Mandatory Adoption of IFRS and Stock Price Informativeness

In this paper, we examine whether mandatory adoption of IFRS ameliorates firm opacity and contributes to stock price informativeness. Using Dasgupta et al.’s (2007) framework, we predict a decrease in synchronicity around the time of mandatory adoption of IFRS, and a subsequent increase in synchronicity in the post-IFRS adoption period. Using a sample of 2,173 mandatory IFRS adopters in 14 EU countries, we find stock return synchronicity decreased in 2005 (the year of mandatory IFRS adoption), but subsequently increased in the post-adoption years to levels higher than the pre-adoption period. We also find synchronicity increases more in the post-IFRS adoption period for firms with more financial analyst activity. In contrast, we find synchronicity under the IFRS regime returned to pre-IFRS adoption levels for firms with higher institutional ownership, which is consistent with a continuing private information advantage enjoyed by institutional investors under the IFRS regime. Overall, our evidence adds to the growing stream of literature on the consequences of mandatory IFRS adoption.