Market Reaction to IAS/IFRS

Evidence from the Athens Stock Exchange

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Abstract

The capital market effects of IAS/IFRS have been examined in the international literature and have indicated that the effects are significant. In the contrary, evidence drawn from the Athens Stock Exchange indicates that there is no effect of IAS/IFRS on stock prices and returns. The point was whether mandatory adoption of IAS/IFRS could guarantee value-relevant accounting information. Restricted to a country with poor institutional factors affecting the preparers' financial reporting incentives, the empirical findings are justified. On the other hand, the transition from a tax-driven accounting system which was characterized by a stakeholder(debt-holder) orientation to a shareholder oriented(and independent of tax reporting considerations) accounting system seems to be ineffective up to date.

Keywords: Stock exchange, Athens, IAS/IFRS

1. Introduction

Approaches to evaluating the information content and ultimately the value relevance of publicized financial reports have since the appearance of Ball and Brown (1968), been based on viewing the reports as primary sources of information. As such the relation between a firm's accounting earnings and its market value has become a key standard by which accounting quality is judged. When held to this standard however, traditional financial reports have gained a less than flattering image-the problem being that while accounting earnings empirically do relate to firm market value, most of the information summarized by financial reports appears to have been impounded into the market price long before the report itself becomes publicly available. As a result, the ability to explain contemporaneous stock price behavior with traditional accounting information has proven to be modest as evidenced by notoriously low R^2.

Both the positive accounting theory and the voluntary disclosure literatures have examined the capital market consequences of changes in corporate reporting. Positive accounting theory research has focused on effects of changes in accounting methods and regulatory decisions to change standards. Voluntary disclosure research has examined the capital market effects of changes in corporate disclosure.

International Accounting Standards (IAS) has their origins in the decade of 1960's. More precisely, in 1966, with an initial proposal to enact the ICAEW, AICPA and CICA for England Wales, USA and Canada respectively. In 1973, an agreement was reached to establish an international body with the sole purpose of writing accounting standards to be used internationally. In the mid 1973, the International Accounting Standards Committee (IASC) was established mandated with releasing new international standards, which would be rapidly accepted and implemented worldwide. The IASC lasted 27 years until the year 2001, when it was restructured to become the International Accounting Standards Board (IASB). A series of accounting standards known as the IAS were released by the IASC between 1973 and 2000, and were ordered numerically. They started with IAS 1 and concluded with IAS 41. At the time when IASB was established, they agreed to adopt the set of standards that were issued by the IASC but any standards to be published after that would follow a series known as the International Financial Reporting Standards (IFRS). Any principles within IFRS that may be contradictory will definitely supersede those of the IAS.

Commission Regulation EC1126/2008 of the European Parliament and Council adopting certain IASs in accordance with Regulation (EC) 1606/2002 requires that for each financial year starting on or after 1 January 2005, publicly traded companies governed by the Law of a member state are, under certain conditions, to prepare their consolidated accounts in conformity with IAS as defined in Article 2 of that Regulation. Besides, according to National Law 2992/20 March 2002(Government Gazzette No. 54/20-4-2002), the application of IAS denoted as IFRS since 2001, refers to financial statements(annual or interim) that are prepared for the accounting periods ending on 31 December 2002 by all listed companies to the Athens Stock Exchange. The mandatory implementation of IAS/IFRS has been started by year 2005 after the Law 3301/2004.

The Greek accounting system was based on a tax-driven perspective which was characterized by a stakeholder (debt-holder) orientation. Nowadays, after half of a decade of the transition it stands to shareholder oriented and independent of tax reporting considerations as it was expected after the adoption of IAS/IFRS.

IAS/IFRS is the outcome of an evolutionary process commencing with domestic accounting standards (DAS) and proceeding with the translation and restatement of financial statements, the condensed financial reports, the reporting required by stock markets, the US GAAP in case of listed companies at an American Stock Exchange, the parallel adoption of IAS/IFRS and domestic standards up to the mandatory IAS/IFRS adopted by listed companies. As in Jermakowicz et al., (2006), the application of IFRS by listed companies is considered to be a crucial element in establishing a single European capital market. The IAS regulation will introduce the biggest changes to financial reporting in Europe in 30 years. Approximately, 7000 EU-listed companies will be affected directly by this regulation. In many European countries both IFRS and national accounting standards are allowed. In GAAP Convergence 2002, the firms caution that, while only reporting IFRS for listed companies represent a logical transition towards convergence, a two-standard system where some companies continue to use national GAAP, may be difficult to maintain in the long-run (Larson and Street, 2004). The point is that making IFRS mandatory for publicly traded companies and optional/voluntary for other large companies creates difficulties since large companies may be global players as well. US regulators work on the convergence plan for incorporating IFRS in the US financial reporting system. By completing the convergence work in 2011, the IASB will provide a period of stability of accounting standards for newly adopting countries, similar to the "stable platform" given to European companies and investors between 2004 and 2009. Companies in US have to identify and consider the implications of business, accounting, tax structure, financing, long-term contractual commitment, investor, control, systems and work-force related issues. In 2010 about 100 countries have already adopted IFRS and 150 countries will have adopted IFRS in 2011.

Prior research has identified several circumstances influencing voluntary adoption of IFRS by European or US companies. Voluntary disclosures are credible and costless (Gigler et al.,1998). In case of mandatory financial reporting the value-relevance of financial information may be different. Firms are equally likely to provide voluntary disclosures, regardless of whether their mandatory disclosures are favorable or unfavorable. There is a non-monotonic relationship between the likelihood of firms voluntarily disclosing information and the informational quality of their mandatory disclosures (Einhorn,2005). It appears that firms' overall disclosures might be enhanced by limiting their discretion in mandatory reporting or by extending the scope of mandatory disclosure requirements.

Up to date only the impact of IAS/IFRS on earnings, stockholders' equity, and some financial ratios has been investigated in prior Greek research studies (Hellenic Capital Market Commission, 2006;Grant-thornton,2006). The impact of IAS/IFRS on stock prices and returns is investigated in this study emphasizing the mandatory financial disclosure. In other words, the purpose of this study is to verify the capital market effects of IAS/IFRS in the framework of the Athens Stock Exchange. Greece is characterized as a country with high

deviation of DAS from IAS/IFRS and low level of investor protection.

Even if prior studies (i.e. Hellenic Capital Market Commission, 2006) showed that on average under IFRS profit after tax was 6.16% higher than GAS (Greek Accounting Standards),our study indicates that under IFRS various earnings variables have no effect on stock prices or stock returns.

The same study by Hellenic Capital Market Commission (2006) indicated that under IFRS equity was 2.44% higher than under GAS. The strongest impact on shareholders' equity was caused by adjustments to tangible assets, deferred tax assets, and liabilities. The most frequent adjustments were recognition of deferred tax assets and liabilities, de-recognition of start-up costs capitalized as intangible assets and recognition of pension liabilities. In addition, a study by Grant-Thornton (2006) showed that 54% of firms listed on the Athens Stock Exchange reported a positive impact on equity. Also it was found that there was an increase in net profit of about 4.15%.

The rest of the paper is organized as follows: IFRS and Domestic Accounting Standards are described in Section 2. Literature is discussed in Section 3. Research methodology is described in section 4. Section 5 discusses the sample design. Section 6 presents empirical findings. Conclusions are summarized in last Section 7.

2. Review of the Literature

A major link between economic theory and contemporary accounting research is the notion that a firm's commitment of greater disclosure should lower cost of capital that arise from information asymmetries. Botosan (1997) documents a significant relation between her disclosure index and the firm's cost of capital only for firms with low analyst following. Using a similar index for foreign firms trading in US equity markets, Botosan and Frost (1998) find a significant association between liquidity and the timeliness but not the level of disclosure.

Welker(1995),and Sengupta(1998) use analyst ratings of the firm's overall disclosure policy and demonstrate that "firms with higher disclosure ratings have on average lower bid-ask spreads and lower cost of debt at the time of the issue respectively''. Healy, Hutton and Palepu(1999) show that ''firms with sustained increases in disclosure ratings exhibit improvements in a number of variables including the bid-ask spreads''. Bartov and Bodnar(1996) examine whether differences in information asymmetry explain more informative accounting choices, whereas Leuz and Verrecchia(2000) attempt to document a reduction in the information asymmetry component of the firm's cost of capital subsequent to the reporting change.

Auer(1998) examines changes in share price volatility and the firm's beta factor for Swiss firms that have switched to IAS. He finds a small but insignificant reduction in volatility and no change in the beta factor. Ashbaugh and Pincus(1999) investigate the accuracy of analysts' forecast errors before and after the adoption of IAS by non-US firms and find that the change in forecast errors is weakly negative. Leuz(1999b) examines German firms that face a similar regulatory environment, but by virtue of their listing on the "New Market"-a market segment

for growth firms in emerging industries-have to provide financial statements in accordance with either IAS or US GAAP. He documents that the choice between IAS and US GAAP has no measurable consequences for the bid-ask spreads and trading volume of these firms. Leuz and Verrecchia(2000) focus on proxies for the information asymmetry component: namely the bid-ask spread, trading volume and share price volatility. They found in a cross-sectional analysis that firms that commit to either IAS or US GAAP exhibit lower percentage bid-ask spreads and higher share turnover than firms using German GAAP.

A commitment to increased levels of disclosure reduces the possibility of information asymmetries arising either between the firm and its shareholders or among potential buyers and sellers of firm shares. This in turn should reduce the discount at which firm shares are sold,and hence lower the costs of issuing capital(Diamond and Verrecchia(1991),Baiman and Verrecchia(1996)). Baiman and Verrecchia(1996) demonstrate that ''the firm's optimal choice of financial disclosure policy is affected by the liquidity needs of the capital market and involves a trade-off between productive efficiency and the cost of capital''. They show that more disclosure results in less information about the manager's action being impounded in price so that price-based performance measures become less efficient, agency problems increase and output falls. The cost of capital falls with more disclosure because the latter increases market liquidity which encourages investment by individuals who may have future liquidity needs. Thus as investors' potential liquidity needs increase the optimal level of disclosure decreases the expected profits of insider-trading decrease and the manager's residual moral hazard problem increases(leading to decreased efficiency).There is anectodal evidence that in the United States relative to other economies sources of capital are more diffuse and financial markets are more liquid, there is greater financial disclosure, there is less insider trading and there is greater reliance on performance-related compensation.

Easley and O'Hara (2004) investigate the role of information in affecting a firm's cost of capital. Their particular focus is on the specific roles played by public and private information. The argument they develop is that differences in the composition of information between public and private information affect the cost of capital with investors demanding a higher return to hold stocks with greater private(and correspondingly less public) information.

Beatty et al.(1996) examine the stock price reaction of banks and insurance companies to events leading to the adoption of Statement of Financial Accounting Standards(SFAS) 115.This standard requires the use of fair value accounting for certain investment securities and stipulates that the unrealized gains and losses on these securities be recognized in shareholders' equity. They find a negative price reaction to events expected to increase the likelihood of SFAS 115 adoption for the sample of bank holding companies but find no significant reaction for the sample of insurance companies. Barth (1994) and Petroni and Wahlen (1994) examine whether stock prices reflect the amount of these gains and losses. Barth et al.(1995) examine whether stock prices reflect the volatility of the gains and losses. They examine investors' reactions to fair value information by investigating how FVA affects earnings volatility as reflected in bank share prices. They find evidence that fair value based earnings and capital are more volatile than historical cost earnings and capital and share prices reflect this incremental volatility. Cornett et al. (1996) examine the impact of 23

pronouncements related to fair value accounting rules on equity prices of financial institutions. The results document that announcements that signal an increased(decreased) probability of issuance of FVA standards produce negative (positive) abnormal stock price reactions for sample banks. The magnitude of share price reactions is negatively related to a bank's primary capital ratio and positively related to the ratio of book value of the investment portfolio to total assets and the ratio of the difference between the market and book value of the investment portfolio to total assets. These results suggest that fair value measures and disclosures provide significant power in explaining bank share prices beyond that provided by historical cost information (book values).Previous market event studies conclude that accounting rules are not associated with movements in security prices unless adoption of such rules causes real economic consequences (e.g. cash flow changes) (Gonedes and Dopuch,1974;Leftwich, 1981).

The unraveling results which follow from the assumed credibility of voluntary disclosures mean that generally there is no need to require disclosure. Because many voluntary disclosures are unverifiable statements of management's beliefs and intentions, there is a potential role for mandated financial reports as providing noisy but verifiable information that may be useful in(ex post) evaluating the truthfulness of disclosures that are not directly verifiable. Even if voluntary disclosures may be costly, there is a focus on the role of mandated reports in generating credibility of unverifiable disclosures. Furthermore, when the mandatory report is a noisy version of the manager's private information, the voluntary disclosure can be incrementally value relevant over the mandatorily reported verifiable information, making the voluntary disclosure useful to investors even in the presence of the mandatory report. There is a contention that mandatory reports play a secondary(i.e. confirmatory) rather than a primary role in informing prices(Gigler and Hemmer,1998).According to Einhorn(2005) ''firm's mandatory disclosures crucially affect and may even completely reverse, their voluntary disclosure strategies'' .Firms are equally likely to provide voluntary disclosures, regardless of whether their mandatory disclosures are favorable or unfavorable. Their analysis also implies a non-monotonic relationship between the likelihood of firms voluntarily disclosing information and the informational quality of their mandatory disclosures. Furthermore, it appears that firm's overall disclosures might be enhanced by limiting their discretion in mandatory reporting or by extending the scope of mandatory disclosure requirements. The results of his paper clarify that the information flow through each of the two most important communication channels in capital markets, firms' mandatory and voluntary disclosures can not be fully understood without taking into consideration the interaction between them. Much of the evidence on the credibility of voluntary disclosures focuses on the accuracy and stock price effects on management forecasts. Waymire(1984),and Ajinkya and Gift(1984) show that ''there are positive stock price reactions to management forecasts of earnings increases and negative reactions to forecasts of earnings decreases''. A number of studies examine the economic consequences of voluntary disclosure. These studies argue that ''there are potentially three types of capital market effects for firms that make extensive voluntary disclosures: improved liquidity for their stock in the capital market, reductions in their cost of capital and increased following by financial analysts''. Diamond and Verrecchia (1991) and Kim and Verrecchia(1994) argue

that ''voluntary disclosure reduces information asymmetries among informed and uninformed investors''. As a result, for firms with high levels of disclosure, investors can be relatively confident that any stock transactions occur at a "fair price", increasing liquidity in the firm's stock. In addition, these studies argue that ''expanded disclosure and stock liquidity will be associated with increased institutional ownership''. Healy et al.(1999) find that ''firms that expand disclosure experience significant contemporaneous increases in stock prices that are unrelated to current earnings performance''.

Finally, according to Hall et al. (2010) IFRS adoption is unlikely to have major direct macroeconomic effects (e.g. on economic growth) given the already strong institutions in the USA. They assert that ''there could be smaller effects from comparability on trade flows, portfolio flows and foreign direct investments, including international mergers and acquisitions''.

3. IFRS and DAS (Greek Accounting Standards)

There are changes between Greek Accounting Standards (or Domestic Accounting Standards) and International Accounting Standards/International Financial Reporting Standards as far as the following accounting moments as shown in the following Table:

Table 1:Main Accounting Moments under DAS and IAS

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	DAS	IAS/IFRS
Goodwill	written-off as incurred or amortized over 5 years	capitalized
Intangibles and R & D	written-off as incurred or amortized over 5 years	capitalized
Inventory valuation	FIFO or average costs	systematic allocation of the production overhead costs is required
Tangible fixed assets	valued at historic cost	revaluation is permitted

plus improvements
only two departures are allowed:
(i)revaluation according to special legislation:
such laws are passed occasionally and
provide for obligatory revaluation of
land and buildings according to specific indices.
There was also one instance of revaluation
for machinery,but it was not obligatory.
Revaluation applies to both cost
and accumulated depreciation.
The surplus is transferred to reserves
and then capitalized or offset against losses.
(ii)Devaluation to arrive at the current value of an asset
if this devaluation is considered of a permanent nature.

Depreciation according to Law 2190/1920
should be based on estimated economic life.
The indices used are those prescribed by the tax law,
which are compulsory.
Accelerated depreciation is provided for under various incentive laws.
This depreciation is shown separately in the profit and loss
in non-operating expenses.
Any depreciation in excess of the legal amount
is not recognized as an allowable expense.

Leases   largely based on tax-rules   capitalized as finance lease
if criteria are met.

Foreign currency   exchange differences on cash balances   unrealized gains or losses recognized

Translation adjustment   are taken to the income statement currently with exception for long-term monetary assets.
Exchange differences on receivables and payables
are recorded in separate accounts by currency and nature
(short and long-term) and are treated as follows:
(1)short and long-term exchange losses are taken
to the income statement currently
(2)short-term exchange gains are deferred and
are taken to the income statement in the following year
(3)long-term exchange gains are deferred, and
after offsetting with any losses in the following year,
are taken to the income statement to the extent
corresponding to the collection or payment of the receivable
or payable.
Exchange differences on loans or credits
for purchases of fixed assets are recorded
in separate accounts by loan.
After offsetting exchange losses and gains of the same loan,
remaining debit balances are recorded as deferred charges
and amortized over the period of the loan.
Credit balances are also deferred and are taken
to the income statement,to the extent
corresponding to the loan repaid in each year.

Provisions   no provisions   the actuarial present value of
promised retired benefits should be recorded using either current or projected salary levels

4. Research Methodology

Regression analysis with firm specific data will be used to test the impact of IAS/IFRS on stock prices and stock returns. Thus far, stock prices or stock returns are regressed on various earnings variables and financial statement ratios.

Literature concerning accounting earnings and stock prices has been formulated in the framework of earnings based valuation model expanded with the dividend irrelevance proposition. These standard models which have also been tested by Easton and Harris (1991) and Zimmerman and Kothari(1995) have as follows:

I.Price on earnings

$P_{i,j} = a + bA_{i,j} + e_{i,j}.$

II.Returns on prior earnings model over opening market value

$[(A_{i,j}/P_{i,j-1})] = a_{i,j} + b_{i,j}[A_{i,j-1}]/P_{i,j-1}]$

III.Returns on change in earnings over opening market value

$[(A_{i,j}/P_{i,j-1})] = a_{i,j} + b_{i,j}[(A_{i,j}-A_{i,j-1})/P_{i,j-1}]$

IV.Returns on earnings over opening market value

$[(P_{i,j}-P_{i,j-1})+d_{i,j}] /P_{i,j-1} = a_{i,j} + b_{i,j}(A_{i,j}/P_{i,j-1}) + e_{i,j}$

V.Returns model regressed on earnings over opening market value

$P_{i,j}/P_{i,j-1} = a + b1_{i,j}A_{i,j}/P_{i,j-1}$

VI.Differenced-price model

$P_{i,j}-P_{i,j-1} = A_{i,j}-A_{i,j-1}$

where

$P_{i,j}$= stock price(per share) of firm i in period j.
$A_{i,j}$= earnings per share of firm i in period j.
$d_{i,j}$= dividend per share of firm i in period j.
a = a constant in a linear relationship(intercept parameter)
b1,b2=a slope parameter or a coefficient in a linear regression.
and, with   i = cross-selection item,j = time-series item.

As in Easton and Harris(1991) the models under investigation have been based on either the book value valuation model or the earnings valuation model.

The book value valuation model indicates that $P_{ij}=BV_{ij}+u_{ij}$ (1)

Taking first differences we have $\Delta P_{ij}=\Delta BV_{ij}+u_{ij}$ (2)

But in general $\Delta BV_{ij}=A_{ij}-d_{ij}$ (3)

Substituting (3) into (2),rearranging,and dividing by P_{ij-1} yields:

$$(\Delta P_{ij}+d_{ij})/P_{ij-1}= A_{ij}/P_{ij-1}+u_{ij} \qquad \text{(model V)}$$

On the other hand, $P_{ij}=\rho A_{ij}+u_{ij}$ (4)

Given the dividends irrelevance proposition we have $P_{ij}+ d_{ij}= \rho A_{ij}+u_{ij}$ (5)

It follows that $(\Delta P_{ij}+d_{ij})/P_{ij\text{-}1}=\rho(\Delta A_{ij}/P_{ij\text{-}1})+u_{ij}$ (model III)

To be familiar and consistent with the existing literature, some requirements are stressed. For example, earnings per share divided by price at the beginning of the return period (Ai,j/Pi,j-1) refers to current earnings level variable. Change in earnings divided by beginning-of-period price refers to earnings change variable[(Ai,j-Ai,j-1)/Pi,j-1].

In the second part of the study the variables used are represented by the financial ratios selected in this study. They have been selected in order to have a full picture of the profile of the company which have been employed in other studies (Maggina,2008).The list of financial ratios used has as follows:

Financial Ratios	Abbreviation
Net Income:Total Assets(return on assets)	NITA
Cash:Current Liabilities(liquidity ratio)	CASCL
Cash:Total Assets(liquidity ratio)	CASTA
Quick Assets:Total Assets(quick ratio)	QATA
Current Assets:Sales(return of current assets on sales)	CASA
Net Worth:Total Debt(equity to debt ratio)	NWTD
Receivables:Inventories(short-term financial ratio)	RECINV
Working Capital:Total Assets(working capital turnover)	WCTA
Total Debt:Total Assets(leverage ratio)	TDTA
Net Income:Sales(return on sales)	NISA
Sales:Working Capital(working capital turnover)	SAWC

Profitability, liquidity and leverage ratios as figured out above have been tested and successfully justified as the accounting and financial literature.

5. Sample Selection

The whole population containing all Greek listed companies on the Athens Stock Exchange is investigated in this study. The main source of data is the Athens Stock Exchange Annual Yearbook, the annual statistical bulletin and the Internet. Total number of companies refer to the time period 1997 up to 2007(the most recently available data when writing the paper).The full sample(1997-2007) is separated in subsamples(1997-1999,2000-2001,2002-2004,and 2005-2007) which correspond to time periods before the Euro currency, the first two years after the adoption of the Euro currency, two years before the adoption of IAS/IFRS(gradually converging DAS to IAS/IFR)S and two years after the mandatory adoption of IAS/IFRS..As in Kothari and Zimmerman (1995), to avoid any undue influence of extreme observations, the largest and the lowest 1% of observations is excluded from the sample. Data is annual and all

firms have a December fiscal year-end. Annual earnings include those from discontinued operations and extraordinary items.

6. Empirical Findings

Table 1 provides regression statistics. As shown in Table 1(Panel A) the traditional model which expresses price as a multiple of earnings does not represents a strong model neither before nor after the IAS/IFRS. Neither the statistical significance of coefficients nor R^2 can give credence for its application .As far as the prior year earnings model (Panel B) empirical findings indicate that it fits worse with data either before or after IAS/IFRS. Earnings changes model (Panel C) fits very well to the data for the periods before and after the adoption of IFRS (2002-2004;and 2005-2007). This is a model which indicates that there is a memory in the accounting earnings evolutionary process.

Earnings level model (Panel D) provides a good estimate of R^2 for the first two years of the adoption of the Euro currency (2000-2001) but does not provide credence for a good estimate for the time period before or after the application of IAS/IFRS. Another returns model (Panel E) indicates that there is no impact of IAS/IFRS. In contrast, the model fits very well to the data for the post euro era (R^2=69.3%). Finally, the price-differenced model indicates that there is no impact of earnings change on price difference in any time period.

TABLE 1: Regression Statistics(Firm Specific Analysis)

Years	b_{1ij}	R^2	Number of observations	Durbin Watson
PANEL A: $P_{i,j}= a+bA_{i,j}+e_{i,j}$.				
2005-2007	7.274E-04	0.002	724	0.748
	(1.119)			
2002-2004	8.745	0.015	989	1.977
	(3.839)			
2000-2001	11.130	0.000	642	1.497
	(27.164)			
1997-1999	0.140	0.002	735	1.385
	(1.302)			
PANEL B: $[(A_{i,j}/P_{i,j-1})]=a_{i,j}+b_{i,j}[A_{i,j-1})/P_{i,j-1}]$				
2005-2007	-1.68E-02	0.000	448	2.006
	(-0.066)			
2002-2004	0.418	0.024	639	1.962
	(3.943)			
2000-2001	-4.75E-05	0.000	309	2.038
	(-0.150)			
1997-1999	2.249E-02	0.007	444	1.104
	(1.799)			

PANEL C: $[(A_{i,j}/P_{i,j-1})]=a_{i,j}+b_{i,j}[(A_{i,j}-A_{i,j-1})/P_{i,j-1}]$

2005-2007	0.966	0.967	448	1.978
	(113.473)			
2002-2004	0.922	0.870	639	1.537
	(0.316)			
2000-2001	7.840E-05	0.000	309	2.038
	(0.247)			
1997-1999	4.595E-02	0.031	444	1.070
	(3.766)			

PANEL D: $[(P_{i,j}-P_{i,j-1})+d_{i,j}]/P_{i,j-1}=a_{i,j}+b_{i,j}A_{i,j}/P_{i,j-1}+e_{i,j}$

2005-2007	-1.51E-03	0.013	396	2.157
	(-2.303)			
2002-2004	0.558	0.000	639	2.020
	(0.399)			
2000-2001	5.713	0.701	308	1.819
	(26.793)			
1997-1999	1.033	0.002	443	2.211
	(0.960)			

PANEL E: $P_{i,j}/P_{i,j-1}=a+b1_{i,j}A_{i,j}/P_{i,j-1}$

2005-2007	-7.36E-04	0.000	443	2.075
	(-0.199)			
2002-2004	0.481	0.000	642	2.019
	(0.344)			
2000-2001	5.652	0.693	308	1.812
	(26.258)			
1997-1999	0.611	0.001	443	2.213
	(0.568)			

PANEL F: $P_{i,j}-P_{i,j-1}=A_{i,j}-A_{i,j-1}$

2005-2007	-5.90E-04	0.012	444	2.023
	(-2.278)			
2002-2004	1.778	0.000	640	3.002
	(0.300)			
2000-2001	-1.85E-03	0.000	307	1.950
	(-0.232)			
1997-1999	-5.00E-02	0.001	443	2.214
	(-0.524)			

Liquidity ratios are expected to get lower prices under IFRS due to transition from historic costs to Fair Value. Profitability ratios like return on assets, or return on equity seem to have

lower values under IFRS due to the conservative nature of GAS. Apart from the strong impact of IAS/IFRS on financial ratios, the impact of financial ratios on stock prices is modest. When stock price is regressed on eleven financial ratios the model is better explained with data for the time period 2005-2007(the IAS/IFRS period) than the euro currency period or the pre euro period. Variables that are significant are the X_1(Net Income/Total Assets) in all time periods. Variable X_1(Net Income/Total Assets) as a single explaining factor is attributed to the time period 2005-2007, that is, the IAS/IFRS period. Variables X_1(Net Income/Total Assets) and X_3(Cash/Total Assets) are significant with data for the time period 2002-2004,that is, the post euro currency era. Finally, variables X_1(Net Income/ Total Assets),X_3(Cash/Total Assets),and X_4(Quick Assets/Total Assets) are significant for the period 2000-2001(first adoption of the euro currency),and 1997-1999(before euro currency and before IAS/IFRS).

TABLE 2:Regression Statistics and Diagnostics(Firm Specific Analysis)

2005-2007

Variables	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8	X_9	X_{10}	X_{11}	R^2	N	DW
	12.139	2.154	26.871	-7.699	-4.13E-03	-0.300	-1.50E-04	-1.685	-1.703	0.367	-5.97E-03	0.177	677	1.911
	(4.398)	(1.688)	(9.013)	(-5.442)	(-0.869)	(-2.759)	(-0.582)	(-4.901)	(-5.031)	(0.741)	(-1.003)			
Eigen Value	1.932	1.073	1.007	1.004	0.997	0.986	0.856	0.139	6.700E-03	9.496E-04	6.659E-04			
Condition Index	1.438	1.930	1.992	1.996	2.002	2.013	2.160	5.358	24.424	64.876	77.470			

2002-2004

Variables	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8	X_9	X_{10}	X_{11}	R^2	N	DW
	28.241	-1.518	26.131	7.455	-1.389E-02	0.634	-6.62E-04	6.124	4.783	-5.48E-02	-2.64E-03	0.005	1277	1.998
	(0.980)	(-0.829)	(1.517)	(0.538)	(0.049)	(0.638)	(-0.138)	(0.384)	(0.300)	(-0.075)	(-0.121)			
Eigen Value	1.665	1.211	1.072	0.998	0.812	0.767	0.688	0.580	0.122	8.406E-02	3.244E-02			
Condition Index	1.544	1.811	1.924	1.995	2.211	2.275	2.402	2.617	5.703	6.872	11.061			

2000-2001

Variables	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8	X_9	X_{10}	X_{11}	R^2	N	DW
	15.737	-0.237	2.878	2.878	-0.123	0.238	-1.56E-04	-0.589	2.858	-0.378	-2.88E-03	0.078	492	0.988
	(4.875)	(-0.898)	(1.344)	(2.164)	(-1.067)	(2.091)	(-0.336)	(-0.332)	(1.689)	(-0.641)	(-0.364)			
Eigen Value	1.694	1.508	1.012	0.993	0.982	0.735	0.596	0.195	0.135	5.227E-02	4.349E-02			
Condition Index	1.547	1.640	2.002	2.021	2.033	2.350	2.608	4.565	5.491	8.809	9.657			

1997-1999

Variables	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8	X_9	X_{10}	X_{11}	R^2	N	DW
	1884.376	-212.048	9832.094	2392.474	15.562	-34.347	-0.480	-2803.083	-1603.201	14.000	1.140	0.064	545	1.774
	(1.335)	(-0.493)	(4.161)	(1.626)	(0.290)	(-0.305)	(-0.247)	(-1.919)	(-4.271)	(0.301)	(0.237)			
Eigen Value	2.181	1.896	1.034	0.985	0.724	0.157	2.378E-02	1.005E-02	1.797E-03	3.597E-04	2.470E-04			
Condition Index	1.512	1.621	2.196	2.250	2.624	5.627	14.481	22.275	52.678	117.735	142.084			

As a in the literature the mandatory adoption of IAS/IFRS does not guarantee high quality accounting information, especially in countries like Greece with poor institutional factors affecting the preparer's financial reporting incentives. Market forces like the strength of the equity market and the ownership structure have important influence on the accounting information of earnings. In Greece as far as companies

listed on the Athens Stock Exchange, the debt to equity ratio in a time horizon of four and a half decades stands on average to 1.24(minimum) in 2004 and 3.068(maximum) in 1984(with outliers excluded).IAS/IFRS as fair value oriented standards may better represent a firm's economic position and thus being more relevant to investors than historic cost information. On the other hand, they make the investor worse off due to inherent estimation error and managerial manipulation. Finally, there is no survival bias because no company has been withdrawn during each time period examined in this study.

7. Conclusions and Suggestions For Further Future Research

The increased role of entrepreneurship and economic change has probably increased the value of reliable information in capital markets. There is, therefore, a challenge for future disclosure research to examine how financial reporting and disclosure adapt to changes in business and capital market environments. The empirical findings in this study indicate that there are no capital market effects of IAS/IFRS. This information is useful to capital market authorities and, in general, the policy makers in an effort to mobilize such effects through a provision of institutional incentives. A widely known set of incentives is the analysts' forecasts and management's forecasts as well as the role of Audit Committees that have increased from 7% on 2005 to 17.36% on 2007 as far as companies listed on the Athens Stock Exchange is concerned.

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