Causes and Consequences of a Voluntary Turn Away from IFRS to Local GAAP

PETER FIECHTER, *University of Neuchatel*

JEROME HALBERKANN, *University of Zurich*

CONRAD MEYER, *University of Zurich*

ABSTRACT This paper investigates the causes and economic consequences of a voluntary turn away from IFRS to Swiss GAAP. As firms are permitted to switch from IFRS to Swiss GAAP in Switzerland, we can exploit this unique setting to analyze the reasons of a turn away, the changes in reporting, and its capital market effects. Prior literature on IFRS adoption (and other disclosure literature) generally finds a decrease in information asymmetry with increasing levels of disclosure. Accordingly, turning away from IFRS should increase the information asymmetry. However, our empirical results from a difference-in-differences design do not support this prediction. We interpret this finding as evidence that the disclosure level of Swiss GAAP is sufficient to meet the demand for disclosure of the switching firms' investors. By providing evidence that—for certain firms—a switch away from IFRS does not necessarily induce negative economic consequences, the findings contribute to the current discussion on whether IFRS fits for small- and medium-sized firms.

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1. Introduction

The adoption of IFRS has generated a large body of research. Empirical findings generally suggest that IFRS adoption has positive effects on liquidity (e.g., Daske et al. 2008; Li 2010; Daske et al. 2013). However, Daske et al. (2008) show that the capital market benefits of IFRS adoption occur only in countries with strong enforcement and high incentives for transparent reporting. Furthermore, recent literature even questions whether the capital market benefits are attributable to IFRS adoption or concurrent changes in reporting enforcement (Christensen et al. 2013a). Taken together, the literature on the (isolated) effects of IFRS on liquidity is not conclusive.[1] In addition, beside the literature on IFRS adoption, inferences on the link between disclosure and liquidity are typically drawn from settings where firms *increase* their disclosure level (e.g., Leuz and Verrechia 2000, Bushee and Leuz 2005; Balakrishnan et al. 2013).

To better understand the effects of IFRS on liquidity, and more generally, the link between disclosure and liquidity, we exploit a unique setting where firms turn away from IFRS. In Switzerland, since 2008, 34 out of 145 listed firms (23%) switched from IFRS to Swiss Accounting and Reporting Recommendations (Swiss GAAP), making use of a local particularity where a change from IFRS to Swiss GAAP is permitted. While Swiss GAAP has the same major reporting objective of a "true and fair view" as IFRS, the degree of complexity and the number of accounting rules substantially differ across the two standards. This setting permits us to investigate the effects of a *decrease* in disclosure level on liquidity in a less extreme scenario than a setting where firms cease to provide public disclosure, that is, "going dark" (Leuz et al. 2008).

First, we investigate the determinants of a turn away. We analyze stated reasons for the switch in firms' press releases. To infer on reasons not stated in the press releases, we further

[1] For example, see discussion of Barth and Israeli (2013) on the findings of Christensen et al (2013a) as well as the reply of Christensen et al. (2013b) to the discussion of Barth and Israeli (2013).

conduct a probit regression of the choice to switch on firm characteristics such as size, growth, profitability, and ownership structure. Our second set of tests examines the consequences of the switch from IFRS to Swiss GAAP. To understand the extent of the change in firms' disclosure following a switch, we examine differences in the annual reports (e.g., number of pages in the notes to the financial statements) between IFRS and Swiss GAAP. In addition, using a difference-in-differences design, we investigate the effect of a switch on short-term and long-term information asymmetry as well as on stock returns at the announcement date.

The majority of the literature on IFRS adoption (and other disclosure literature) suggests a negative association between disclosure levels and information asymmetry. Accordingly, a switch from IFRS to Swiss GAAP should increase the information asymmetry. However, although the switch from IFRS to Swiss GAAP reduces the disclosure level (see Section 6.3), the principle "true and fair view" remains. To the extent that the lower disclosure levels meet investors' demand for disclosure, information asymmetry should not increase. Second, if investors perceive the *announcement* as indicating that the switching firm wants to obfuscate negative performance by changing the accounting standard (Leuz et al. 2008), a switch from IFRS to Swiss GAAP has negative effects on stock returns. However, investors might reward the lower administrative costs to comply with Swiss GAAP compared to IFRS.

To examine the capital market consequences, we conduct a difference-in-differences analysis. To correct for general trends and self-selection bias, we use an index, a size- and industry-matched, and a propensity score matched (PSM) control group. We measure information asymmetry with the proportional bid-ask spread as well as its information asymmetry component. We compare information asymmetry before the announcement with three different points in time: after the announcement, at the release of the first annual report under Swiss GAAP, and as of April 2013 for long term effects. To examine the effect on

stock returns, we compute stock returns at the announcement of a switch. We compute the returns for three different event windows and correct raw returns with the control samples.

The 34 switching firms frequently state the following reasons: High costs, rising complexity of IFRS, and no added transparency compared to Swiss GAAP. The results from the probit analysis show that large firms are less likely to switch. Notably, we find that firms with high proportions of goodwill relative to total assets are more likely to switch, consistent with firms avoiding the potential risk of future goodwill impairments. We find that the amount of disclosed information in the financial statements decrease after switching to Swiss GAAP, particularly the number of pages in the notes to the financial statements. Consistent with our findings from the probit analysis, all of the switching firms make use of the option under Swiss GAAP to set their goodwill off against equity. We further find that both the quantity and quality of the segment reporting decrease after a switch. Finally, our descriptive evidence reveals that audit fees decrease while additional fees paid to audit companies increase, the latter possibly because of one-time implementation costs.

We do not find that the information asymmetry increases by switching accounting standards. If anything, bid-ask spreads and its information asymmetry component decrease rather than increase after a switch from IFRS to Swiss GAAP. We further find that firms exhibit negative stock returns after an announcement of a switch. However, the negative returns are neither significantly different than the returns of the control groups nor economically large.

Overall, our results show that switching firms do not experience a substantial deterioration in liquidity and only insignificant negative returns on the announcement date. In light of the conclusions drawn from various IFRS adoption (and other disclosure) studies, finding no negative economic consequences when turning away from IFRS is somewhat counterintuitive. We, however, interpret this finding as evidence that the disclosure level of

Swiss GAAP is sufficient to meet the demand for disclosure of the switching firms' investors. An alternative explanation might be that the switching firms were simply "label adopters" (Daske et al. 2013), and thus, never experienced capital market benefits through IFRS adoption. However, the rather high level of enforcement in Switzerland is likely to mitigate unserious application of IFRS. In addition, because switching firms actually change their reporting, adopting a label cannot fully explain our findings. Overall, by providing evidence that—for certain firms—a switch away from IFRS does not necessarily induce negative economic consequences, the findings contribute to the discussion on whether the current IFRS fit for small- and medium-sized firms, and more generally, on the discussion of the capital market effects of IFRS

Our analysis has some limitations. First, we only have a small sample size of 34 firms that switch from IFRS to Swiss GAAP. This small sample size introduces bias in favor of accepting the null hypothesis, that is, the switch has no economic consequences. However, as the tests on information asymmetry rather suggest a (significant) decrease than an increase, we can—despite the small sample size—reasonably conclude that the switch has no negative consequences on the liquidity of such firms. Second, the change in disclosure is *not* exogenous. That firms can choose to switch raises concerns about self-selection bias. We attempt to address that concern by using several control groups, in particular, a PSM control group. However, we acknowledge that our setting has a major disadvantage compared to settings with an exogenous shocks in disclosure (e.g., Bushee and Leuz 2005; Balakrishnan et al. 2013). Finally, as the switching firms are primarily small- and medium-sized entities, we caution from generalizing our findings to large internationally operating firms.

The remainder of the paper is organized as follows. Section 2 outlines the institutional background, the differences between IFRS and Swiss GAAP, and prior literature on the link between disclosure and liquidity. In section 3, we develop our hypotheses regarding the

effects of a switch on the information asymmetry and stock returns. Section 4 explains the research design, Section 5 describes our sample, and Section 6 presents the empirical results. Section 7 concludes the paper.

2. Background

2.1. Institutional Background

Unlike countries of the European Union, there is no implementation of IFRS in the Swiss law. To insure investor protection, more extensive financial disclosure is required by the regulations of the Swiss stock exchanges. For firms with quoted equity instruments, the SIX Swiss Exchange (SIX), which is the major stock exchange in Switzerland, requires the publication of financial statements prepared according to specific accounting standards depending on the segment to which the company is assigned.

There are four segments on the SIX: the main standard, the domestic standard, the standard for investment firms, and the standard for real estate firms (SIX 2012). Firms in the main standard or in the standard for investment firms have to apply IFRS or US GAAP. In the domestic standard and the standard for real estate firms, Swiss GAAP is permitted. The assignment to a segment is based on the size and legal form. However, firms from the main standard that apply IFRS or US GAAP can switch to the domestic standard and apply Swiss GAAP. Since 2008, 34 firms have taken this decision.

2.2. Differences between IFRS and Swiss GAAP

Similarly to IFRS and US GAAP, Swiss GAAP are based on the principle "true and fair view". Whereas IFRS and especially US GAAP concretize this principle with extensive and detailed rules, Swiss GAAP rely more on general concepts without specifying the implementation and exceptions for special cases. Accordingly, Swiss GAAP comprise around

200 pages for 25 standards compared to over 2000 pages under IFRS for 38 standards and 25 interpretations.

A major difference between IFRS and Swiss GAAP is the speed of changes in the accounting rules. Changes of Swiss GAAP issued in 2009 do not exceed two pages (FER 2009). Since 2010, one new standard has been issued (FER 41) and another standard has been appended (FER 16). In the same time period, the International Accounting Standards Board (IASB) amended 14 Standards and issued 5 new Standards. Amendments of IFRS also tend to be more far reaching regarding to the stipulated accounting methods. The introduction of the impairment-only-approach for goodwill accounting, changes in the measurement of financial instruments with IFRS 9, changes in pension accounting, and the current revision of revenue recognition show that fundamental accounting methods are regularly subject to substantial changes under IFRS.

Concerning the accounting rules, the most important differences between IFRS and Swiss GAAP exist concerning goodwill accounting, pension accounting, and segment reporting. Under Swiss GAAP, goodwill is either (a) capitalized at cost and then amortized over its useful life (maximum of 20 years) with regular impairment tests, or (b) set off against equity at initial recognition (i.e., the acquisition date). The impairment-only-approach under IFRS where goodwill is capitalized and impaired only if necessary is not permitted under Swiss GAAP. If goodwill is set off against equity the effects of a theoretical capitalization and amortization have to be disclosed in the notes to the financial statements.

Pension accounting under Swiss GAAP does not distinguish between defined contribution plans and defined benefit plans. Based on contracts, regulations, and legal requirements, a pension liability or a pension asset is recognized in the balance sheet. Any differences between the estimated liability or the estimated asset at the beginning and at the end of the reporting period are directly and fully recognized in the income statement.

IFRS require information on operating segments, products and services, geographical areas, and major customers. For each reportable segment, an entity has to disclose a measure of profit or loss, a measure of total assets and liabilities, as well as other information such as depreciation, amortization, and additions to non-current assets. Under Swiss GAAP, the required segment disclosures are less comprehensive. For each business segment and geographical market, only total revenues must be disclosed. If business segments are not significantly different from each other, no segment information needs to be provided.

2.3. Disclosure Theory and Prior Literature

Economic theory predicts several implications of a change in levels of disclosure. One of these implications is a change of information asymmetry between market participants. As more relevant and faithful information become available with increased disclosure, uncertainty about the possible informational advantage of the counterparty in a buy or sell transaction is reduced (Leuz and Verrecchia 2000). A reduction of the information asymmetry increases stock market liquidity and reduces the firms' cost of capital.

Prior studies focus mainly on either cross-sectional differences in disclosure (e. g. Welker 1995; Botosan 1997; Lang et al. 2012) or on increases of accounting disclosure (e. g. Leuz and Verrecchia 2000; Bushee and Leuz 2005; Daske 2006; Daske et al. 2008; Balakrishnan et al. 2013).

Botosan (1997) examines the voluntary disclosures in the annual report of 122 manufacturing firms. Botosan (1997) uses a self-constructed measure to quantify the amount of voluntary disclosure and tests its association with firm-specific estimates of cost of equity capital. The results indicate that higher levels of disclosure are associated with lower cost of equity for firms with low analyst following. In a more recent paper, Lang et al. (2012) document higher liquidity for firms with greater transparency. Transparency is measured with

evidence for earnings management, accounting standards applied, quality of auditors, analyst coverage, and accuracy of analyst predictions. They also document lower implied cost of capital with increased liquidity.

Bushee and Leuz (2005) find that liquidity increases for firms newly compliant with enhanced reporting requirements. In addition, Balakrishnan et al. (2013) find that firms respond to an exogenous loss of information by voluntarily providing more disclosure, thereby improving liquidity.

The voluntary and mandatory adoption of IFRS in Europe provides a setting to study the effects of increasing accounting requirements on liquidity and cost of capital. Leuz and Verecchia (2000) study German firms that have switched from German GAAP to IFRS or US GAAP. They show that information asymmetry, measured with the bid–ask spread, decreases after a switch. Daske et al. (2008) show that market liquidity increases around voluntary and mandatory adoption of IFRS, respectively.

Daske et al. (2013) distinguish between serious and unserious (label) IFRS adopters. Capital market effects should be stronger for firms with the intent to increase their commitment to transparency than for firms that adopt IFRS without the intent to provide more or better accounting information. Splitting the sample into serious and unserious adopters, Daske et al. (2013) find that liquidity increases only for serious adopters. In addition, the findings of Christensen et al. (2013a) indicate that the capital market benefits around IFRS adoption are attributable to concurrent changes in reporting enforcement rather than the change in accounting standard (i.e., switch from local GAAP to IFRS).

The prior literature's focus on settings where disclosure levels increase is mainly driven by data availability, as disclosure requirements for firms have been tightened in the last years. Only few papers investigate the implications of changes in disclosure when these levels *decrease*. One example is the study of Leuz et al. (2008). They investigate the causes and

consequences of firms that chose to deregister and to cease SEC reporting (i.e., "going dark"). The findings suggest that such firms experience large negative abnormal returns.

The setting of Leuz et al. (2008) differs from our setting in that it covers firms that completely cease to provide public accounting disclosure. Our study focuses on a less extreme scenario that has not yet been investigated—the case where a company turns away from an accounting standard to another less detailed accounting standard. For firms quoted on U.S. and European stock exchanges, such a turn away is generally not possible without serious disadvantages. In Switzerland, however, firms are permitted to switch their reporting standard from IFRS or US GAAP to Swiss GAAP. In this study, we explore this unique setting to get further insight on the economics of disclosure, and more specifically, the capital market consequences of IFRS.

3. Hypothesis Development

Extant literature on the implication of mandatory IFRS suggests that higher levels of disclosure lead to a decrease in information asymmetry (Leuz and Verrecchia 2000; Daske et al. 2008; Li 2010). Moreover, Leuz et al. (2008) show that firms ceasing to provide accounting disclosure exhibit negative abnormal returns. Therefore, a turn away from IFRS to a less detailed standard should, ceteris paribus, increase information asymmetry and decrease liquidity.

However, the change from IFRS to Swiss GAAP is a less radical step than a complete cessation of reporting. In addition, the gap between IFRS and Swiss GAAP is arguably smaller than the gap between IFRS and local GAAP for most European countries. The main difference between Swiss GAAP and IFRS is that Swiss GAAP has fewer specific accounting rules. Although less extensive, Swiss GAAP standards are also based on the principle of "true

and fair view". Therefore, the core principles of recognition and measurement are similar between IFRS and Swiss GAAP.

Some firms voluntary provide more information than required by the accounting standard. These voluntary disclosures might be unaffected by a turn away. In addition, after switching, firms might continue to disclose information required under IFRS on a voluntary basis. In this case, the firm's decision to turn away from IFRS rather aims to be exempt from future changes in IFRS rules. In both of these cases, we expect little impact of a turn away on the change in disclosed accounting information.

Firms turning away might also have been so-called "label adopters" (Daske et al. (2013)—i.e. firms that apply IFRS without serious intentions to provide more and better accounting information. As those firms benefit less from lower information asymmetry and lower cost of capital, a reverse effect after a switch from IFRS back to Swiss GAAP might not be observable. However, the rather high degree of enforcement in Switzerland is likely to mitigate unserious application of IFRS.[2]

Regardless of the effects on the amount and quality of accounting information disclosed, a turn away can affect information asymmetry by reducing the *comparability* of the provided accounting information (Daske et al. 2008). Even if the adoption of IFRS would not lead to higher quality annual reports, the usefulness of the provided accounting information could be enhanced because of greater comparability between firms applying the same reporting standard, thereby reducing the information asymmetry.

Overall, the effect of a switch from IFRS to Swiss GAAP on the information asymmetry is not straightforward and largely depends on the firms' ex post reporting decisions, that is, whether the firms actually decrease the level of disclosed information. However, given the

[2] The SIX regularly reviews whether reports are compliant with IFRS. Furthermore, the SIX has the power and ability to impose sanctions on issuers. The substantial number of communicated sanction decisions indicates that IFRS is rigorously enforced in Switzerland (see http://www.six-exchange-regulation.com/enforcement_en.html)

substantive amount of literature pointing towards a positive correlation between disclosure and liquidity, we expect that information asymmetry increases after a switch.

H_1: A turn away from IFRS to Swiss GAAP increases the information asymmetry of the firm.

The stock market reactions to the announcement of a turn away are twofold. On the one hand, increasing information asymmetry leads to lower liquidity, which in turn leads to higher costs of capital (Leuz and Verecchia 2000). This effect reduces the value of the firm. Consistent with this explanation, Leuz et al (2008) find large negative abnormal returns for firms that announce to cease SEC reporting. On the other hand, reporting under IFRS implies high administrative costs—costs that can be saved by switching to a less extensive accounting standard like Swiss GAAP. Investors might reward these cost savings.

Also, it is possible that a net effect on firm value is overshadowed by the announcement effect of the switch, that is, by the effect of the information the switch reveals to market participants. As accounting changes might indicate that the firm wants to obfuscate poor performance by switching the accounting standard, market reactions are likely to be negative (Leuz et al. 2008). Overall, we expect firms to exhibit negative stock returns at the announcement of a turn away from IFRS to Swiss GAAP. Our second hypothesis is thus as follows:

H_2: The announcement of a turn away from IFRS to Swiss GAAP leads to negative stock returns.

We do not develop hypotheses on the causes of a turn away, but merely make predictions on the signs of the explanatory variables in the next section.

4. Research Design

We tackle different questions in this paper for which we employ different research methods. For the descriptive analysis of stated reasons and the effects on the amount of disclosed information, we examine the firms' press releases and annual reports. For the causes of the turn away we perform a probit regression. We conduct a difference-in-differences analysis to examine the effects on information asymmetry. Finally, we use event study methodology to investigate the effects on stock market returns following the announcement to change from IFRS to Swiss GAAP.

4.1. Causes of a Turn Away

Three time periods are important for the examinations that we conduct in this study. The first (post t_1) is the time period after the announcement date of the turn away. The second (post t_2) is the time period after the publication date of the first report under Swiss GAAP. Typically, a firm announces a change of the accounting standard for the current financial period. For example, if the announcement is in June 2009, the annual report 2009 is the first report under Swiss GAAP. The third (post t_3) is the time period after April 2013, which we use to investigate any long-term effects.[3]

[Figure 1 here]

[3] April 2013 is the last month available in our dataset. We acknowledge that for companies that switched in 2012, the term "long term" is not equally valid as for the companies that already switched in 2008.

To examine the causes of a switch to Swiss GAAP, we collect and analyze firms' press releases on the reasons of a switch. To infer on causes not stated by the firms, we conduct a probit regression. The depending variable (*SWITCH*) is a dummy variable that equals 1 in the year where the firm announces to switch from IFRS to Swiss GAAP, and 0 in the years prior to the announcement. Years after a turn away are excluded. For firms that did not announce to switch, the variable equals 0 for all years.

We expect financial characteristics of a firm to have an influence on the decision to switch to Swiss GAAP. We use similar explanatory variables and predictions as Leuz et al. (2008). We include proxies for firm size, financing needs, financial structure, and performance. We use the natural logarithm of total assets (*SIZE*) to proxy for firm size. We predict a negative sign, as Swiss GAAP is primarily designed for small and medium-sized entities (FER 2012). High financing needs make a turn away from IFRS to Swiss GAAP less likely, as capital providers have an interest in accounting disclosure to assess the financial health of the debtor and protect their investments. We use the average asset growth of the preceding two years (*GROWTH*) to proxy for financing needs. For financial structure, we include the debt-to-asset ratio (*LEV*). To control for performance, we include the return on assets (*ROA*) and the stock return of the previous year (*RET*). We do not make predictions on the influence of leverage and performance.

An important difference between Swiss GAAP and IFRS is the accounting treatment of purchased goodwill. Under IFRS, goodwill must be capitalized and annually tested for impairment. Goodwill impairments are recognized in the income statement. Under Swiss GAAP, acquired goodwill can either be capitalized and depreciated over its useful life or directly set off against equity.[4] Setting off goodwill against equity eliminates the risk of future goodwill impairments affecting net income. The higher the goodwill, the higher the incentive

[4] If a firm decides to set off goodwill against equity, it must disclose the amount of goodwill, goodwill amortizations, and goodwill impairments in the notes of the financial statements.

to eliminate this risk. We therefore expect that the proportion of goodwill to total assets (*GW*) favors a turn away to Swiss GAAP.

IFRS became mandatory in 2005 for firms listed in the main segment of the SIX. However, some firms had already adopted IFRS prior to 2005. We expect that *voluntary* adopters of IFRS prior to 2005 are less likely to switch back. We include the binary variable *IFRS* that equals 1 if the firm is a voluntary adopter of IFRS, and 0 otherwise.

Insiders have private information. Outsiders in turn have to rely on available public information and on information the firm provides to the public. High quality reports are therefore more important to outsiders than to insiders. We expect that the ratio of free floating shares to total outstanding shares (*FFLOAT*) has a negative influence on the probability to turn away. Our main probit regression model is:

$$SWITCH_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 GROWTH_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 RET_{it} + \beta_6 GW_{it} + \beta_7 IFRS_{it} + \beta_8 FFLOAT_{it} + \varepsilon_{it} \quad (1)$$

4.2. Information Asymmetry

Both events, the announcement of a turn away and the turn away itself, may have an effect on the information asymmetry of the firm. Leuz and Verrecchia (2000) show that a *commitment* to greater disclosure decreases the information asymmetry (measured with stock market liquidity). To the extent that a retreat from that commitment has the opposite effect, we observe an increase in the information asymmetry after the announcement of the turn away, that is, after t_1 (see Figure 1). The actual reduction of transparency (if any) is when the first report under Swiss GAAP is published (t_2). At t_2, investors have less information than in previous years under IFRS. According to our hypothesis, we expect information asymmetry to

increase after t_2. Finally, we investigate long term effects of the switch by using bid-ask-spreads as of April 2013.

We construct three control samples. An index, a size- and industry-matched, and a PSM control sample. For the index control sample, we match each firm of the turn away sample to an index consisting of the 111 firms that continue to report under IFRS (see Table 1). That is, the information asymmetry around t_1, t_2, and t_3 are matched for each firm individually to the index. In the size- and industry-matched sample, we match each firm of the turn away sample to a firm of the index that is in the same industry and is closest to the amount of total assets of the switching firm. For the PSM control sample, we match each firm of the turn away sample to its closest peer in the index according to the propensity scores from the probit regression in equation (1).

We measure information asymmetry with both the proportional bid-ask spread and the information asymmetry component of the proportional bid-ask spread. We take the bid-ask spread to get results comparable to prior results in empirical research on liquidity and information asymmetry (e.g., Leuz and Verrecchia 2000; Daske et al. 2008). The bid-ask spread is unproblematic to compute. However, information asymmetry is only one of its factors. To measure this factor more precisely, we isolate the information asymmetry component of the proportional bid-ask spread (Stoll 1989). This component is difficult to compute. A precise estimation requires the serial covariance between the traded price and either the quoted bid or the quoted ask price of the stock as well as the average quoted squared bid-ask spread.[5] In practice, the serial covariance is unknown and must be estimated. Depending on the accuracy of the estimation, (a) it is possible to solve a system of two equations, or (b) it is not possible to solve the system to obtain the information asymmetry

[5] Theoretically, the serial covariance of the quoted bid and the quoted ask price are the same. In practice they differ, leading to two different measures for the information asymmetry component of the bid-ask spread depending on using the quoted bid or the quoted ask price. We address this issue by taking the average of the two values.

component. Whenever it is not possible to obtain the information asymmetry component for the estimated serial covariance, we take the best fit for the system of equations.

We calculate the bid-ask spread and its information asymmetry component over a period of 40 trading days. We calculate these two measures for the period before the announcement of a switch from IFRS to Swiss GAAP (pre t_1), for the period after the announcement (post t_1), for the period after the publication of the first report under Swiss GAAP (post t_2), and for the period after April 2013 (post t_3).

When switching the accounting standard, the firm is automatically assigned to a different trading segment of the Swiss Stock Exchange SIX, that is, from the main standard to the domestic standard. We cannot control for any confounding effect of a segment change on the proportional bid-ask spread. However, although the domestic standard contains fewer firms, there are no serious disadvantages for such firms compared to the main standard. In addition, the information asymmetry component is unlikely to be affected by a segment change.

4.3. Stock Returns

To examine the effects of a turn away on stock returns, we conduct an event study around the announcement of the switch from IFRS to Swiss GAAP. Only at this date, when a future change in reporting becomes known, we might observe a market reaction.

We measure the stock returns for three event windows around the announcement day. We take a one-day and a two-day window after the announcement (Leuz et al. 2008). To capture stock market reactions to possible information leaks before the official announcement of the switch, we take a third window that comprises the five days before and the five days after the announcement (including the announcement date). We adjust the raw returns of the turn away sample by the returns of the index, the size- and industry-matched, and the PSM control sample.

5. Sample Description

Table 1 presents the sample selection. The initial sample consists of 278 firms listed at the SIX Swiss Exchange (SIX). We exclude 40 firms whose primary stock exchange is not the SIX. For example, for a company with a main listing in Germany, a switch to Swiss GAAP is not an option—this firm does not have the possibility to switch its accounting standard. We further exclude 57 firms that do not apply IFRS, 17 investment entities that cannot switch to the domestic standard and thus cannot turn away from IFRS, and 19 firms due to missing accounting or market data. These procedures yield a sample of 145 firms.

Of these 145 firms, 34 (23%) switch from IFRS to Swiss GAAP. This is our full sample. 8 firms announced to turn away in 2013 and will publish financial reports in 2014. For the other 26 firms, financial reports are available. These 26 firms represent our *constant* sample that we can use to perform all our tests.

[Table 1 here]

The first turn away from IFRS to Swiss GAAP was announced end of June 2008. We therefore consider the years 2008 to 2013 in our probit regression, yielding a sample of 870 firm-year observations. We exclude all years after the announcement of a turn away to only include years where a turn to away from IFRS to Swiss GAAP is an option. For example, if a firm announces in 2009 to turn to Swiss GAAP, the years 2010 to 2013 are excluded for that firm. This reduces the number of firm-years by 80 observations. 23 firm-years are excluded due to missing accounting or stock market data. Our final sample for the probit regression contains 767 firm-year observations including 124 turn away firm-years for the full

sample(i.e, 34 switching firms), and 618 firm-year observations including 81 turn away firm-years for the constant sample(i.e., 26 switching firms).

[Table 2 here]

Table 2 shows the descriptive statistics of the variables for the observations included in the probit regression. Turn away firms are significantly smaller (untabulated *t*-statistic = 8.69), have lower leverage (*t*-statistic = 2.19), have lower return on assets (*t*-statistic =1.88), and are less likely to have voluntarily applied IFRS before 2005 compared to firms that continue to apply IFRS. There are no significant univariate differences concerning asset growth, stock returns, goodwill, and the proportion of free floating shares.

6. Empirical Results

6.1. Reasons for a Turn Away in Firms' Press Releases

Table 3 presents the reasons firms that state in their press releases for a turn away from IFRS to Swiss GAAP. 27 firms of the sample provide reasons for the switch to Swiss GAAP, 6 announce a switch without providing any reasons, and one firm did not issue a press release concerning the switch. Of these 27 firms, 22 firms (81%) mention high or increasing complexity of IFRS accounting rules; 18 firms (67%) mention high or increasing administrative costs associated with reporting under IFRS. For 15 firms (56%), a switch to Swiss GAAP is legitimate, because Swiss GAAP is based on the principle of "true and fair view". For at least 13 (48%) transparency or disclosure quality will not be adversely affected by the switch.

[Table 3 here]

6 firms (22%) expect increasing complexity and administrative costs because of the admission of IFRS for U. S. firms in 2014. They expect that IFRS are going to converge even more to US GAAP and become more "rule-based" to meet U. S. reporting requirements. 2 firms state that detailed disclosure requirements lead to the disclosure of business secrets. Swiss GAAP is perceived by 8 firms (30%) as a solid and accredited reporting alternative that is less complex and focuses on the basics. Its accounting rules are perceived as comprehensible yet sufficient to capture the complexity of small- and medium-sized firms. Also, a change from IFRS to Swiss GAAP involves only small accounting changes. 7 firms (26%) state that they are going to apply the same accounting methods under Swiss GAAP as previously under IFRS if these methods are permitted under Swiss GAAP.

One firm states that a switch to Swiss GAAP will not have adverse effects on the firm's ability to obtain capital. Another firm mentions specific accounting rules of IFRS as the reason for the turn to Swiss GAAP. This firm explains that rules of the newly issued IFRS 11 would require applying equity accounting for an associate that was previously consolidated on a proportional basis (i.e., 50 percent). This would lead to a financial report that is not consistent with a "true and fair view". Furthermore, the revised IAS 19 does not appropriately reflect the Swiss reality where pension funds are generally independent. Applying this standard would thus lead to volatile equity.

6.2. Other Determinants of a Turn Away (not Stated in Press Releases)

Table 4 reports the results of the probit regression for the full sample (767 observations) and for the constant sample (618 observations) across four different models. When conducting logit regressions instead of probit regressions, the results (not tabulated) are very similar and the inferences are identical. The regressions show that switching firms are significantly

smaller, have a smaller growth in total assets, have higher return on assets, and a larger proportion of goodwill than firms that choose to continue reporting under IFRS.

Our results for size and asset growth are consistent with the results of Leuz et al. (2008) on "going dark" decisions. In contrast to Leuz et al. (2008) who find that going dark firms have significantly higher leverage, we do not find that leverage has a significant influence on the decision to turn away from IFRS to Swiss GAAP, although the coefficient estimates have a positive sign. Voluntary adoption of IFRS prior to 2005 and the ratio of free floating to total shares outstanding have also no significant influence. The Pseudo R^2 is more than 20 percent, which is comparable to the results of Leuz et al. (2008).

[Table 4 here]

Our findings indicate that both economic and accounting considerations play a role in the decision to turn away from IFRS to Swiss GAAP. When first applying Swiss GAAP, goodwill can be set off against equity. This reduces potential goodwill impairments through net income under IFRS. The significantly positive coefficient for *GW* indicates that firms with high proportions of goodwill are more likely to switch the accounting standard, thereby reducing the risk of potential future goodwill impairments. The examination of the annual reports of turn away firms (see Section 6.3) further emphasizes this finding, that is, the annual reports reveal that *all* turn away firms make use of the option to set goodwill off against equity.

6.3. Consequences of a Turn Away on Accounting Disclosures

Accounting information required under Swiss GAAP is less extensive than under IFRS. To meet the information needs of its actual and potential investors, a company can decide to

voluntarily publish more information than required by the standard. The effects of a switch in accounting standards on provided accounting information is thus an empirical question.

[Table 5 here]

Table 5 shows the impact of a turn away on accounting disclosures. The mean number of pages of the annual report decreased by 13 pages (14%), of which 11 pages are attributable to the notes that decreased by 33 percent. About 2 pages are attributable to a reduced outline of the accounting principles in the notes. The total word count decreased by 19 percent. The mean changes are statistically significant at the 1%-level. The number of presented positions in the balance sheet and in the cash flow statement does not significantly change.

These results show that the overall amount of accounting information in the annual report has decreased after the switch to Swiss GAAP. One of the main differences between IFRS and Swiss GAAP are the rules relating to segment reporting. Segment reporting is a delicate topic for many firms. The concern that business secrets are disclosed competes with the goal to present information useful to the firms' investors. For this reason, the firm's segment reporting might be an indication of its commitment to transparent financial reporting. We therefore collect segment information before and after the turn away.

Untabulated findings reveal that 3 out of the 26 switching firms (12%) cease to provide segment information, and 3 other firms reduce information to geographical segments only. The mean number of disclosed segments (i.e., 3 segments) is approximately constant. Overall, 19 firms (73%) reduce provided segment information after turning to Swiss GAAP: More than half of the switching firms cease to provide segment information on EBIT, EBITDA, depreciation and amortization, capital expenditures, total assets, or total liabilities. 10 firms disclose only net sales, which is the minimum segment information required under Swiss

GAAP. 13 firms disclose this minimum information plus one additional key accounting figure. Overall, both quantity and quality of the segment reporting decrease after a switch from IFRS to Swiss GAAP.

To get further evidence on the influence of a switch to Swiss GAAP on the amount of accounting information disclosed, we collected information on audit fees. Audit fees tend to rise with the audit length and complexity, which are dependent on the size, the business, the organization, and the regulatory environment of the auditee. As the only factor that changed for the sample is the applied accounting standard, we expect to observe decreasing accounting fees after a turn to Swiss GAAP. Table 5 shows that audit fees significantly decrease on average by 15 per cent (*t*-statistic = -3.36) while the fees charged by the audit company for additional services increase by 44 percent (*t*-statistic = 1.84). This result suggests that while the implementation of Swiss GAAP leads to additional (probably nonrecurring) fees, the turn away from IFRS require less audit procedures. This finding is consistent with a decreasing amount of disclosed information after a switch to Swiss GAAP.

A change from IFRS to Swiss GAAP has not only effects on the amount of information disclosed but also on key numbers of the annual report.[6] Table 5 reports results on the consequences of a turn away on shareholders' equity and net income. The table shows that mean (median) equity has decreased by 32 (47) percent. Out of 26 firms, 19 report lower equity after a turn to Swiss GAAP. The difference is mainly attributable to the firms' decision to set off goodwill against equity, accounting for 83 percent of the decrease. Every switching firm in our sample chooses the option to set its goodwill off against equity after the switch from IFRS to Swiss GAAP. Finally, the increase in mean net income from 11.7 to 12.3 million Swiss Francs is about 5 percent. 16, 4, 6, firms report higher, lower, constant income,

[6] Firms that turn away from IFRS to Swiss GAAP have to provide *restated* accounting figures. In addition, a switching firm has to disclose a reconciliation of the shareholders' equity and net income. We use this restated information and reconciliations to compare shareholders' equity and net income across the two accounting standards.

respectively, after the turn away from IFRS. These changes are mainly attributable to (i) decreasing amortization of intangible assets previously recognized and amortized under IFRS but not recognized under Swiss GAAP, and (ii) lower pension expenses under Swiss GAAP.

6.4. Consequences of a Turn Away on Information Asymmetry

Table 6 reports results on the consequences of a turn away for two measures of information asymmetry, that is, the proportional bid-ask spread (Panel A) and its information asymmetry component (Panel B). According to Hypothesis 1, information asymmetry is expected to increase after a turn away, increasing the two measures. However, both the proportional bid-ask spread in Panel A and its isolated information asymmetry component in Panel B show an opposite pattern. They rather decrease after the announcement of a turn away, after the publication of the first report under Swiss GAAP, and in the long run (i.e., as of April 2013).

We control for confounding events, time effects, and self-selection bias by comparing the change in information asymmetry of the turn away sample to the change of the three control samples: The index, the size- and industry-matched, and the PSM control samples. In Panel A, the index control sample shows a constant pattern: Bid-ask spreads do not significantly change after t_1, drop slightly after t_2, and increase to their initial value in the long term. The size- and industry matched and the PSM samples show a similar pattern as the turn away sample, that is, a decrease in the bid-ask spreads after the announcement, a further decrease after the publication of the report, and no further changes in the long term. This could be due to a negative time trend in the group of firms within the same industry and similar size compared to the turn away firms.

[Table 6 here]

The difference-in-differences test corrects for this time trend. The effect of a turn away is still negative. However, the *t*-statistics of the difference-in-differences tests do not suggest that the decrease in information asymmetry is statistically significant. The difference is significant only in one specification, that is, the long term difference in bid-ask spreads is lower compared to the index control group. The untabulated *median* tests show similar results regarding the magnitude of the effects, and the ranksum test statistics indicate a significant decrease of the bid-ask spreads after switching to Swiss GAAP.

In Panel B, the results of the information asymmetry component of the bid-ask spreads are similar to the results of the bid-ask spread. We observe a decrease after the announcement and a further decrease after the publication that remains in the long run. These effects remain after controlling with our three control samples but the difference-in-differences are insignificant. In any case, we interpret the results for the information asymmetry component of the bid-ask spread with caution, as Panel B shows that the estimated component is higher than the bid-ask spread itself for the control samples. We interpret this result as indication that the estimation of the component introduces noise, making the component particularly imprecise for low bid-ask spreads. We thus base our main inferences on the findings from Panel A on the proportional bid-ask spread.

Overall, as the tests rather indicate a decrease in information asymmetry, we can—despite the small sample size—reasonably conclude that the turn away from IFRS to Swiss GAAP does not increase the information asymmetry of the switching companies. There are three possible explanations for our observations. A first explanation of the absence of increasing information asymmetry associated with a turn away would be a weak or missing link between levels of disclosure and information asymmetry. Given the results of prior literature, this explanation is rather unlikely.

Another interpretation would be that firms turning away from IFRS to Swiss GAAP were "label adopters" when adopting IFRS. Daske et al. (2013) show that these firms do not profit from tighter bid-ask spreads or lower costs of capital that are associated with higher degrees of accounting disclosure. Because they would not have profited from the capital market benefits when adopting IFRS, they are unlikely to suffer from the negative effects when changing back to local GAAP. This explanation is not completely convincing because we show that a turn away from IFRS to Swiss GAAP actually leads to decreased accounting disclosures in the financial statements. So even if these firms were label adopters at the time they first applied IFRS, they apparently disclose more information under IFRS than under Swiss GAAP. In addition, the rather high level of enforcement in Switzerland is likely to mitigate unserious application of IFRS. Therefore, label adopters cannot fully explain why the decrease in disclosure level after the turn away has no effects on information asymmetry.

We interpret the results as an indication that the extensive accounting rules and disclosure requirements of IFRS represent little added value for small- and medium-sized firms compared to Swiss GAAP. This explanation is consistent with firms' statements in press releases on the reasons of a turn away. Our results indicate that for small- and medium-sized firms, a less extensive standard based on the principle of "true and fair view" is sufficient to meet the demand for disclosure of the market participants.

6.5. Consequences of a Turn Away on Stock Returns

Panel A of Table 7 reports results on the effect of an announcement to turn away from IFRS to Swiss GAAP on stock returns for three event windows around the announcement date. The first row shows unadjusted raw returns. Raw returns exhibit a slight negative, statistically insignificant reaction about 0.5 percent to the announcement. About half of the switching firms exhibit a negative reaction: 12, 15, and 18 out of 34 firms have negative stock

returns after the announcement. Adjusting for the index (second row), the size- and industry-matched control sample (third row), and the PSM control sample (fourth row) reveals virtually identical inferences. The findings based on the constant sample of 26 firms (Panel B) do also not suggest significant negative announcement returns.

[Table 7 here]

We acknowledge that the small sample size introduces bias in favor of accepting the null hypothesis that the announcement of a turn away from IFRS to Swiss GAAP has no effect on returns. However, the magnitude of both the raw returns and the adjusted returns is not economically large as compared to the negative market reaction when firms "go dark", which is about ten times higher in magnitude (Leuz et al. 2008, p. 198).

7. Conclusion

This paper examines the causes and consequences of a voluntary turn away from IFRS to local GAAP. To conduct our analyses, we use a unique setting in Switzerland where such a turn away is permitted. To get insights on the causes of a turn away, we analyze firms' press releases and conduct a probit analysis. We analyze the firms' annual reports before and after the turn away to examine the consequences on disclosed financial information. We conduct a difference-in-differences analysis with three control groups to investigate the consequences of a turn away on information asymmetry measured with the proportional bid-ask spread and its information asymmetry component. Finally, we conduct an event analysis to investigate the stock market reaction to the announcement to switch the accounting standard.

We find that high administrative cost of IFRS reporting, increasing complexity of IFRS, and low perceived added value of IFRS compared to Swiss GAAP are reasons that firms state

in press releases for a turn away. The results from the probit analysis show that large and growing firms are less likely to switch. Notably, we find that firms with high proportions of goodwill relative to total assets are more likely to switch, consistent with firms avoiding the potential risk of future goodwill impairments. We find that firms substantially reduce the amount of information disclosed in the financial statements after a turn to Swiss GAAP: The page count of the notes to the financial statements, the information in the segment reporting, and the audit fees decrease.

We find no evidence that a switch from IFRS to Swiss GAAP increases information asymmetry for the examined sample. If anything, information asymmetry is reduced. This finding is not consistent with prior empirical results. We do also not find significant negative returns at the announcement date of a turn away from IFRS to Swiss GAAP. Overall, we interpret our findings as indication that the extensive IFRS accounting rules and disclosures add little value to small- and medium-sized enterprises. This explanation is consistent with firms' statements in press releases about their reasons to turn away.

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Figure 1.

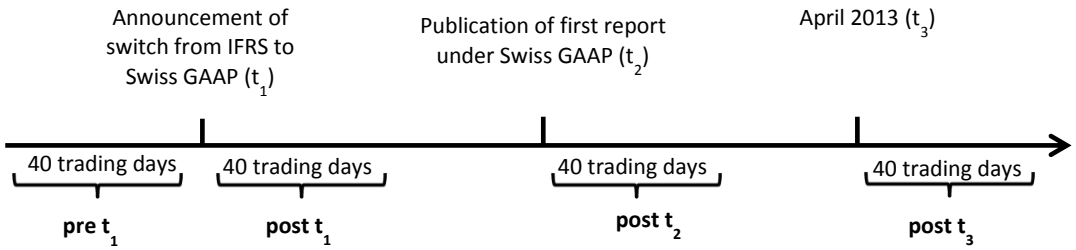
Announcement of switch from IFRS to Swiss GAAP (t_1)
Publication of first report under Swiss GAAP (t_2)
April 2013 (t_3)
40 trading days
40 trading days
40 trading days
40 trading days
pre t_1
post t_1
post t_2
post t_3

Table 1. Sample selection

	# of firms	Percent	Percent
Firms listed at the SIX Swiss Exchange	278	100%	
./. SIX not main stock exchange	(40)		
./. accounting standard not IFRS	(57)		
./. investment entities	(17)		
./. missing data	(19)		
= **sample for the probit regression**	**145**	52%	**100%**
./. firms not turning away	(111)		
= **firms turning away (full sample)**	**34**	12%	**23%**
./. firms with financial reports yet not available	(8)		
= **sample for difference-in-differences analysis (constant sample)**	**26**	9%	**18%**

This table outlines the sample selection process. The sample firms are initially identified from Thomson Reuters. We exclude: 40 firms with a main stock exchange different from the SIX Swiss Exchange, 57 firms not applying IFRS, 17 investment entities, and 19 firms due to missing accounting or market data. This yields a sample of 145 firms.

Of these 145 firms 34 did and 111 did not turn to Swiss GAAP. For 8 firms that turned to Swiss GAAP financial reports are not yet available. For the sample of 26 firms we can perform all tests. This is our constant sample. For the sample of 34 firms not all tests can be performed due to financial reports yet to be published. This is our full sample.

Table 2. Descriptive statistics

Panel A: Descriptive statistics for the turn away sample (full sample)

Variable	N	Mean	p1	p25	Median	p75	p99	Std. dev.
SIZE	124	19.41	14.89	18.33	19.55	20.27	23.01	1.68
GROWTH	124	0.03	-0.73	-0.08	0.00	0.06	0.79	0.55
LEV	124	0.50	0.16	0.33	0.52	0.61	1.28	0.24
ROA	124	0.01	-0.87	-0.02	0.04	0.08	0.23	0.32
RET	124	-0.02	-0.75	-0.23	-0.02	0.15	1.20	0.39
GW	124	0.09	0.00	0.00	0.03	0.12	0.50	0.15
IFRS	124	0.57	0.00	0.00	1.00	1.00	1.00	0.50
FFLOAT	124	0.66	0.16	0.47	0.63	0.94	1.00	0.26

Panel B: Descriptive statistics for firms that continued reporting under IFRS

Variable	N	Mean	p1	p25	Median	p75	p99	Std. dev.
SIZE	643	21.13	16.72	19.70	21.05	22.15	26.81	2.08
GROWTH	643	0.04	-0.46	-0.04	0.03	0.11	0.69	0.20
LEV	643	0.55	0.12	0.39	0.56	0.68	0.97	0.22
ROA	643	0.04	-0.46	0.01	0.04	0.09	0.35	0.13
RET	643	0.01	-0.78	-0.28	-0.02	0.23	1.25	0.43
GW	643	0.08	0.00	0.00	0.04	0.13	0.38	0.10
IFRS	643	0.67	0.00	0.00	1.00	1.00	1.00	0.47
FFLOAT	643	0.65	0.10	0.45	0.67	0.88	1.00	0.26

This table reports descriptive statistics of the regression variables for firms that voluntary switch from IFRS to Swiss GAAP (panel A) and firms in the SPI that continue reporting according to IFRS (panel B). *SIZE* is the natural logarithm of the total assets. *GROWTH* is the average growth of the total assets for the preceding to years. *LEV* is total assets minus equity over total assets. *ROA* is the ratio of net income and total assets. *RET* is the stock market return of the firm's common equity. *GW* is the goodwill over total assets. *IFRS* is a dummy variable that equals one if the firm has adopted the IFRS prior to the mandatory adoption in 2005. *FFLOAT* is the ratio of free floating shares and outstanding shares. All variables are measured at the beginning of the year.

Table 3. Reasons for a turn away from IFRS to Swiss GAAP stated in press releases

Stated reasons in press releases	#	%
Main reasons		
High or increasing complexity of IFRS	22	81%
High or increasing administrative costs associated with reporting under IFRS	18	67%
Swiss GAAP is based on the principle of "true and fair view"	15	56%
Transparency or disclosure quality in IFRS reports is comparable to reports according to Swiss GAAP	13	48%
Other reasons		
Swiss GAAP is a solid and accredited accounting standard	8	30%
The same methods used under IFRS are going to be used under Swiss GAAP if permitted	7	26%
Higher complexity and costs expected because of admission of IFRS for U.S. companies	6	22%
Rules of Swiss GAAP are sufficient or better to capture the complexity of the firm's business	4	15%
IFRS has too many disclosure requirements	4	15%
Swiss GAAP focuses on the basics	3	11%
IFRS has converged too much to US GAAP in recent years	2	7%
Detailed disclosure requirements of IFRS lead to disclosures of business secrets	2	7%
Costs of Swiss GAAP reporting are acceptable for medium-sized companies	2	7%
A switch from IFRS to Swiss GAAP implies only small accounting changes	2	7%
Swiss GAAP is a comprehensible body of accounting rules	1	4%
A switch from IFRS to Swiss GAAP won't have adverse effects on the firm's ability to obtain capital	1	4%
IFRS and Swiss GAAP have the same conceptual framework	1	4%
Swiss GAAP is adequate for international Swiss companies	1	4%
Application of IFRS would lead to biased financial reporting	1	4%
Costs-benefit ratio is reasonable under Swiss GAAP	1	4%

This table reports the reasons for a turn away from IFRS to Swiss GAAP that firms state in press releases. The second column reports the number of firms mentioning the reason. The sample consists of 34 firms that have announced to turn away between 2008 and 2013. Of these 34 firms 7 have either no press release related to the turn away or don't mention any reasons for the turn away in their press release. For the percentage numbers, only the 27 firms that state reasons for the switch are considered.

Table 4. Probit regression analysis on the causes of a turn away from IFRS to Swiss GAAP

Dependent variable		***SWITCH***							
Variables	Predicted sign	Model (1)		Model (2)		Model (3)		Model (4)	
		Full sample	Constant sample	Full sample	Constant sample	Full sample	Constant sample	Full sample	Constant sample
Intercept	?	3.034 ***	4.043 ***	3.240 ***	4.672 ***	3.225 ***	4.670 ***	3.104 ***	4.609 ***
		(2.68)	(3.23)	(2.71)	(3.46)	(2.71)	(3.47)	(2.62)	(3.39)
SIZE	-	-0.289 ***	-0.347 ***	-0.305 ***	-0.390 ***	-0.303 ***	-0.389 ***	-0.315 ***	-0.392 ***
		(-5.51)	(-6.13)	(-5.35)	(-6.17)	(-5.27)	(-6.05)	(-5.94)	(-6.28)
GROWTH	-	-1.696 ***	-1.611 **	-1.564 ***	-1.370 **	-1.577 ***	-1.380 **	-1.486 ***	-1.328 **
		(-3.23)	(-2.59)	(-3.10)	(-2.34)	(-3.11)	(-2.34)	(-2.99)	(-2.30)
LEV	+	0.421	0.557	0.481	0.687	0.479	0.685	0.444	0.662
		(1.00)	(1.16)	(1.13)	(1.39)	(1.13)	(1.39)	(1.02)	(1.33)
ROA	?	1.817 ***	1.668 ***	1.741 ***	1.555 ***	1.756 ***	1.570 ***	1.742 ***	1.562 ***
		(3.52)	(3.08)	(3.40)	(2.82)	(3.42)	(2.83)	(3.34)	(2.78)
RET	?	-0.294	-0.253	-0.256	-0.173	-0.254	-0.168	-0.244	-0.168
		(-1.36)	(-1.06)	(-1.22)	(-0.75)	(-1.22)	(-0.73)	(-1.18)	(-0.72)
GW	+			1.076 *	1.835 **	1.078 *	1.842 **	1.032	1.831 **
				(1.67)	(2.51)	(1.67)	(2.54)	(1.51)	(2.46)
IFRS	-					-0.041	-0.049	-0.023	-0.445
						(-0.22)	(-0.22)	(-0.12)	(0.20)
FFLOAT	-							0.470	0.193
								(1.22)	(0.47)
Year fixed effects		Included	Included	Included	Included	Included	Included	Included	Included
Pseudo R^2		0.2104	0.2648	0.2187	0.2863	0.2188	0.2865	0.2245	0.2874
F-statistic		67.22 ***	62.43 ***	70.09 ***	67.88 ***	71.97 ***	73.77 ***	82.02 ***	81.54 ***
N		767	618	767	618	767	618	767	618

The table reports coefficient estimates and, in parentheses, *t*-statistics based on heteroskedasticity-robust standard errors clustered by firm (Rogers, 1993). The dependent variable, *SWITCH*, is a dummy variable that equals 1 in the year where the firm announces to switch from IFRS to Swiss GAAP FER and 0 otherwise. Firm-years after a switch are not included. See Table 2 for the definition of the explanatory variables. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed).

Table 5. Changes after a turn away

	N	IFRS					Swiss GAAP					Difference of the means	
		Mean	*SD*	*Q1*	*Median*	*Q3*	*Mean*	*SD*	*Q1*	*Median*	*Q3*		
Extent of the annual report													
Number of pages in the annual report	26	94.12	33.87	74	85	118	80.58	30.18	60	79	102	-13.54 *** (6.76)	-14%
Number of pages in the notes	26	34.23	12.02	25	32	45	22.81	7.23	18	22	29	-11.42 *** (7.77)	-33%
Number of pages on principles of accounting	26	8.88	2.30	7	9	10	6.96	2.24	5	6	9	-1.92 *** (3.82)	-22%
Number of words in the annual report	26	26,832	9,414	19,947	24,871	30,882	21,846	7,582	16,737	20,786	23,917	-4,985 *** (6.54)	-19%
Number of positions in the balance sheet	26	32.50	4.61	31	34	36	32.62	4.44	28	34	35	+0.12 (0.20)	+0%
Number of positions in the income statement	26	20.62	4.09	18	20	22	18.85	4.67	16	18	20	-1.77 *** (2.88)	-9%
Number of positions in the cash flow statement	26	32.15	6.16	28	32	36	32.65	5.70	31	33	34	+0.50 (0.76)	+2%
Equity and net income (in 1000 CHF)													
Shareholder's equity	26	171,131	203,947	37,475	113,200	197,958	116,789	133,443	35,000	60,214	174,400	-54,341 *** (2.87)	-32%
Goodwill set off against equity	26	-	-	-	-	-	45,031	76,045	0	8,500	68,300	-	-
Goodwill set off against equity over equity	26	-	-	-	-	-	18%	22%	0%	7%	29%	-	-
Net income	26	11,728	39,615	-9,400	2,200	17,000	12,370	40,441	-9,300	3,700	17,200	642 (0.95)	+5%
Audit (in 1000 CHF)													
Audit fees	26	410	380	158	319	502	350	320	142	263	474	-60 *** (3.36)	-15%
Additional fees	26	102	109	2	73	176	147	191	12	72	183	+45 * (1.84)	+44%
Total fees	26	512	475	158	374	609	497	478	172	299	588	-15 (0.50)	-3%

This table presents descriptive statistics on the extent of disclosed financial information in the annual report, the changes in shareholder's equity and net income, and the changes in the audit fees before and after a turn away from IFRS to Swiss GAAP. The penultimate column shows the differents in the means and the related t-statistic in braquets below. Results are shown for the constant sample, i. e. for the 26 firms of 34 that have available annual reports end of 2013.

For the number of pages, words, and positions we compare the last annual report prepared according to IFRS to the first annual report prepared according to Swiss GAAP. For the audit fees we proceed similarly, we compare the fees of the year before the switch to the fees directly after. For equity, goodwill and net income we compare the disclosed numbers of the last annual report under IFRS to the restated numbers of the same year in the first annual report under Swiss GAAP. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed).

Table 6. The effect of a turn away from IFRS to Swiss GAAP on information asymmetry

Panel A: Difference-in-differences analysis of proportional bid-ask spreads

Group	N	(a) Pre t1	(b) Post t1	(c) Post t2	(d) Long term	(b) - (a)	(c) - (a)	(d) - (a)
(1) Turn away sample	26	0.047	0.043	0.035	0.034	-0.005	-0.012	-0.013 **
						(-0.70)	(-1.37)	(-2.11)
(2) Index control	26	0.017	0.017	0.015	0.018	0.000	-0.002 *	0.001
						(0.63)	(-1.83)	(0.60)
(3) Size- and industry-matched control	26	0.016	0.015	0.013	0.013	-0.001	-0.003 **	-0.004
						(-0.99)	(-2.09)	(-1.36)
(4) PSM-matched control	26	0.017	0.015	0.012	0.012	-0.002	-0.004	-0.005 ***
						(-1.39)	(-1.52)	(-2.80)
(1) - (2)		0.030 ***	0.026 **	0.020 **	0.016 **	**-0.004**	**-0.010**	**-0.014** **
		(3.18)	(2.58)	(2.05)	(2.15)	**(-0.65)**	**(-1.13)**	**(-2.17)**
(1) - (3)		0.031 ***	0.027 **	0.022 **	0.022 **	**-0.004**	**-0.009**	**-0.010**
		(3.19)	(2.66)	(2.24)	(2.64)	**(-0.57)**	**(-0.98)**	**(-1.42)**
(1) - (4)		0.031 ***	0.028 **	0.023 **	0.022 ***	**-0.003**	**-0.008**	**-0.008**
		(2.98)	(2.65)	(2.31)	(2.76)	**(-0.44)**	**(-0.83)**	**(-1.25)**

Panel B: Difference-in-differences analysis of the information asymmetry component of the proportional bid-ask spreads

Group	N	(a) Pre t1	(b) Post t1	(c) Post t2	(d) Long term	(b) - (a)	(c) - (a)	(d) - (a)
(1) Turn away sample	26	0.040	0.033	0.029	0.029	-0.007	-0.011	-0.011
						(-0.99)	(-1.11)	(-1.23)
(2) Index control	26	0.022	0.019	0.016	0.019	-0.003 **	-0.006 **	-0.003
						(-2.25)	(-2.57)	(-1.30)
(3) Size- and industry-matched control	26	0.021	0.022	0.019	0.019	0.001	-0.002	-0.002
						(0.18)	(-0.32)	(-0.29)
(4) PSM-matched control	26	0.020	0.020	0.012	0.013	0.000	-0.008 **	-0.007
						(0.06)	(-2.20)	(-1.39)
(1) - (2)		0.018 *	0.014	0.013	0.010	**-0.004**	**-0.005**	**-0.008**
		(1.87)	(1.66)	(1.34)	(1.34)	**(-0.57)**	**(-0.49)**	**(-0.89)**
(1) - (3)		0.020 *	0.011	0.011	0.010	**-0.009**	**-0.009**	**-0.009**
		(1.83)	(1.03)	(0.88)	(1.14)	**(-0.86)**	**(-0.75)**	**(-0.81)**
(1) - (4)		0.020 *	0.013	0.017 *	0.016 *	**-0.007**	**-0.003**	**-0.004**
		(1.96)	(1.16)	(1.69)	(2.00)	**(-0.63)**	**(-0.31)**	**(-0.43)**

This table reports mean values of the proportional bid-ask spread (Panel A) and the information asymmetry component of the proportional bid-ask spread (Panel B) for the pre and post announcement period, the post publication period, and the long term. Numbers in brackets report the *t*-statistics. The periods consist each of the 40 trading days prior, after to the announcement of a turn away, after the publication of the first report according to Swiss GAAP, and after April 2end 2013, respectively. The turn away sample consists of all Swiss firms that announced a turn away from IFRS to local GAAP from 2008 to 2013 with released annual reports according to Swiss GAAP (constant sample).
For the index control each firm is matched to the firms of the Swiss Performance Index (SPI) that apllied IFRS from 2008 to 2013. The size- and industry-matched control sample consists of firms of the index control individually matched according to size and industry to the turn away firms. The propensity score matched sample consists of firms of the index control matched according to model 4 in table 4. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed).

Table 7. The effect of a turn away from IFRS to Swiss GAAP on returns

Panel A: Full sample

	N	Returns			# of negative
		[0, 1day]	[0, 2days]	[-5days, 5days]	
Raw	34	-0.005	-0.004	-0.005	(12, 15, 18)
		(-0.83)	(-0.49)	(-0.32)	
Index-adjusted	34	-0.006	-0.006	-0.007	(19, 19, 19)
		(-0.89)	(-0.93)	(-0.58)	
Size- and industry-adjusted	34	-0.005	-0.001	0.014	(16, 14, 17)
		(-0.65)	(-0.16)	(0.73)	
PSM-adjusted	34	-0.005	-0.004	-0.026	(16, 16 , 16)
		(-0.63)	(-0.47)	(-1.36)	

Panel B: Constant sample

	N	Returns			# of negative
		[0, 1day]	[0, 2days]	[-5days, 5days]	
Raw	26	-0.004	-0.005	-0.006	(7, 11, 13)
		(-0.53)	(-0.50)	(-0.37)	
Index-adjusted	26	-0.005	-0.008	-0.006	(13, 15, 13)
		(-0.57)	(-0.91)	(-0.38)	
Size- and industry-adjusted	26	-0.007	-0.004	0.016	(12, 11, 12)
		(-0.71)	(-0.46)	(0.65)	
PSM-adjusted	26	-0.009	-0.006	-0.019	(12, 12, 11)
		(-0.93)	(-0.60)	(-0.84)	

This table reports mean values of cumulative raw, index-adjusted, size- and industry-adjusted, and propensity score adjusted stock returns for the turn away sample around the turn away announcement date. Results are reported for three different event windows: [0, 1day] is the announcement day; [0, 2days] is the period of the announcement and the following trading day; [-5days, 5days] are the five trading days before and after the announcement. The second column reports the sample size. The last column reports the number of negative returns in the sample for the different event windows, respectilvely. Numbers in brackets, when below returns, report the *t*-statistics. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed).