

Mark Wahrisch

The Evolution
of International
Accounting Systems
Accounting System Adoptions
by Firms
from a Network Perspective



Peter Lang

Europaischer Verlag der Wissenschaften

CHAPTER I: INTRODUCTION.....	25
1. Accounting systems adoption decisions by firms - a network oriented perspective.....	25
2. Sequence of analysis.....	30
CHAPTER II: INTERNATIONAL DIVERSITY OF ACCOUNTING SYSTEMS AND HARMONIZATION.....	33
1. Overview.....	33
2. Definitions.....	33
3. Accounting diversity and capital markets.....	35
3.1 Capital market differences as a determinant for accounting diversity.....	35
3.2 Structure of capital markets: US versus Germany.....	36
3.3 Sources of funds: US versus Germany.....	37
4. Investor versus creditor oriented accounting systems.....	38
4.1 US-GAAP.....	38
4.2 German GAAP (HGB).....	39
4.3 The role of IAS.....	41
5. Incentives for harmonization through regulation.....	42
6. Limits to regulation: the impossibility to set normative accounting standards.....	43
<i>Jf</i>	
7. Harmonization as a political process.....	45
8. Standard setters in the political process: institutional facts and international interests.....	46
8.1 USA.....	46
8.2 IOSCO.....	49
8.3 IASC.....	50
8.4 Germany.....	52
9. Harmonization as a market process.....	53
CHAPTER III: THE MARKET PROCESS: ACCOUNTING SYSTEM ADOPTIONS IN PRESENCE OF NETWORK EFFECTS.....	57
1. Overview.....	57
2. Harmonization gains and network effects.....	57
2.1 Preliminary remarks.....	57
2.2 Network effects and their relation to investors, corporations, and standard setters.....	58
2.3 Network effects and accounting systems.....	60
2.4 The market process in presence of network effects.....	62

3. Market process and critical masses.....	67
4. Market process and preference uncertainty.....	72
5. Market process and significance of network effects.....	75
5.1 General framework.....	75
5.2 Case 1: Market process in presence of weak network effects.....	76
5.3 Case 2: Market process in presence of intermediate network effects.....	77
5.4 Case 3: Market process in presence of strong network effects.....	77
5.5 Case 4: Market process in presence of asymmetric technological pay-offs and strong network effects.....	78
6. Market process and accounting system adoption patterns.....	79
6.1 Introduction.....	79
6.2 General assumptions and basic framework.....	81
6.3 Choice by corporations between accounting systems with symmetric precision....	83
6.4 Benchmark solution: Maximizing total pay-offs of firms.....	86
6.5 Choice by corporations between accounting systems with asymmetric precision....	90
7. Market process and strategic compatibility preannouncement by a standard setter.....	95
7.1 Introduction.....	95
7.2 General assumptions and basic framework.....	96
7.3 Accounting system choice by corporations without a preannouncement.....	98
7.4 Accounting system choice by corporations with a preannouncement.....	100
8. Summary and discussion.....	103
 CHAPTER IV: POTENTIAL COSTS AND BENEFITS	
OVERCROSS-BORDER LISTINGS.....	111
1. Overview.....	111
2. Foreign stock listings by German corporations.....	111
3. Disclosure and regulatory costs.....	113
3.1 Introduction.....	113
3.2. Registration related costs.....	113
3.3. Regulation related costs.....	114
3.4 Empirical evidence about disclosure and regulatory costs.....	115
4. Listing alternatives.....	118
5. Stock exchange listing requirements.....	119
5.1 US stock exchanges.....	119
5.1.1 Overview.....	119
5.1.2 Description and trading segment.....	119
5.1.3 Registration and accounting related requirements.....	120
5.1.4 Sanctions.....	122
5.1 5 Listing fees and estimated total listing costs.....	123

5.2 Tokyo Stock Exchange.....	123
5.2.1 Overview.....	123
5.2.2 Description and trading segment.....	123
5.2.3 Registration and accounting related requirements.....	124
5.2.4 Sanctions.....	125
5.2.5 Listing fees and estimated total listing costs.....	125
5.3 London Stock Exchange.....	126
5.3.1 Overview.....	126
5.3.2 Description and trading segment.....	126
5.3.3 Registration and accounting related requirements.....	127
5.3.4 Sanctions.....	127
5.3.5 Listing fees and estimated total listing costs.....	128
5.4 Frankfurt Stock Exchange.....	128
5.4.1 Overview.....	128
5.4.2 Description and trading segment.....	128
5.4.3 Registration and accounting related requirements.....	130
5.4.4 Sanctions.....	131
5.4.5 Listing fees and estimated total listing costs.....	131
6. Nonfinancial benefits.....	131
6.1 Marketing and public relations benefits.....	131
6.2 Political benefits.....	132
6.3 Employee relations benefits.....	132
7. Financial benefits.....	133
7.1 Introduction.....	133
7.2 Benefits of international diversification.....	133
7.3 Cost of capital and market segmentation.....	134
7.3.1 Introduction.....	134
7.3.2 Theoretical research about capital market segmentation.....	135
7.3.3 Empirical evidence about capital market segmentation.....	137
7.4 Cost of capital and capital market liquidity.....	140
7.4.1 Introduction.....	140
7.4.2 Theoretical research on capital market liquidity.....	141
7.4.3 Empirical evidence on capital market liquidity.....	146
8. Implications of the cross-border listing literature for the analysis of the market process.....	149

CHAPTER V: DISCLOSURE OF ACCOUNTING INFORMATION

ON CAPITAL MARKETS.....	153
1. Overview.....	153
2. Market imperfections in the financial reporting environment.....	153
2.1 Introduction.....	153
2.2 Information asymmetry among investors.....	154
2.3 Information asymmetry between managers and investors.....	155
2.3.1 Introduction.....	155
2.3.2 Adverse selection problems.....	156
2.3.3 Moral hazard problems.....	156

14 TABLE OF CONTENTS

2.3.4 Financial reporting externalities.....	157
2.3.5 Lack of unanimity about disclosure standards.....	158
3. Incentives for disclosure of accounting information.....	159
3.1 Introduction.....	159
3.2 Manager perspective on disclosure.....	160
3.3 Corporate perspective on disclosure.....	161
4. Cost of capital and public disclosure.....	163
4.1 Cost of capital and information risk.....	163
4.2 Cost of capital and information asymmetry.....	166
4.3 Cost of capital and proprietary cost.....	169
4.4 Cost of capital and litigation risk.....	173
4.5 Cost of capital and disclosure cost.....	175
4.6 Cost of capital and accounting disclosure in an international context.....	176
5. Empirical research on accounting disclosure.....	179
5.1 Survey.....	179
5.2 The association between disclosure level and the cost of capital.....	179
5.3 The association between disclosure level, bid-ask spreads and trading volume.....	180
5.4 Market reactions on accounting disclosure in an international setting.....	182
5.4.1 Introduction.....	182
5.4.2 Value relevance of accounting differences in SEC form 20-F.....	184
5.4.2.1 The study by Amir/Harris/Venuti (1993).....	184
5.4.2.2 The studies of Rees (1995) and (1996).....	185
5.4.2.3 The study of Barth/Clinch (1996).....	186
5.4.2.4 The study of Chan/Seow (1996).....	188
5.4.2.5 The study of Rees/Elgers (1997).....	189
5.4.2.6 The study of Harris/Muller III (1999).....	190
5.4.2.7 The study of Karamanou/Raedy (1999).....	191
5.4.3 Value relevance of accounting differences in financial statements.....	192
5.4.3.1 The study of Alford/Jones/Leftwich/Zmijeski (1993).....	192
5.4.3.2 The study of Joos/Lang (1994).....	194
5.4.3.3 The study of Harris/Lang/Moller (1995).....	195
5.4.3.4 The study of Auer (1996).....	196
5.4.3.5 The study of Leuz/Verrecchia (1999).....	198
6. Implications of the accounting disclosure literature for the analysis of the market process.....	199
CHAPTER VI: SUMMARY OF KEY RESULTS AND CONCLUSION.....	203
APPENDIX.....	207
BIBLIOGRAPHY.....	209

LIST OF FIGURES.....	17
LIST OF TABLES AND MATRICES.....	19
LIST OF ABBREVIATIONS.....	21