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 accounting-based 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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