</i>	0.129*	-0.051	-0.180***	-0.515***	0.488***	1.000

Panel B: Pearson correlations for the local markets (n= 216)

	<i>ABVOL</i>	<i>LEARN20F</i>	<i>LBV20F</i>	<i>LSIZE</i>	<i>ABSRET</i>	<i>VOLATILITY</i>
<i>LEARN20F</i>	-0.030	1.000				
<i>LBV20F</i>	0.020	0.465***	1.000			
<i>LSIZE</i>	0.176**	0.083	0.104	1.000		
<i>ABSRET</i>	0.245***	-0.044	0.036	-0.289***	1.000	
<i>VOLATILITY</i>	-0.093	-0.070	-0.128*	-0.674***	0.357***	1.000

***, **, * Significant at the 1%, 5%, and 10% levels, respectively, two-tailed tests.

See Table 2 for variable definitions.

TABLE 4

Regression of trading volume on earnings reconciliation information: Full sample

Panel A: regression for the U.S. markets

Variable	Predicted Sign	Coefficient (t-statistic)
<i>Intercept</i>	?	2.017 (2.89)***
<i>LEARN20F</i>	+	0.143 (2.50)***
<i>LBV20F</i>	+	0.031 (0.44)
<i>LSIZE</i>	-	-0.138 (-1.91)**
<i>ABSRET</i>	+	12.634 (2.79)***
<i>VOLATILITY</i>	?	-3.711 (-0.21)
Adjusted R ²		10.67%
N		220

Panel B: regression for the local markets

Variable	Predicted Sign	Coefficient (t-statistic)
<i>Intercept</i>	?	-0.956 (-1.59)
<i>LEARN20F</i>	+	-0.011 (-0.31)
<i>LBV20F</i>	+	0.006 (0.12)
<i>LSIZE</i>	-	0.134 (2.87)***
<i>ABSRET</i>	+	15.618 (4.88)***
<i>VOLATILITY</i>	?	-3.028 (-0.31)
Adjusted R ²		13.37%
N		216

***, **, * Significant at the 1%, 5%, and 10% levels, respectively (one-tailed tests when signs are predicted and two-tailed tests otherwise). See Table 2 for variable definitions. We control for the possible year effect, but the results on the year dummy are not reported to save space.

TABLE 5
Mean-adjusted or market-adjusted trading volume: Full sample

Panel A: Mean-adjusted or market-adjusted trading volume for the U.S. markets

Variable	Predicted Sign	Mean-adjusted trading volume	Market-adjusted trading volume
		Coefficient (t-statistic)	Coefficient (t-statistic)
<i>Intercept</i>	?	1.348 (2.05)**	-1.449 (-1.66)*
<i>LEARN20F</i>	+	0.138 (2.56)***	0.155 (2.17)**
<i>LBV20F</i>	+	0.005 (0.08)	0.108 (1.24)
<i>LSIZE</i>	-	-0.069 (-1.01)	0.068 (0.75)
<i>ABSRET</i>	+	13.920 (3.27)***	8.384 (1.48)*
<i>VOLATILITY</i>	?	-26.770 (-1.57)	64.956 (2.87)***
Adjusted R ²		7.16%	9.62%
N		220	220

Panel B: Mean-adjusted trading volume for the local markets

Variable	Predicted Sign	Coefficient (t-statistic)
<i>Intercept</i>	?	-1.327 (-2.20)**
<i>LEARN20F</i>	+	-0.018 (-0.54)
<i>LBV20F</i>	+	-0.014 (-0.30)
<i>LSIZE</i>	-	0.143 (3.06)***
<i>ABSRET</i>	+	16.483 (5.14)***
<i>VOLATILITY</i>	?	-9.563 (-0.98)
Adjusted R ²		16.49%
N		216

***, **, * Significant at the 1%, 5%, and 10% levels, respectively (one-tailed tests when signs are predicted and two-tailed tests otherwise). See Table 2 for variable definitions except that the dependent variable is mean-adjusted or market-adjusted trading volume.

We control for the possible year effect, but the results on the year dummy are not reported to save space.

TABLE 6

Partitioned results on firms using IFRS as issued by the IASB and other versions of IFRS

Panel A: Partitioned results for the U.S. markets

Variable	Predicted Sign	IFRS as issued by the IASB Coefficient (t-statistic)	Other versions of IFRS Coefficient (t-statistic)
<i>Intercept</i>	?	1.299 (1.34)	1.804 (1.70)*
<i>LEARN20F</i>	+	0.098 (1.48)*	0.247 (2.21)**
<i>LBV20F</i>	+	0.107 (1.25)	-0.147 (-1.13)
<i>LSIZE</i>	-	-0.098 (-1.02)	-0.100 (-0.90)
<i>ABSRET</i>	+	22.618 (3.98)***	-4.137 (-0.55)
<i>VOLATILITY</i>	?	-3.659 (-0.14)	33.658 (1.24)
Adjusted R ²		16.25%	12.78%
N		134	86

Panel B: Partitioned results for the local markets

Variable	Predicted Sign	IFRS as issued by the IASB Coefficient (t-statistic)	Other versions of IFRS Coefficient (t-statistic)
<i>Intercept</i>	?	-1.674 (-1.89)*	-0.385 (-0.49)
<i>LEARN20F</i>	+	-0.059 (-1.26)	0.042 (0.81)
<i>LBV20F</i>	+	-0.062 (-0.98)	0.040 (0.60)
<i>LSIZE</i>	-	0.161 (2.41)***	0.102 (1.62)*
<i>ABSRET</i>	+	20.629 (4.78)***	9.617 (2.03)**
<i>VOLATILITY</i>	?	-10.831 (-0.70)	9.445 (0.75)
Adjusted R ²		17.72%	8.71%
N		123	93

***, **, * Significant at the 1%, 5%, and 10% levels, respectively (one-tailed tests when signs are predicted and two-tailed tests otherwise). See Table 2 for variable definitions.

We control for the possible year effect, but the results on the year dummy are not reported to save space.

TABLE 7

Partitioned results on firm with high and low institutional holdings

Panel A: Partitioned results for the U.S. markets			
Variable	Predicted Sign	High institutional holdings Coefficient (t-statistic)	Low institutional holdings Coefficient (t-statistic)
<i>Intercept</i>	?	1.153 (1.41)	2.606 (2.18)**
<i>LEARN20F</i>	+	0.054 (0.76)	0.195 (2.24)**
<i>LBV20F</i>	+	-0.011 (-0.15)	0.020 (0.16)
<i>LSIZE</i>	-	-0.045 (-0.53)	-0.176 (-1.29)
<i>ABSRET</i>	+	7.196 (1.55)*	19.392 (2.41)***
<i>VOLATILITY</i>	?	-19.883 (-0.88)	-15.098 (-0.49)
Adjusted R ²		-1.77%	10.76%
N		110	110
Panel B: Partitioned results for the local markets			
Variable	Predicted Sign	High institutional holdings Coefficient (t-statistic)	Low institutional holdings Coefficient (t-statistic)
<i>Intercept</i>	?	0.031 0.04	-2.008 (-2.22)**
<i>LEARN20F</i>	+	-0.005 (-0.09)	-0.019 (-0.41)
<i>LBV20F</i>	+	0.014 (0.22)	0.003 (0.04)
<i>LSIZE</i>	-	0.053 (0.79)	0.225 (3.19)***
<i>ABSRET</i>	+	18.834 (4.42)***	13.318 (2.75)***
<i>VOLATILITY</i>	?	-21.366 (-1.59)	14.263 (0.99)
Adjusted R ²		14.83%	11.88%
N		108	108

***, **, * Significant at the 1%, 5%, and 10% levels, respectively (one-tailed tests when signs are predicted and two-tailed tests otherwise). See Table 2 for variable definitions.

We control for the possible year effect, but the results on the year dummy are not reported to save space.

TABLE 8
 Partitioned results on first-time and continuous IFRS users

Panel A: Partitioned results for the U.S. markets

Variable	Predicted Sign	First-time IFRS users	Continuous IFRS users
		Coefficient (t-statistic)	Coefficient (t-statistic)
<i>Intercept</i>	?	1.282 (1.21)	2.382 (2.45)**
<i>LEARN20F</i>	+	0.175 (2.10)**	0.106 (1.28)
<i>LBV20F</i>	+	0.118 (1.07)	-0.018 (-0.19)
<i>LSIZE</i>	-	-0.082 (-0.68)	-0.160 (-1.58)*
<i>ABSRET</i>	+	17.112 (2.42)***	8.779 (1.44)*
<i>VOLATILITY</i>	?	7.947 (0.29)	-16.342 (-0.64)
Adjusted R ²		18.73%	0.50%
N		103	117

Panel B: Partitioned results for the local markets

Variable	Predicted Sign	First-time IFRS users	Continuous IFRS users
		Coefficient (t-statistic)	Coefficient (t-statistic)
<i>Intercept</i>	?	-0.946 (-1.55)	-0.788 (-0.66)
<i>LEARN20F</i>	+	-0.009 (-0.26)	-0.016 (-0.24)
<i>LBV20F</i>	+	-0.004 (-0.09)	0.029 (0.36)
<i>LSIZE</i>	-	0.109 (2.23)**	0.137 (1.48)*
<i>ABSRET</i>	+	15.422 (4.37)***	25.374 (2.77)***
<i>VOLATILITY</i>	?	-4.090 (-0.41)	-6.410 (-0.35)
Adjusted R ²		14.75%	5.65%
N		109	107

***, **, * Significant at the 1%, 5%, and 10% levels, respectively (one-tailed tests when signs are predicted and two-tailed tests otherwise). See Table 2 for variable definitions.

We control for the possible year effect, but the results on the year dummy are not reported to save space.