ARE INTERNATIONAL ACCOUNTING STANDARDS MORE CREDIT RELEVANT THAN DOMESTIC STANDARDS?

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Abstract

We examine whether the credit relevance of financial statements, defined as the ability of accounting numbers to explain credit ratings, is higher after firms are required to report under International Financial Reporting Standards (IFRS). We find an improvement in credit relevance for firms in 17 countries after mandatory IFRS reporting is introduced in 2005; but for matched US firms there is a decline in credit relevance over the same period. The increase in credit relevance is particularly pronounced for higher risk speculative-grade issuers, where accounting information is predicted to be more important; and for IFRS adopters with large first-time reconciliations, where the impact of IFRS is expected to be greater. These tests provide reassurance that the overall increase in estimated credit relevance is driven by accounting changes related to IFRS adoption. Our results suggest that credit rating analysts' views of economic fundamentals are more closely aligned with IFRS numbers, and that analysts anticipate at least some of the effects of the IFRS transition.