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Discussion of "Security Returns and Volume Responses around International Financial Reporting Standards (IFRS) Earnings Announcements"

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Abstract

Olibe (2016) uses price and trading volume responses around IFRS earnings disclosures for U.K. cross-listed firms trading as American Depository Receipts in U.S. equity markets to investigate whether such disclosures provide information to market participants over and above U.S. GAAP earnings disclosures. He finds evidence of significant price and trading volume responses for IFRS earnings disclosures, leading to the conclusion that market participants find that those disclosures facilitate trading in U.S. equity markets. This discussion focuses on the paper's incremental contribution to the literature and offers suggestions for improvements in the research design and analyses.

JEL classification: G14; G18; M41; M48
Keywords: International Financial Reporting Standards; Information content; Trading volume

1. Introduction

I am pleased to be able to provide commentary on Olibe (2016). In his study of the impact of the effects of IFRS earnings disclosures on price and volume responses in U.S. equity markets, Olibe finds that such disclosures significantly affect price and volume responses on days $t = 0$ and $t = +1$, which suggests that market participants use the incremental information contained in those disclosures in their trading activities. His

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results also suggest that IFRS earnings disclosures have less unexpected information relative to earnings disclosures under U.S. GAAP. The results of this study have the potential to inform market regulators such as the International Accounting Standards Board (IASB), the Securities and Exchange Commission (SEC), and the Financial Accounting Standards Board (FASB) as they work towards improving financial reporting comparability, if not convergence.

In this article, I discuss the paper's incremental contribution to the literature. In addition, I discuss and offer suggestions for improvements in the paper's research design and analyses.

2. Incremental contribution to the literature

The paper's first research question begins by noting that "[t]here is little empirical evidence of whether U.S. markets differentiate between the earnings disclosures of IFRS firms from non-IFRS firms when making investing and trading decisions" (Olibe, 2016, XXX). In other words, are the earnings disclosures of IFRS firms of greater quality than those of non-IFRS firms? In addition, Olibe (2016) compares the relative informativeness of IFRS-based and U.S. GAAP-based earnings disclosures.

In general, prior research suggests that, when compared to firms using domestic accounting standards, firms using IFRS have higher-quality and more comparable financial reporting (see, e.g., Barth, Landsman, $_amp_$amp; Lang, 2008; Barth, Landsman, Lang, $_amp_$amp; Williams, 2012; Eng, Sun, $_amp_$amp; Vichitsarawong, 2014). In addition, Landsman, Maydew, and Thornock (2012) find that earnings disclosures for firms in IFRS-mandating countries were more informative (in terms of both prices and trading volume) than firms in domestic GAAP-using countries. Olibe (2016, XXX) suggests that his research design improves upon this study (as well as previous studies that investigate the comparability of IFRS-based and U.S. GAAP-based accounting information) because "such aggregate results may obscure meaningful differences within each country's accounting regulatory environment and the effect of institutional factors on valuation." In addition, Olibe (2016, XXX) suggests that prior research is not directly applicable to the research questions he investigates because "[i]t is not clear to what extent conclusions from these other studies generalize to firms that cross-list in the U.S. and mandatorily adopt IFRS."

Given the paper's similarity to these prior studies, particularly Eng et al. (2014) and Landsman et al. (2012), I would like to have seen more detailed discussion of why one might expect different results from these prior studies and how those expectations relate to differences in the research design choices.

3. Research design

The paper uses cross-sectional *t* tests of differences in absolute value unexpected returns and unexpected trading volume to examine Hypothesis 1 and Hypothesis 2. However, there are a number of variables that have been identified in prior research as potentially affecting both return volatility and trading volume volatility, including analyst following (Defond, Hung, $_amp_$amp; Trezevant, 2007), firm size (Bamber,