

Economic Consequences of IFRS Adoptions around the ASEAN Countries

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ABSTRACT

This study examines whether mandatory adoption of international financial reporting standards (IFRS) in ASEAN countries reduces asymmetric information and cost of equity and whether the effect depends on the number of analysts following and public governance. Using data of companies that are listed in ASEAN stock exchanges before and after adoption of IFRS in each country, along with purposive sampling and panel data analysis, this study finds evidence that the mandatory adoption of IFRS reduces both asymmetric information and cost of equity. The reduction of asymmetric information is less pronounced for firms with higher analyst following. In addition, better public governance and higher number of analyst following tend to intensify the reduction of cost of equity due to mandatory IFRS adoption. Public governance and analysts play important roles in the benefits of IFRS implementation. Thus, organizations should increase quality of disclosure on financial statements to improve the ability of the public and analysts in processing information in financial statements.

Keywords: IFRS, Information Asymmetry, Cost of Capital, Analyst Following, Public Governance.

JEL Classification: M40, M41

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INTRODUCTION

Prior to the adoption of international accounting standards, countries have typically followed different accounting standards for preparing financial statements. These differences have made it difficult for foreign investors to evaluate the financial statements of these particular firms. The adoption of the International Financial Reporting Standards (IFRS) is expected to improve the usefulness of financial statements, increase the quality of financial information, increase comparability and transparency, and fulfill the needs of international users of financial information (Rezaee *et al.*, 2010).

Because the IFRS commonly requires the disclosure of more information than domestic accounting standards (Wright & Hobbs, 2010), shifting to the IFRS involves certain costs (Taylor, 2009). IFRS adoption also involves a cost–benefit trade-off between recurring comparability benefits for investors, recurring future cost savings that accrue primarily to multinational companies, and one-time transition costs borne by all firms and the economy as a whole, including those from adjustments to institutions (Hail *et al.*, 2010b).

Previous research on IFRS has examined the economic consequences of the application of IFRS. Some studies have found that the IFRS has positive economic consequences for companies (Beuselinck *et al.*, 2009; Daske *et al.*, 2008; Florou & Kosi, 2009), while others have found that it does not (Clarkson *et al.*, 2011). Leuz and Verrecchia (2000) and Lambert *et al.* (2007) argued that IFRS adoption, as part of a serious commitment to transparency, could reduce information asymmetry, uncertainty, and estimation risk and, hence, should be rewarded with lower costs of capital and higher market liquidity.

Existing studies revealed that the adoption of IFRS reduces information asymmetry (Daske *et al.*, 2008; Daske *et al.*, 2013) as well as cost of equity (Li, 2010; Daske *et al.*, 2008; Daske *et al.*, 2013). Most of these studies, however, are conducted in developed countries in which the quality of public governance is much better than in developing countries. Thus, it is an empirical question if the reduction of information asymmetry and costs of capital due to IFRS adoption still holds in countries with relatively poor public governance. Because convergence toward the adoption of IFRS has advantages and disadvantages (Jeanjean & Stolowy, 2008), the effect of these outcomes may have different impacts on developed and developing countries. The IFRS Foundation has recognized the need to understand the impact of IFRS adoption in different parts of the world.

A number of studies (Daske *et al.*, 2013; Lang & Lundholm, 1996; Yu, 2008) suggest and find that companies that are followed by a higher number of analysts have higher reporting incentives and more transparent reporting than those that are followed by a fewer number of analysts. Given this information incentive monitoring by analysts, it is an empirical question of whether the impact of IFRS adoption on information asymmetry and cost of equity depends on reporting incentives of the companies, proxied by the number of analysts following.

Based on the above explanation, the objectives of this study are (a) to examine whether the adoption of International Financial Reporting Standards (IFRS) reduces asymmetric information and cost of equity, and (b) whether the impact of the adoption depends on the quality of public governance and the number of analyst following.

This study chooses publicly listed companies in ASEAN countries as its samples for the following reasons:

1. ASEAN is now in its early stages of undergoing regional economic cooperation, namely, the ASEAN Economic Community (AEC). The integration of capital markets is one of AEC's agendas that will have an impact on the growing need for high-quality and comparable financial information.
2. The implementation of a set of international accounting standards such as the IFRS is expected to improve the quality and comparability of ASEAN financial statements. Recent studies indicate that some ASEAN countries have already adopted the IFRS in order to integrate with the world economy (Yapa *et al.*, 2011). Indeed, the adoption of IFRS in ASEAN countries is an interesting research topic because the majority of ASEAN countries adopt the IFRS by retaining equivalent local accounting standards.¹ These standards are reportedly equivalent to those of the IFRS, considering that the local accounting standards comply with the IFRS with the exception of a few differences. Some of these differences are considered acceptable. For example, even though the EU claims to be fully adopting the IFRS, there are still some variations or exceptions in applying IFRS to certain aspects of financial asset accounting.
3. To date, IFRS adoption studies that focus on ASEAN countries are limited, including research on Malaysia (Yeow & Mahzan, 2013), Vietnam (Phan *et al.*, 2014; Phan & Mascitelli, 2014), and Indonesia (Wahyuni, 2013).
4. The governance quality of countries in ASEAN varies significantly. Based on the governance index published by the World Bank (2015), Singapore is considered among the best in the world, while Indonesia and the Philippines have governance indexes that are below the world average. This high variation in governance quality provides an avenue in which to examine the impact of public governance quality on economic consequences of IFRS.

The main contributions of this study are as follows:

- a. This study is among the first to provide empirical evidence of IFRS adoption in ASEAN countries. Existing studies tend to focus on adoption in EU countries. Moreover, in previous research, ASEAN countries are not considered to be IFRS adopters (Daske *et al.*, 2008; Defond *et al.*, 2011) because ASEAN countries retain use of their local accounting standards. However, the local standards have been revised to fully comply with the IFRS, with no significant difference.² This study argues that, to determine the comprehensive impact of the IFRS, countries that adopt the IFRS through their local accounting standards also should be considered as IFRS adopters. Therefore, this study contributes in investigating the impact of IFRS adoption in countries that adopt the IFRS by retaining their IFRS-equivalent local accounting standards.

¹ Based on adoption status information obtained from the IFRS official website, accounting standards in all ASEAN countries have their own name. In Malaysia, they are called MFRS; in Singapore, they are called SFRS; in Indonesia, they are called PSAK; and in the Philippines, they are called PFRS.

² <https://www.pwc.com/my/en/assets/publications/pwcalert93.pdf> (Malaysia);
<https://www.pwc.com/sg/en/illustrative-annual-report-2006/assets/3-comparison.pdf> (Singapore);
<https://www.pwc.com/id/en/publications/assets/assurance/ifrs-psak-comparison-2014.pdf> (Indonesia)

- b. This study also identifies differences in demands for information quality that may lead to different economic consequences of IFRS adoption at the firm level. The proxy used in this study to capture differences in demands for information quality is the number of analysts following a given company. Companies followed by more analysts face higher demands for information quality and, thus, may face more intense economic consequences of IFRS adoption than companies with smaller analyst followings. Yu (2008) suggested that financial analysts play a monitoring role and, thus, represent higher demands for higher information quality.
- c. To the authors' best knowledge, this study is the first study that investigates the moderating effect of public governance quality on the impact of IFRS adoption on asymmetric information and cost of equity.

THE CONVERGENCE OF IFRS IN ASEAN COUNTRIES

Five countries are regarded as the representatives of the ASEAN given that these member states are the largest in the association. These nations have accounting systems that are considered more advanced than those of other member countries, such as Brunei, Vietnam, Laos, Cambodia, and Burma, which do not even have a stock exchange. The five representative ASEAN members are as follows:

Indonesia

The United States heavily influenced the development of Indonesia's accounting standards. The Indonesian Accounting Principles were formulated in 1973 on the basis of the standards published by the American Institute of Certified Public Accountants (Perera & Baydoun, 2007).

In 1994, the Financial Accounting Standards Board used the IAS as its main reference in establishing the principles that govern financial transactions. Other standards were the original formulations of the FASB, and a few were based on the US Generally Accepted Accounting Principles (www.adoptifrs.org). In total, 28 IAS were adopted, among which 17 were based on the US GAAP standards and 11 were original FASB principles (Saudagaran & Diga, 2000; Saudagaran, 2004).

Starting in 2007, Indonesia implemented a program designed to gradually converge its standards into the IFRS. The country actively revised most of its accounting standards until its formal declaration that such standards have been fully converged into the IFRS and are started by 2012. In domestic settings, Indonesia continues to adhere to the local accounting standards (i.e., PSAK) despite its substantial convergence into the IFRS. The capital market authority in Indonesia requires all listed companies to prepare financial statements in accordance with the IFRS.

Malaysia

The UK (United Kingdom) heavily influenced the development of Malaysia's accounting standards. After the establishment of the IAS Committee (IASC) in 1973, Malaysia became one of the first ASEAN countries to adapt the IAS to local standards (Saudagaran & Diga, 2000). In 1977, Malaysia began publishing local accounting standards, which were based on the IAS,

but several of the standards were excluded in the adaptation. Such standards include those on inventory accounting, depreciation, inflation, government grants, business combinations, special party disclosure, and accounting for financial institutions. Malaysia established its own regulations for the insurance and aquaculture industries. Some of its standards also were grounded in those used by Australia, Canada, New Zealand, the US, and the UK (Saudagaran, 2004). Malaysia's standards have been substantially converged into the IFRS since January 1, 2005. The country also revised the numbering of its standards for correspondence with related IAS or IFRS codes. In domestic settings, however, it continues to adhere to the local equivalent of the IFRS, namely, the Malaysian Financial Reporting Standards.

Singapore

Similar to the accounting history of Malaysia, that of Singapore was heavily influenced by the UK. After the 1973 establishment of the IASC, it also adapted the IAS to local standards in the mid-1970s (Saudagaran & Diga, 2000). In 1977, Singapore local accounting standards, which were based on the IAS, began to be published, but several of the standards were excluded due to the inappropriateness for the Singaporean context.

The convergence of accounting standards in Singapore also proceeded gradually. Since 2003, all companies have been required to apply the Singapore Financial Reporting Standards (SFRS), which are considerably similar to those of the IFRS. In January 1, 2005, the SFRS was already equivalent to the IFRS; that same year, the country implemented full convergence into the IFRS. The year 2012 was the final stage of the convergence process in the country (PWC, 2012).

Thailand

In 1997, Thailand began referring to the IAS (www.adoptifrs.org) after initially using the US GAAP as the basis for its accounting principles. At the time, 17 of the country's 23 accounting standards were based on the IAS (Saudagaran & Diga, 2000) and partly grounded in the US GAAP for dimensions that are not regulated by the IAS (Saudagaran, 2004).

In 2011, Thailand announced that it would fully implement the IFRS for all companies that are listed in the Stock Exchange of Thailand (SET) 50 Index. In 2013, this implementation was expanded to companies listed in the SET 100 Index. The IFRS adopted in the country was published in 2009 (World Bank, 2008).

Philippines

At the beginning of the development of accounting standards in the Philippines, the country used the US GAAP as reference. It then began formulating its local standards in the 1980s, again with reference to the US GAAP. After 1990, several standards were based on the IAS (Saudagaran & Diga, 2000); in 1997, the country fully shifted to these principles as its standard reference (www.adoptifrs.org). In 2005, the Philippines fully adopted the IFRS issued by the IAS Board. The initial application was characterized by some differences or exceptions; for example, some standards were implemented later in 2006 for insurance and mining companies (PWC, 2012). In domestic settings, the Philippines maintains the use of its IFRS-based local standards, namely, the Philippine Financial Reporting Standards.

LITERATURE REVIEW

Brüggemann (2013) investigated the intended and the unintended economic consequences of the mandatory adoption of the IFRS in the EU and concluded that the study on the intended consequences generally fails to document an increase in the comparability and transparency of financial statements. On the other hand, there is a lot of evidence of positive impact of adoption IFRS on capital markets and the macroeconomic environment.

Barth and Lang (2005) conducted a study of 21 countries that had adopted the IFRS and found that the quality of accounting following IFRS adoption increased at the lower level of earnings management and that companies' recognitions of losses were more timely. Verriest *et al.* (2010) examined the disclosure of financial statements in order to determine the quality of disclosures following the adoption of the IFRS and found that, during initial IFRS adoption, financial statement disclosure quality was higher among companies with strong corporate governance mechanisms. Beuselinck *et al.* (2009) examined the content of the (public and private) information in analysts' accuracy of earnings estimates for companies that had adopted the IFRS in Europe between 2003 and 2007. Their results showed that the content of both public and private information increased following IFRS adoption.

Furthermore, Daske *et al.* (2009) investigated the effects of IFRS adoption on estimating capital cost. Their results suggested that the benefits of IFRS adoption, with respect to lowering the cost of capital, are achieved only in cases involving high levels of incentives for financial reporting. Daske *et al.* (2009) distinguished countries into two groups: "serious adopters," which are expected to achieve better financial transparency through the IFRS, and "label adopters," which had no incentive to report due to receiving little or no benefit from IFRS adoption.

Beuselinck *et al.* (2009) examined whether IFRS adoption boosted stock price informativeness, according to the stock return synchronicity criteria, and found that the adoption of IFRS increases analysts' ability to predict stock prices and lowers the amount of private information typically used by and benefiting institutional investors.

Furthermore, with respect to the cost of capital, Florou and Kosi (2009) found that the adoption of the IFRS is associated with the increased issuance of debt instruments to the public and a lower cost of debt.

Inconsistencies in improvements to the quality of financial reporting information following IFRS adoption are caused not only by a lack of expertise among researchers and auditors but also by the situation of "pseudo adoption," as defined by Daske *et al.* (2009). Accounting regulations are not always effective because they depend on country-specific reporting incentives and enforcements. Reporting incentives could arise from an increased need for standards due to a lack of expertise in preparing local accounting standards and the presence of multinational companies and international auditors. Incentives also may arise from a need to produce high-quality financial reporting due to the potential growth of companies and financing needs.

HYPHOTHESIS DEVELOPMENT

IFRS and Information Asymmetry

Bradshaw *et al.* (2004) suggested that accounting diversity could hinder cross-border investment. Covrig *et al.* (2007) similarly found that the global movement toward the IFRS could facilitate cross-border investment and the integration of capital markets. Increasing the ease with which foreign investors can invest in a country's firms could improve the liquidity of capital markets.

Arguments about the benefits of IFRS adoption for the stock market often start from the premise that the IFRS could improve the transparency and quality of financial reporting. The IFRS is more oriented toward the capital markets, and it generates more comprehensive information, particularly with respect to disclosures, than other local accounting standards. Barth *et al.* (2008) found that earnings quality increases following IFRS adoption. These findings support this premise. Daske and Gebhardt (2006) also found results related to perceptions of disclosure quality. Furthermore, the IFRS is more comprehensive than most local GAAP (Ding *et al.*, 2007). If it is assumed that the premise is true, previous studies suggest that making the IFRS mandatory can improve market liquidity. Daske *et al.* (2008) studied the economic consequences of IFRS adoption and found that IFRS stimulates an increase in market liquidity (measured by the bid-ask spread and the volume of sales). Their study sampled several EU countries, and the results held only for countries with high reporting incentives and high levels of enforcement. Thus, we conclude that the IFRS increases the quality of financial reporting and disclosure, which may reduce the adverse selection problem in the stock market, and reduces estimation risk and information asymmetry. Based on that argument, the hypothesis proposed is:

H1: IFRS adoption decreases the level of information asymmetry

IFRS and Cost of Equity

Li (2010) stated that the adoption of IFRS is expected to reduce the cost of equity because the IFRS provides higher disclosure of financial information than the local standard (Ashbaugh & Pincus, 2001), and the increase of this disclosure will be able to reduce the cost of capital (Botosan, 1997). In addition, with the adoption of IFRS, the accounting standards will be uniform; thus, enhancing the comparability of financial information between companies, it is expected to decrease the cost of equity (Armstrong *et al.*, 2010).

The quality of financial reports affects the cost of capital through its influence on information risk, a measure that is frequently considered by investors assessing companies for information asymmetry (Easley & O'Hara, 2004). Several previous studies have found that information risk is important to such investors (Barth *et al.*, 2013; Francis *et al.*, 2004; Verdi, 2006). For example, Easley and O'Hara (2004) showed that investors demand higher yields from companies with more private information because high levels of private information can increase the risk of investors being uninformed. Informed investors can alter their investment portfolios in response to new information; uninformed investors, however, cannot. Quality and transparency in financial statements reduce adverse selection problems and risk estimation (Daske, 2008), thus affecting the cost of capital.

The quality of financial statements also can affect the cost of equity through its influence on information asymmetry. When the quality or transparency of a report is low, financial investors will search for private information, which may involve additional costs. The cost of finding information varies among investors and companies, thereby increasing information asymmetry (Barth *et al.*, 2013). Past research shows that information asymmetry has a positive effect on the cost of equity (Diamond & Verrecchia, 1991).

As previously mentioned, in most countries, the IFRS improves the transparency and quality of financial statements compared to local accounting standards (Daske, 2008). Better quality and more transparent financial statements lower uncertainties related to equity value and decrease costs of equity. Based on that argument, the hypothesis proposed is:

H2: IFRS Adoption decreases the level of cost of equity

The Moderation Effect of Analyst Following

IFRS adoption is likely to have an impact on both analyst followings and analysts' information sets. Prior research suggests that analysts are involved primarily in the production of common information rather than in the costly acquisition of firm-specific private information (Chan & Hameed, 2006; Ferreira & Laux, 2007; Piotroski & Roulston, 2004).

Daske *et al.* (2013) suggested that analyst followings reflect reporting incentives for companies, meaning that larger analyst followings have higher demands related to information quality. Similarly, Lang and Lundholm (1996) showed that analyst coverage is related to more transparent reporting. Yu (2008) suggested that financial analysts play a monitoring role, such that larger analyst followings indicate stronger incentives to implement transparent reporting.

Tan *et al.* (201) found that IFRS adoption increases foreign analyst forecast accuracy and also attracts more local analysts with prior IFRS experience and international portfolios prior to mandated IFRS adoption in their home country. Horton *et al.* (2013) found that IFRS adoption decreases consensus forecast error; thus, improvement in the information environment is driven by information and comparability effects.

As previously mentioned, the IFRS enhances the quality of information. Because larger analyst followings have higher demands on information quality, the benefits of adopting of IFRS should intensify in firms with large analyst followings. Therefore, with respect to analysts' monitoring role, the impact of IFRS adoption on information asymmetry will be greater for firms with high analyst followings. Based on that argument, the following hypothesis is:

H3: Impact of IFRS adoption on information asymmetry is higher for firms with higher number of analyst following

Consistent with the previous explanation that analyst followings play a monitoring role in reflecting the demands on information quality, the impact of IFRS adoption on the cost of equity is expected to be greater in companies with large analyst followings (Daske *et al.*, 2013). Daske *et al.* (2013) captured changes in the external reporting environment using the number of analysts following a firm. The idea is that scrutiny by analysts and markets also shapes management's reporting incentives to adopt IFRS. Thus, the next hypothesis is:

H4: Impact of IFRS adoption on cost of equity is higher for firms with higher number of analyst following.

Moderation Effect of Public Governance

Ball *et al.* (2003) explained the importance of the role public governance (e.g., investor protection, legal enforcement and legal system) toward the effectiveness of new accounting standards. Similarly, Pope (2010) also stated that the quality of financial reporting also is influenced by the incentives and constraints encountered by the company to comply with the standards and the effectiveness of external enforcement in monitoring financial reporting.

Byard *et al.* (2011) and Christensen *et al.* (2013) also found that benefit of adoption of IFRS is only proven in countries with strong legal enforcement mechanisms. Byard *et al.* (2011) found that forecast error and dispersion decrease more for firms with strong legal enforcement, while Christensen *et al.* (2013) found that liquidity effects are concentrated in countries that made substantive change in reporting enforcement. Bova and Pereira (2012) examine the impact of IFRS on cost of capital in Kenya, a developing country with a relatively open capital market but limited enforcement resources. The authors found that, in countries with low law enforcement, it is important to have economic incentives in shaping IFRS compliance and capital market benefit.

A number of studies find that various measures of public governance have an impact on the effectiveness of IFRS implementation, which is explained as follows. The effect of IFRS implementation is influenced by legal enforcement (Huang, 2012) and investor protection (Houque *et al.*, 2012). Li (2010) examined whether legal enforcement affects the impact of IFRS on the cost of equity and found that the reduction in the cost of equity due to the adoption of IFRS is only proven in countries with strong legal enforcement mechanisms. These studies indicate that public governance affects the enforcement and monitoring of IFRS implementation. Parties that enforce and monitor the implementation among others are the capital market regulatory body, capital market regulations, auditors, professional associations, and others.

IFRS is a principle-based standard that requires a lot of management judgment and discretion; this in turn provides a chance for management to behave opportunistically. In countries with good public governance, relevant regulators effectively enforce and supervise the implementation of IFRS; as a result, firms have to properly apply IFRS. On the other hand, in countries with poor public governance, enforcement and monitoring of the application of IFRS are not so strict. This provides an opportunity for management to take advantage of broader discretion to behave opportunistically. As a result, the benefits of the implementation of IFRS, such as reduced information asymmetry and decreased cost of equity, are predicted to primarily occur only in countries practicing good public governance. Therefore, the hypotheses are as follows:

H5: Impact of IFRS adoption on information asymmetry is higher in countries with better public governance.

H6: Impact of IFRS adoption on cost of equity is higher in countries with better public governance.

RESEARCH DESIGN

This research employs a quantitative research approach. The model is tested using panel data, which accommodate both cross-section and time-series variables. In addition, panel data substantially can reduce the omitted variables problem (Gujarati, 2003). Hausman and LM tests are performed to identify whether the suitable model uses random-effect, fixed-effect, or pooled least squares (PLS).

This research uses companies that are listed in ASEAN countries' stock exchanges from 2001 to 2014. It excludes financial companies (banks, leasing, and investments corporations) because those companies are highly regulated, and this may confound the study results.

The empirical model with information asymmetry (measured by bid-ask spread) as the dependent variable is developed from Daske (2013) with additional moderating variables (analyst following and public governance) and additional control variables (inflation rate and GDP) to control the effect of macro-country level. We also control for firm size, return variability, and share turnover (Chordia *et al.*, 2000). For the empirical model with cost-of-capital as the dependent variable, we follow Hail and Leuz (2006) and control for expected inflation, firm size, financial leverage, return variability, and forecast bias. We control for inflation because analyst forecasts are expressed in nominal terms and local currency, which implies that the resulting cost of capital estimates reflect countries' expected inflation rates.

Empirical models with information asymmetry as the dependent variable

We estimate the following model to test hypothesis 1:

$$BAS_{it} = \beta_0_{it} + \beta_1 IFRS_{it} + \beta_2 AF_{it} + \beta_3 WGI_{it} + \beta_j Controls_{it} + \varepsilon. \quad (1)$$

We estimate the following model to test hypothesis 3 and 5:

$$BAS_{it} = \beta_0_{it} + \beta_1 IFRS_{it} + \beta_2 AF_{it} + \beta_3 IFRS_{it} * AF_{it} + \beta_4 WGI_{it} + \beta_5 IFRS * WGI_{it} + \beta_j Controls_{it} + \varepsilon. \quad (2)$$

The explanation of variables is provided in Table 1. For model (2), we also run regressions with AF and WGI separately included as moderating variables.

Empirical models with cost of equity as the dependent variable

We estimate the following model to test hypothesis 2:

$$COE_{it} = \beta_0_{it} + \beta_1 IFRS_{it} + \beta_2 AF_{it} + \beta_3 WGI_{it} + \beta_4 BAS + \beta_j Controls_{it} + \varepsilon. \quad (3)$$

We estimate the following model to test hypotheses 4 and 6:

$$COE_{it} = \beta_0_{it} + \beta_1 IFRS_{it} + \beta_2 AF_{it} + \beta_3 IFRS_{it} * AF_{it} + \beta_4 WGI_{it} + \beta_5 IFRS * WGI_{it} + \beta_6 BAS + \beta_j Controls_{it} + \varepsilon. \quad (4)$$

The explanation of variables is provided in Table 1. For model (4), we also run regressions with AF and WGI separately included as moderating variables.

Table 1 Operationalization of Variables

Control Variables	Items	Proxies	Operationalisation
Independent Variable	IFRS		The study period is two years before prior to two years after IFRS adoption. We define value “1” for the year in which a country announces that it has substantially or fully adopted the IFRS. For countries that gradually converge to the IFRS (Indonesia, Malaysia, and Singapore), we assign a value of “1” to the year in which they claim that the revised standards that substantially converge to the IFRS have been enacted. To determine the point at which the IFRS has been substantially adopted to each country’s local accounting standards, we use the survey results published in PricewaterhouseCoopers’s report “IFRS adoption by countries” and the survey results concerning the status of IFRS adoption published by the IFRS Foundation (http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx)
Dependent Variable	Economic Consequence	Bid Ask Spread (BAS)	Yearly median of the daily quoted spreads, the difference between the closing bid and the ask price, divided by the midpoint. (Related study: Lang, Lins, & Maffett, 2012; Leuz & Verrecchia, 2000; Welker, 1995)
		Cost of Capital (COC)	Using CAPM model where beta have been considering the country risk premium factors, data taken from the Damodaran Website
Moderating Variable		Analyst following (AF)	Number of analyst following of a company, data taken from datastream
		Worldwide Governance Indicators (WGI)	Worldwide Governance Indicators, indicators of broad dimensions of governance: Political Stability and Absence of Violence/Terrorism, Government, Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption. The aggregate indicators are based on 31 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. Details on the underlying data sources, the aggregation method, and the interpretation of the indicators, can be found in Kaufmann et al. (2010). Data taken from http://info.worldbank.org/governance/wgi/index.aspx#home

Table 1 (Cont.)

Control Variables	BAS Model	MV (Market Value)	Stock price times the number of shares outstanding (in US\$ million)
		STO (Share Turnover)	Annual US\$ trading volume divided by market value of outstanding equity.
		RVAT (Return Variability)	The annual standard deviation of monthly stock returns
		INFL (Inflation)	Inflation rate for every country, from Bloomberg
		GDP: Gross Domestic Product	GDP/Cap
	COC Model	TA (Total Asset)	Total Assets are denominated in US\$ million
		STO (Share Turnover)	Annual US\$ trading volume divided by market value of outstanding equity
		RVAR (Return Variability)	Annual standard deviation of monthly stock returns
		INF (Inflation)	Inflation rate for every country, from Bloomberg
		GDP: Gross Domestic Product	GDP/Cap

Table 2 IFRS adoption in ASEAN

Countries	Before adoption of IFRS "0"	Adoption of IFRS Started	After adoption of IFRS "1"
Indonesia	2010, 2011	2012	2012, 2013
Malaysia	2003, 2004	2005	2005, 2006
Singapore	2001, 2002	2003	2003, 2004
Thailand	2011, 2012	2013	2013, 2014
Philippine	2003, 2004	2005	2005, 2006

RESULTS

Descriptive Statistic

Tables 3 and 4 summarize the descriptive statistics for all variables and Table 5 for each ASEAN country:

Tabel 3 Descriptive Statistics Model Bid Ask

Variable	Obs	Mean	Std. Dev.	Min	Max
BAS	3333	0.0332	0.0481	0.0000	0.3363
AF	3333	0.3825	0.8145	0.0000	3.3673
WGI	3333	60.7541	18.6081	33.6493	94.0981
LnMV	3333	4.1732	1.6768	-3.9120	9.9657
STO	3333	129.4124	863.8775	0.0000	12904.0200
RVAR	3333	0.0509	0.0385	0.0000	0.3574
GDP	3333	19554	12050	3732	50850
INFLASI	3333	0.0261	0.0151	-0.0039	0.0652

Dummy Variable

		Percentage	
		Dummy=1	Dummy=0
IFRS	3333	66%	34%

Table 4. Descriptive Statistics Model COE

Variable	Obs	Mean	Std. Dev.	Min	Max
COE	2235	0.0720	0.0377	0.0059	0.2239
AF	2235	0.4698	0.8881	0.0000	3.3673
WGI	2235	62.7735	19.1318	33.6493	94.0981
BAS	2235	0.0301	0.0417	0.0014	0.2799
LEV	2235	0.1553	0.2448	0.0000	1.3953
LnTA	2235	12.5284	2.5771	6.8910	22.7335
RETVAR	2235	0.0495	0.0371	0.0000	0.3327
INFLS	2235	2.8156	1.6964	-0.3920	6.5170
GDP	2235	20,124.42	12,888.12	3,731.72	50,849.68

Dummy Variable

		Percentage	
		Dummy=1	Dummy=0
IFRS	2235	56.87%	43.13%

Table 5. Descriptive statistic per country Table 5a. Descriptive Statistic Per Country – BAS Model

Country	BAS						AF									
	Mean		Max		Min		STDV		Max		Min		STDV			
	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After		
Indonesia	0.0372	0.0465	0.2255	0.2255	0.0039	0.0020	0.0559	0.0605	0.2773	0.1675	2.0794	2.0794	-	-	0.7317	0.4987
Malaysia	0.0293	0.0309	0.1560	0.1560	-	0.0029	0.0306	0.0328	0.3012	0.3187	2.4849	2.4849	-	-	0.7117	0.6668
Philippine	0.0887	0.0523	0.3363	0.3363	0.0056	0.0050	0.0969	0.0673	0.5024	0.3189	2.6391	2.6391	-	-	0.8428	0.7116
Singapore	0.0665	0.0516	0.3033	0.3033	0.0046	0.0043	0.0720	0.0662	0.6395	0.4459	3.3673	3.3673	-	-	1.0453	0.8759
Thailand	0.0122	0.0150	0.0824	0.0824	0.0032	0.0029	0.0123	0.0164	0.3936	0.4260	3.1355	3.1355	-	-	0.8530	0.9120
Total	0.2339	0.1963	1.1034	1.1034	0.0173	0.0171	0.2677	0.2431	2.1140	1.6771	13.7062	13.4744	-	-	4.1845	3.6650

Table 5b. Descriptive Statistic Per Country – COE Model

Country	COE						AF									
	Mean		Max		Min		STDV		Max		Min		STDV			
	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After		
Indonesia	0.0981	0.1035	0.1392	0.1949	0.0514	0.0141	0.0276	0.0323	0.0981	0.1984	2.0794	2.0794	-	-	0.69	0.54
Malaysia	0.0649	0.0821	0.1278	0.1968	0.0059	0.0059	0.0125	0.0383	0.0649	0.3560	2.6391	2.6391	-	-	0.77	0.71
Philippine	0.1364	0.1358	0.1876	0.2239	0.1063	0.0066	0.0172	0.0388	0.1364	0.3667	2.7726	2.6391	-	-	0.89	0.76
Singapore	0.0360	0.0288	0.0567	0.0541	0.0146	0.0178	0.0111	0.0087	0.0360	0.4798	3.3673	3.1355	-	-	1.05	0.89
Thailand	0.0611	0.0614	0.1060	0.1057	0.0178	0.0227	0.0152	0.0138	0.0611	0.6508	3.3673	3.3322	-	-	1.07	1.08

Table 3 shows that the average bid–ask spread for all samples is 0.0332. Table 5 shows that the highest average BAS is in the Philippines, which is 0.0877 in the period before IFRS adoption and 0.0523 after IFRS adoption, which is followed by Singapore. The lowest average BAS is in Thailand: 0.0122 in the period prior to IFRS adoption and 0.0150 after IFRS adoption.

In all ASEAN countries, the average number of analyst following is small (only 0.3825 and 0.4698), as most companies (over 50%) have no analyst following (see table 3). In the period before and after the adoption of IFRS, the highest average number of analyst following is in Singapore (0.6395 before IFRS adoption and 0.4459 after IFRS adoption), followed by the Philippines and Thailand, and the lowest is Indonesia (see Table 5).

Table 4 shows that the average COE for all samples is 0.0720. The lowest average COE is in Singapore (0.0360 and 0.0288) and then Thailand, whereas the highest COE is in the Philippines, followed by Indonesia. Average WGI for all samples is 60.7541 and 62.7735 (see Table 3) where the highest average is in Singapore and the lowest is in Indonesia.

IFRS, Bid–Ask Spread, and Cost of Equity

Tables 6 and 7 provide a summary of the results of the regression models 1 to 8.

Impact of the IFRS adoption to asymmetry information and cost of equity is shown in model 1 in Table 6 and model 3 in Table 7. Model 1 in Table 6 shows that variable IFRS negatively significant influences BAS (bid–ask spread-proxy of asymmetry of information). While model 3 in Table 7 shows that variable IFRS negatively and significantly influences variable COE (cost of equity). This indicates that IFRS adoption decreases the level of information asymmetry and cost of capital. This result is in accordance with the hypothesis 1 and 2. This study finds that IFRS adoption improves financial statement disclosure relative to local accounting standard, and this decreases the level of information asymmetry. Furthermore, IFRS enhances the comparability of financial statements, therefore improving the ability of users of financial statements to assess company performance. In addition, improvement in financial statement disclosure and comparability also reduces the cost of capital. This conclusion is consistent with findings by Li (2010) in that mandatory adoption of IFRS in European countries decreases the cost of capital.

The Moderation Effect of Analyst Following and Public Governance: BAS Model

Model 2a in Table 6 explains the role of analyst following the impact of IFRS adoption in reducing information asymmetry. The results show that IFRS is negatively correlated with BAS, but the moderating variable IFRS*AF is positively correlated with BAS. These results demonstrate that a higher number of analyst following lessens the impact of IFRS adoption on information asymmetry. These results are not consistent with Hypothesis 3. This might happen because, when a company has a relatively high number of analysts following, information about the company has been widely explored by many analysts; thus, the impact of the adoption of IFRS in reducing information asymmetry is not as strong as in a company that has a low number of analyst following. It also can be explained by the findings of Kim and Shi (2012) who revealed that the synchronicity-reducing effect of IFRS adoption is likely to be higher for firms with low analyst followings than for firms with high analyst followings.

Table 6. Summary of Regression Analysis – BAS Model

BAS	Pred	MODEL 1				MODEL 2 a				MODEL 2 b				MODEL 2 c			
		Coef. (i)	Std. Err.	Sig		Coef. (ii)	Std. Err.	Sig		Coef. (iii)	Std. Err.	Sig		Coef. (iv)	Std. Err.	Sig	
CONS	-	(0.032)	0.019	0.047	*	(0.032)	0.019	0.046	*	(0.029)	0.017	0.042	*	(0.029)	0.017	0.041	*
IFRS	-	(0.003)	0.001	0.003	***	(0.003)	0.001	0.002	***	0.000	0.006	0.492		(0.000)	0.006	0.484	
AF	-	0.002	0.002	0.184		0.001	0.002	0.296		0.002	0.002	0.180		0.001	0.002	0.292	
WGI	-	0.002	0.000	0.000	***	0.002	0.000	0.000	***	0.002	0.000	0.000	***	0.002	0.000	0.000	***
IFRS*AF	-					0.001	0.001	0.057	*					0.001	0.001	0.056	*
IFRS*WGI	-									(0.000)	0.000	0.309		(0.000)	0.000	0.308	
LnMV		(0.004)	0.002	0.010	**	(0.005)	0.002	0.009	**	(0.005)	0.002	0.010	**	(0.005)	0.002	0.009	**
STO	+	0.000	0.000	0.225		0.000	0.000	0.242		0.000	0.000	0.210		0.000	0.000	0.226	
RETVAR	+	0.072	0.028	0.006	**	0.073	0.029	0.006	**	0.072	0.029	0.006	**	0.072	0.029	0.006	**
INFL	-	(0.455)	0.096	0.000	***	(0.452)	0.095	0.000	***	(0.446)	0.105	0.000	***	(0.443)	0.105	0.000	***
GDP	-	0.000	0.000	0.192		0.000	0.000	0.207		0.000	0.000	0.148		0.000	0.000	0.158	
		Adj R2	0.058			Adj R2	0.058			Adj R2	0.058			Adj R2	0.059		
		Fvalue	12.060			Fvalue	11.450			Fvalue	10.840			Fvalue	10.410		
		FSig	0.0000			FSig	0.0000			FSig	0.0000			FSig	0.0000		

* significant at 0,10 level; ** significant at 0,05 level; *** significant at 0,01 level;

Table 7. Summary of Regression Analysis – COE Model

COE	Pred	MODEL 3			MODEL 4a			MODEL 4b			MODEL 4c		
		Coef. (i)	Std. Err.	Sig	Coef. (ii)	Std. Err.	Sig	Coef. (iii)	Std. Err.	Sig	Coef. (iv)	Std. Err.	Sig
CONS	-	0.281 (0.010)	0.031 0.001	0.000 0.000	0.279 (0.009)	0.031 0.001	0.000 0.000	0.392 (0.005)	0.037 0.006	0.000 0.000	0.390 (0.005)	0.037 0.007	0.000 0.000
IFRS	-	0.003 (0.003)	0.002 0.000	0.046 0.000	0.004 (0.003)	0.002 0.000	0.017 0.000	0.003 (0.005)	0.002 0.001	0.071 0.000	0.004 (0.005)	0.002 0.001	0.025 0.000
AF	-	0.086	0.021	0.000	0.086	0.021	0.000	0.101	0.022	0.000	0.101	0.022	0.000
WGI	-	0.010	0.006	0.056	0.011	0.006	0.039	0.011	0.007	0.074	0.012	0.007	0.054
IFRS*AF	-	0.004	0.003	0.078	0.005	0.003	0.062	0.003	0.003	0.200	0.003	0.003	0.164
IFRS*WGI	-	0.023	0.019	0.115	0.022	0.019	0.122	0.024	0.021	0.124	0.023	0.021	0.132
BAS	+	0.011	0.001	0.000	0.011	0.001	0.000	0.008	0.001	0.000	0.008	0.001	0.000
LEV	+	(0.000)	0.000	0.018	(0.000)	0.000	0.033	0.000	0.000	0.000	0.000	0.000	0.000
LnTA	+	0.218	0.221	0.221	Adj R2	0.221	Adj R2	0.271	0.271	Adj R2	0.275	0.275	0.275
RETVAR	-	58.140	53.810	53.810	Fvalue	53.810	Fvalue	41.690	41.690	Fvalue	40.990	40.990	40.990
INFL	+	0.000	0.000	0.018	FSig	0.000	FSig	0.000	0.000	FSig	0.000	0.000	0.000
GDP	-	(0.000)	0.000	0.018	(0.000)	0.000	0.033	0.000	0.000	0.000	0.000	0.000	0.000
Adj R2		0.218	0.221	0.221	Adj R2	0.221	Adj R2	0.271	0.271	Adj R2	0.275	0.275	0.275
Fvalue		58.140	53.810	53.810	Fvalue	53.810	Fvalue	41.690	41.690	Fvalue	40.990	40.990	40.990
FSig		0.000	0.000	0.018	FSig	0.000	FSig	0.000	0.000	FSig	0.000	0.000	0.000

* significant at 0.10 level; ** significant at 0.05 level; *** significant at 0.01 level;

Models 2b and 2c in Table 6 explain the role of public governance on the impact of IFRS adoption in reducing information asymmetry. The results show that IFRS is not significant correlated with BAS, and the moderating variable IFRS*CGI also is not significant. This result demonstrates that Hypothesis 5 is not supported; public governance has not yet had an influence on the impact of IFRS adoption in reducing information asymmetry.

The Moderation Effect of Analyst Following and Public Governance: COE Model

Models 4a, 4b, 4c in Table 7 describe the role of analyst following and public governance on the impact of the adoption of IFRS on the cost of capital. The results show that IFRS is negatively significant correlated with COE, and the moderating variables IFRS*AF and IFRS*WGI are negatively significant correlated with COE. Thus, the results support Hypotheses 4 and 6. These results show that analyst following and good public governance strengthen the negative relationship between IFRS and the cost of capital. This means that the benefit of IFRS in reducing cost of equity is stronger in companies with higher analyst following and in countries with good public governance. This might occur because companies with high analyst following have more liquid stock than is actively traded; as a result, the impact of IFRS on cost of capital is enhanced. These results are consistent with the findings of Daske (2013) in that the adoption of IFRS standards has positive effects on liquidity and the cost of capital, which are only found in companies with high reporting incentives, proxy by analyst following.

Public governance is proven to strengthen the negative effect of IFRS adoption on the cost of capital. The application of IFRS standards lowers the cost of capital, especially in countries with good public governance. This is consistent with the findings of Li (2010) in that mandatory IFRS adoption decreases the cost of capital only in countries with strong legal enforcement. In addition, companies in a country with good public governance experience increased investor confidence (Johnson *et al.*, 2000) and produce better returns; thus, the impact of IFRS on the cost of capital will be stronger in countries with good public governance.

Regression for Each ASEAN Country

Tables 8 and 9 show the additional regression for each ASEAN country.

Variable IFRS*WGI, WGI, INF, and GDP are not included because these are country-level variables. Table 8 shows the results where BAS is a dependent variable. The tables show that in Singapore, Philippines, and Indonesia, IFRS is negatively correlated with BAS, but the moderating variable IFRS*AF is positively correlated with BAS. These results demonstrate that IFRS adoption is proven to decrease the impact of IFRS adoption on information asymmetry. These results are consistent with the main regressions of all ASEAN country data. For Malaysia and Thailand, regression shows the opposite result in which IFRS is positively correlated with BAS and moderating variable IFRS * AF is negatively correlated with BAS. This may be because, prior to the application of IFRS, accounting standards in those countries are already strict. By applying IFRS, there are many opportunities for discretion, thus increasing asymmetric information. But as more and more analysts follow the company, the positive impact of the IFRS application on asymmetric information can be reduced.

Table 9 shows the results where COE is a dependent variable. The table shows that only

Singapore consistent to the hypothesis 2 and 4 which IFRS reduces cost of equity and, as a higher number of analysts following, tend to intensify the reduction of cost of equity due to mandatory IFRS adoption. In Thailand, IFRS reduced COE but moderation effect is not significant. In Philippines IFRS increase COE but moderation effect is not significant. In Indonesia, IFRS is not proves reduces COE, while the moderation hypothesis is not in line with predictions. In Malaysia, IFRS adoption increase COE but with higher number of analysts following, the positive impact of the IFRS adoption on COE can be reduced, the same result for BAS model.

This result shows that adoption of IFRS is more pronounced in Singapore, which has better public governance and a higher number of analysts following.

CONCLUSION

This study investigates the economic consequences of IFRS adoption in ASEAN countries. The proxy for economic consequences is the degree of asymmetry of information and cost of capital. This study also examines the role of analyst following and public governance on the impact of the adoption of IFRS on information asymmetry and cost of capital.

This study documents that the mandatory adoption of IFRS reduces both asymmetric information and cost of equity. This study finds evidence that the reduction of asymmetric information is less pronounced for firms with a higher number of analysts following. This result implies that government body should oversee the company to provide more disclosure, thus limiting the higher discretion provided by IFRS. Regulators also need to supervise companies in providing full and correct disclosure to increase the ability of analysts in forecasting, predicting future cash flows, and estimating the default risk.

Further, this research found that better public governance and higher analyst following strengthen the reduction of cost of equity due to mandatory IFRS adoption. These findings show that public governance and a richer reporting environment have roles in the success of IFRS implementation. These results imply that public governance is important to investors and businesses. Such governance is needed to build trust and provide the rules and stability required for investment planning, both in the medium- and long-term. The characteristics of good governance that reinforce the benefits of IFRS adoption are those that have elements of good governance principles. Those elements are accountability, transparency, efficiency, effectiveness, responsiveness, and rule of law (OECD, 2011).

This study has several limitations. First, previous research shows that there are many proxies for calculating the cost of capital and that each has limitations and advantages. This study uses only one proxy for cost of capital (i.e., CAPM). Subsequent studies could use more than one measurement of cost of capital. Second, some companies in ASEAN gradually conduct adoption of IFRS. Third, this study only considers the country-level public governance, while previous research found that the incentives for preparers to produce high-quality financial statements depend on both firm-level corporate governance arrangements and on the country-level enforcement. Subsequent research could incorporate firm-level corporate governance as a moderating variable.

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