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An Exploratory Study of the Valuation Properties of Cross-Listed Firms' IAS and U.S. GAAP Earnings and Book Values

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Despite the increasing integration of global capital markets, there is little evidence on the valuation properties of cross-listed, non-U.S. firms' accounting variables. We use the relative performance of the earnings capitalization, the book value, and the residual income valuation models to explore the valuation properties of International Accounting Standards and U.S. Generally Accepted Accounting Principles earnings and book values reported by non-U.S., cross-listed firms trading in a common equity market. Using non-U.S./non-U.K. firms whose shares trade on the International Stock Exchange Automated Quotation system in London, we find that the earnings capitalization model is the dominant accounting-based valuation model when crosslisted firms report under International Accounting Standards. In contrast, we find that when cross-listed firms report under U.S. Generally Accepted Accounting Principles, the residual income model is the dominant accountingbased valuation model. Our exploratory study provides insights into the valuation implications of allowing a dual reporting system for foreign registrants trading in a common equity market.

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Among national accounting systems, U.S. GAAP is considered to be both among the strictest and the most similar to International Financial Reporting Standards (IFRS). 4 In a study of price movements before and after earnings announcements, Tribukait (2002 or 2003) finds less indirect evidence of insider trading for Mexican firms that have cross-listed on a U.S. stock exchange. -5 differences between European financials firms that are cross-listed and those that only trade on home exchanges. We also measure the accuracy of the forecasts by comparing actual earnings with consensus forecasts and we compare errors and biases across the two groups. An exploratory study of the valuation properties of cross-listed firms' IAS and U.S. GAAP earnings and book values. Accounting Review 77 (1): 107–126. Ashton D., Cooke T., Tippett M. 2003. An aggregation theorem for the valuation of equity under linear information dynamics. Journal of Business Finance and Accounting 30 (3–4): 413–440. Ataullah A., Higson A., Tippett M. 2006. Value relevance of accounting information for intangible-intensive industries and the impact of scale: The US evidence. European Accounting Review 23 (2): 199–226. Collins D. W., Pincus M., Xie H. 1999. Equity valuation and negative earnings: The role of book value of equity. The Accounting Review 74 (1): 29–61. Dechow P. M., Hutton A. P., Sloan R. G. 1999. VALUATION MEASURING AND MANAGING THE VALUE OF COMPANIES SIXTH EDITION McKinsey & Company Tim Koller Marc Goedhart David Wessels Cover image: ©iStock.com/alzajac Cover design: Wiley Copyright © 1990, 1994, 2000, 2005, 2010, 2015 by McKinsey & Company. All rights reserved. He leads the firm's research activities in valuation and capital markets. Before joining McKinsey, he worked with Stern Stewart & Company and with Mobil Corpo- ration. The technical chapters of the book aim to explain, step-by-step, how to do valuation well. We spell out valuation frameworks that we use in our con- sulting work, and we illustrate them with detailed case studies that highlight the practical judgments involved in developing and using valuations.