

VERA PALEA

# FINANCIAL REPORTING UNDER IAS/IFRS

THEORETICAL BACKGROUND AND CAPITAL  
MARKET EVIDENCE – A EUROPEAN PERSPECTIVE



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# Preface

The IAS/IFRS adoption all over Europe enforced by Regulation 1606/2002 represents one of the most important and controversial events in the history of accounting.

This research monograph deals with four key issues related to the IAS/IFRS adoption in Europe. It investigates whether the IAS/IFRS adoption improves financial reporting quality; whether it increases cross-country comparability of financial reporting; whether it lowers the cost of capital for firms; whether fair value accounting effectively contributes to improve financial reporting quality. Recently, the financial crisis has turned the spotlight on fair value accounting and led to a major policy debate on it. Understanding the contribution of IAS/IFRS to financial reporting quality and its usefulness to investors is therefore of great use to standard setters and policy makers.

This monograph organizes the research on the effects of the IAS/IFRS adoption in a systematic and comprehensive way so as to contribute to better understand the longstanding debate on the IAS/IFRS usefulness. It also provides the theoretical background within which the proposal of mandating IAS/IFRS in Europe has been developed. Defining the conceptual framework for the IAS/IFRS implementation is in fact a prerequisite for interpreting research results and for determining whether the European Regulator's goals have been achieved.

As is well known, the purpose of Regulation 1606/2002 is to improve financial reporting transparency, to increase cross-countries comparability and to promote an efficient capital market, that is, a reduction in the cost of capital for firms. This research monograph takes the Regulator's point of view and investigates whether, after the IAS/IFRS adoption, investors are provided with more useful information for their decision-making process and firms have access to a more efficient and cost-effective capital market. In this perspective, it provides updated evidence for evaluating the effects of the IAS/IFRS adoption in Europe and therefore represents a support for standard setting and policy making purposes.

In the end, this monograph shows that academic research is a valuable resource for standard setters and policy-makers. Financial reporting issues are often broad, difficult and complex. Academic research can however provide inputs to their resolution. It can help standard setters and regulators structure their thinking about such issues and provide evidence that inform the debate on them. From this point of view, this monograph shows how academic research can be successful in supporting the evaluation of possible effects of accounting standards and regulations.

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