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Navigation

OTHER | JUNE 01 2012

## Mandatory IFRS Adoption and Institutional Investment Decisions

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Article navigation  
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[< Previous Article](#) [Next Article >](#)

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### ABSTRACT

We examine whether the mandatory introduction of International Financial Reporting Standards leads to an increase in institutional investor demand for equities. Using a large ownership database covering all types of institutional investors from around the world, we find that institutional holdings increase for mandatory IFRS adopters. Changes in holdings are concentrated around first-time annual reporting events. Second, we document that the positive IFRS effects on institutional holdings are concentrated among investors whose orientation and styles suggest they are most likely to benefit from higher quality financial statements, including active, value, and growth investors. These results are consistent with holdings changes being associated with the financial reporting regime change. Finally, we show that increased institutional holdings are concentrated in countries in which enforcement and reporting incentives are strongest, and where the differences between local GAAP and IFRS are relatively high. Overall, our study helps shed new light on the channels by which IFRS information becomes impounded in market outcomes.

**JEL Classifications:** *G11; K22; M41; M42.*

**Data Availability:** *The data used in this study are available from the commercial sources identified in the paper.*

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The mandatory adoption of International Financial Reporting Standards (IFRS) across the European Economic Area (EEA) commenced in 2005. Empirical evidence of the economic consequences of this ‘big bang’ informs a continuing debate about the pros and cons of international accounting harmonisation, among both academics and practitioners. In this report, we analyse the impact of mandatory IFRS adoption on the cost of equity capital. This is an essential metric for the decision making of professional investors and corporate financial managers alike. From a regulatory point of view, a key function This study examines how mandatory IFRS adoption influences international investors; ownership and decisions. Based on a sample of French firms listed on the SBF 120 stock index, we find that international accounting harmonization leads to attract foreign equity to France. Investors become more confident and transactions are more transparent, which facilitates decision making. We try also to understand the characteristics and influence of governance mechanisms as means of IFRS enforcement. We show that the change in foreign institutional holdings depends on effective enforcement. However, corp IFRS Foundation and the IASB. Use and adoption of IFRS. Global organisations. Regional organisations. The Securities and Exchange Commission (SECP) in Pakistan has deferred the mandatory application of IFRS 9 'Financial Instruments' for all companies required to prepare their financial statements in accordance with IFRS to reporting periods/years ending on or after 30 June 2019. European Union formally adopts amendments to IAS 28.