温州肯恩大学
WENZHOU-KEAN UNIVERSITY

IFRS and the financial performances of Chinese listed firms in the financial industry

In Partial Fulfillment of the Requirements

for the Bachelor of Science in Accounting

by

ZHANG Chen

1025970

May, 2020

IFRS and the Financial Performances of Chinese Listed Firms in the Financial Industry

Abstract

As more countries recognize and adopt IFRS (International Financial Reporting Standard). IFRS was widely adopted by Chinese Listed Companies in 2007. This article uses the data of 2006-2007 and 2008-2009 in the sample of Listed Companies in China's financial industry to do empirical test of the impact of the adoption of IFRS on corporate financial performance. Empirical results suggest that the adoption of IFRS improved the accounting quality of Chinese listed firms. Although IFRS adoption has positive impact on the financial performance of China financial listed firms, the influence is not significant as predicted. The reasons may be the particularity of financial industry and the financial firms already have higher requirement for accounting standards. The actual situation needs further study to confirm.

Keywords: IFRS, IFRS adoption, financial performance, accounting quality

JEL Descriptors: G18, G28, M41

I. Introduction

This study focuses on the relationship between the IFRS (International Financial Reporting Standard) adoption and the financial performance of Chinese listed firms in the financial industry. The practical impact of the new accounting standards on the financial performance of listed financial companies in China is a subject worthy of study. In addition, the impact is based on the impact of IFRS on accounting quality, so it is necessary to verify the impact of IFRS on accounting quality at the same time. In the research, it mainly observes the influence of net profit and other control variables such as company size, asset turnover rate before and after IFRS adoption. As a fast-growing economy, China's capital market has also begun to receive extensive attention from investors around the world. The corresponding accounting standards are a dictionary to help external investors understand Chinese enterprises in the Chinese market. Although IFRS was widely recognized and adopted in the Chinese market in 2007, the uniqueness of Chinese accounting standards in China is still irreplaceable. The main differences are as follows. First, the Chinese accounting standards lack a conceptual framework. Chinese accounting standards do not adopt a systematic method to deal with relevant accounting items, but they adopt the method of dealing with the differences in IFRS separately. This method is quite ineffective and unclear. It needs to be improved and perfected. The differences in content also include that there is no requirement for the disclosure of some important accounting information in China’s accounting standards and that China’s accounting standard has not yet issued specific standards for many accounting issues. In form, the formal provisions of China's accounting standards are relatively simple and short, while IFRS and U.S. GAAP are more detailed. In the formulation mechanism, there are important differences between Chinese accounting standards and IFRS. China's accounting standards are formulated by the accounting department of the ministry of finance. The accounting standards committee is only a consulting body, and the scope of research and consultation in the process of standard formulation is relatively limited. In response to some of

the differences and problems mentioned above, the Ministry of Finance of China issued the *Roadmap for the Continuous Convergence of China's Accounting Standards for Business Enterprises and International Financial Reporting Standards* in 2010. This roadmap combines the needs of recent international and domestic situation development, and it makes important planning and deployment for further deepening accounting reform, promoting the construction of China's enterprise accounting standards and its continuous international convergence. In 2005, China has established a system of accounting standards for business enterprises which is similar to the international financial reporting standards (IFRS) and has been steadily and effectively implemented in listed companies and other large and medium-sized enterprises since 2007. Today, the world is in a period of great development, great change and great adjustment. With the deepening development of world multi polarization and economic globalization, the impact of the international financial crisis continues to show, the international political and economic pattern changes profoundly in the post financial crisis era, and the reform of the international financial regulatory system is actively promoted. Such a trend of accounting standards convergence can bring the following advantages. The release of the roadmap will help to improve the transparency of accounting information in China and undertake the global public accountability. The release of the roadmap will help to reflect China's special accounting problems to the IASB in a timely manner, improve the recognition, authority and practical operability of international financial reporting standards. The release of the roadmap will help to strengthen the accounting supervision of China's government and maintain economic and financial stability and development.

This topic is of great significance to the makers of accounting standards and the practitioners of the financial industry. According to this result, the accounting standard maker can make more reasonable and universal accounting standard. The managers of financial enterprises can have a clearer understanding of the company's situation, and the accountants of financial enterprises can also understand some possible impacts on their daily work. This research is also helpful to the

external investors who invest in the Chinese market. External investors need to understand the environment of the investment market, and if the accounting standards are inconsistent, it will make it more difficult for investors to study, which will also lack some positive interaction in the market and market transparency. There is another dispute among the accounting scholars is that whether the company voluntarily adopts IFRS will have a significant impact on the company's performance. In the past, the research on companies that voluntarily adopt accounting standards still has practical and valuable significance. However, due to the current environment in which certain accounting standards are enforced, these results cannot be well applied (daske et al. 2008; Horton and serafeim 2010). Other studies fail to demonstrate the specific impact of IFRS on information quality in both scenarios, voluntary adoption of IFRS and involuntary adoption of IFRS. Daske et al. (2008) show that it is unlikely that the mandatory adoption of IFRS for capital market interests is due to the existence of pure IFRS. Daske (2006) found no evidence that IFRS can reduce the cost of capital. Atwood, Drake, Myers and Myers (2011) found that there was no change in the persistence of IFRS in the income report, nor in the future accounting value. On February 15, 2006, China issued a new accounting standards system for business enterprises, which consists of one basic standard and 38 specific standards. It has been implemented in listed companies since January 1, 2007, and other enterprises are encouraged to implement it. The biggest characteristic of the new accounting standards for business enterprises is that it pays attention to the integration with the world and achieves the substantial convergence with the international financial reporting standards. In the system of accounting standards for business enterprises, there are six financial business standards, including the No. 25 insurance contract and No. 26 reinsurance contract, which are only applicable to insurance companies, and the new accounting standards have the great impact on financial enterprises. The new accounting standards also put forward new requirements for employees in related industries. The new accounting standards also put forward new requirements for practitioners in related industries. Without

mastering the new accounting standards, financial instruments cannot be classified accurately, so that accountants cannot carry out accounting activities. Classification of financial instruments is the basis of recognition, measurement and reporting of financial accounting. Reading financial accounting standards carefully, we can find that classification of financial instruments is not a simple financial activity, but a reflection of the holding intention and ability of enterprise management. Accounting activity is no longer a simple bookkeeping and accounting, but a tool of operation and management. High quality financial report needs close cooperation and consistent understanding of financial personnel and management. The most important rule of the development of accounting standards is to adapt to the environment. To adapt to the environment is to adapt to the needs of economic and political development. Accounting standards have economic consequences, which will cause the redistribution of economic benefits between investors and creditors, and this distribution will have an impact on the whole macro-economy, so the change of accounting standards has a profound impact.

Because of the rapid development of globalization and the Internet, enterprises all over the world are more closely linked. At this time, an accounting standard that can regulate accounting information among countries is particularly important. As a result, many accounting and financial scholars have begun to conduct more in-depth research on a series of accounting standards of IFRS and GAAP. Previous studies focused on the impact of accounting quality on value relevance and accounting quality, and the research scope did not include the financial industry and real estate industry. In previous studies, it was debated whether the impact of IFRS was applicable to financial enterprises. Many people are concerned that financial enterprises may be excluded due to the particularity of the industry and other reasons. Because the status and role of accounting standards in international trade is increasingly prominent. More and more Chinese companies are going to be listed in the United States, and the Chinese capital market is becoming more and more

open and dynamic. Therefore, making a good standard accounting standard is like clearing the obstacles for the rapid development of enterprises and markets.

The empirical results of the study are as followings. Compared with the standard before revision, the regression coefficient of earnings per share decline and the standard of net assets per share increase after revision indicate the value relevance of earnings per share, net assets per share and the revised standard of improving stock price. IFRS adoption does improve the accounting quality of Listed Companies in China's financial industry to a certain extent. Other results about the financial performance of the China’s financial listed firms show that the importance of international financial reporting standards to international financial reporting standards is on the rise, which means that after the adoption of international financial reporting standards, the company's asset turnover rate is more relevant to international financial reporting standards, indicating that international financial reporting standards improve the impact of some indicators on the company's profitability.

This study contributes to the influence of IFRS adoption on listed financial companies in China. The results are instructive for policy makers to make further revisions. Some details of financial industry in IFRS can be adjusted according to the result of the study. Practitioners in the financial industry can learn about the impact of IFRS on the financial industry from this study. Managers can adjust the financial department of the company according to the results and have a further understanding of the standardization of financial reporting. The staff of accounting department can adjust their financial statements according to the research results, improve the accounting quality, and create more potential earnings for the company. According to the research, government departments can learn more about the impact of IFRS adoption on the financial performance of Chinese financial listed companies, so as to carry out more scientific and rigorous market supervision and improve market efficiency and transparency.

The rest parts of the study are written as followings. In “Literature Review”, this part summarizes and introduces the relevant research on IFRS and accounting standards such as U.S. GAAP. In addition, this part also introduces the background of China's market and economic growth. These introductions help readers have a comprehensive understanding of the whole IFRS topic.

II. Literature Review

IFRS (International Financial Reporting Standard) is widely adopted by the contemporary enterprises around the world. The predecessor of IFRS is IAS that was published and revised by IASC (International Accounting Standard Committee) between 1973 and 2000. With the replacement of IASC into IASB, IFRS was published to replace certain international accounting principles. More than 100 countries had been adopted IFRS or intended to use the standard to guide their financial report since 2000 (SEC,2007). In recent years, China has shown great enthusiasm in participating in and implementing international accounting standards. China's new accounting standards have also achieved substantial convergence with IFRS. However, international convergence is a long process, and the formulation of IFRS is also a process of game among stakeholders. We should not only keep up with the international standards, but also correctly understand the formulation mechanism of the international accounting standards and actively participate in the formulation process, including actively making comments on the draft for comments, using the open mechanism of the IASB meeting to participate in the meetings and provide opinions, striving to improve the influence of China in the formulation of IFRS at all levels, and improving the status and role of China in the international accounting convergence To strive for more national interests and lay an accounting foundation for the healthy, sustained and rapid economic development. The restructured IASB has formed a crisis response mechanism that can respond to the new economic situation in a timely manner. At the end of March 2009, in response to the G20's suggestions on dealing with the financial crisis in London, the IASB

established the "financial crisis advisory and suggestion group", which is composed of members of IASB and FASB. Its main purpose is to provide the two standards committees with standards under the current financial crisis Forecast and suggestions on changes in fixed and international regulations. At the same time, IABS has accelerated cooperation and contact with FASB and asbj for G20's requirement of "making significant progress in setting high-quality globalization standards". In order to bring "GAAP" into international accounting standard system as soon as possible, IASB renewed its memorandum of understanding with FASB in 2008. Under the financial crisis, the international accounting standard system gradually reflects its influence and vitality.

In addition to its own economic development needs, the international convergence of accounting standards is also an important reason for the revision of accounting standards in China. One of the reasons why the EU did not fully recognize China's market economy status before is that China's accounting standards are quite different from international ones. As we all know, China's loss in international trade is very serious because its accounting standards are not recognized internationally. Therefore, to eliminate the differences with international accounting standards is also an important reason for the reform of accounting standards in China. Compared with the old accounting standards, the main changes of the new accounting standards are reflected in the following aspects: first, involving the accounting basic principles and the measurement of accounting elements, the new basic standards make it clear that the accrual system and historical cost are no longer the recognition measurement principles of accounting; the introduction of the concept of fair value, including consultation value, market price and evaluation Price.

Firstly, for China's finance, especially accounting industry, the current financial crisis is not only a challenge and difficulty, but also an opportunity. Due to the bubble boom of China's financial industry, especially the stock and bond market before the financial crisis, financial institutions and financial companies all focused their attention on the high returns of the financial

industry and ignored their high risks. The occurrence of the financial crisis has objectively promoted the whole economic system of our country as well as the practitioners of the financial industry to examine the financial industry from the basic perspective. The introduction of reasonable and high-quality international accounting standards and the legalization and efficiency of the economic system are a long-term and arduous process. The improvement of the standards and the economic system fills in the loopholes in the operation of the system and reduces the financial risks. Secondly, for the introduction of international accounting standards, especially the introduction of new rules, we still need to pay attention to the combination of the rationality of rules and the particularity of China's economic system. For our country, the introduction of international accounting standards is fundamentally to support the socialist economic construction, standardize the generation of economic information, and help the economic activity subjects to make reasonable economic decisions. China's unique socialist economic system with Chinese characteristics determines that the introduction of international accounting standards should not be mechanically copied, but it should be combined with the actual situation of economic activities. On the other hand, IASB does not require participating countries to copy their accounting standards completely, but to promote the comparability of accounting standards. It is an inevitable requirement of economic globalization to formulate and implement a single and high-quality accounting standard on a global scale. Under the condition of competitive and global capital market, the importance of financial report is more prominent and has become the focus of all parties. China's current accounting standards have certain differences and distances from IFRS in accounting differences, preparation and disclosure requirements of financial reports. From the perspective of development, the impact of IFRS on China's enterprise financial accounting reports is positive, rapid and far-reaching.

The financial performance is usually be measured in many metrics, such as profitability, solvency and the equity capital. The more obvious influence of IFRS is mostly in improving

transparency of the accounting information. Furthermore, it probably has an indirect positive effect on the financial performances of listed firms with the premise that IFRS can improve the quality of the financial report.

Horton et al (2013)'s research suggests that the adoption of IFRS is beneficial to reduce the predictive error. However, they only focus on the difference between the voluntary adoption of IFRS and mandatory adoption of IFRS. It fails to show a whole scene of the effect of IFRS. In their study, they simply quote Quigley who is one of the proponents of IFRS's perspective that listed companies must adopt a set of high-quality accounting standards to promote better operation of capital market without noticing the potential of the negative effect of IFRS on the financial report.

Many studies demonstrate the positive influence of adopting IFRS to the relevance of the financial reports. Prather et al. (2007) find that there is a significant increase in the value relevance of profits after the IFRS adoption in German firms. Capkun et al (2008) find value relevance for earnings reconciliation adjustments from local GAAP to IFRS among nine European countries despite noted transition earnings management.

Barth et al (2007)'s research also shows a positive impact of IFRS and accounting quality. Compared to firms under US GAAP, companies among 21 countries under IFRS have more timely loss recognition and stronger value relevance of accounting amounts. This difference between two studies can be illustrated by the same reason showed in the Soderstrom and Sun's research that there are multiple factors to determine the influence of accounting standard.

Soderstrom and Sun (2007) find that there may still be transnational differences on the accounting quality even if with the adoption of IFRS. Accounting quality is not just the result of accounting principles. This calls attention that it is one-sided to recognize the influence of IFRS without considering the legal and political system of the country.

Daske et al (2008)'s study indicates that although nearly 100 countries adopted IFRS, it is still controversial on the economic influence issue of IFRS. However, the mandatory IFRS adoption provides the evidence they need to do empirical research to find out the impact of the adoption. They analyze the effect in stock market liquidity, cost of equity capital, and other important parameters of the financial performance, but they encounter difficulties because of the variation of the benchmark samples. In addition, some of the samples are not representative because companies that switch to mandatory IFRS shortly before adopting IFRS will experience positive liquidity and valuation effects that may be the consequences of voluntary selection.

Liu et al (2011)'s empirical study on the impact of IFRS on accounting quality in China shows that with mandatory adoption of IFRS for Chinese listed firms, accounting quality, especially reported earnings, has improved significantly.

There is also a different point of view on the impact of accounting quality on Corporate Performance. This perspective is based on the theory that higher information quality either reduces the estimated risk of future returns or reduces the information asymmetry between investors and managers. This increases liquidity and ultimately reduces the required rate of return (Barry and Brown, 1985; Diamond and Verrecchia, 1991). In a word, it is not clear in theory and practice whether the international report reduces the cost of capital.

Whether the company adopts IFRS voluntarily will have a great impact on the company's performance. Previous studies on companies that voluntarily adopt accounting standards still have practical and valuable significance. However, due to the current environment of mandatory adoption of certain accounting standards, these results cannot be applied well (Daske et al. 2008; Horton and Serafeim 2010). Daske et al. (2008) shows that it is unlikely that the mandatory adoption of IFRS for capital market interests is due to the existence of pure IFRS. Daske (2006) found that there was no evidence that IFRS could reduce the cost of capital. Atwood, Drake, Myers

and Myers (2011) find that there was no change in the persistence of IFRS in earnings reporting and no change in future accounting values.

Some research results show that the impact of mandatory adoption of IFRS is uncertain. The overall results show that the forecast accuracy of some European and Australian companies has been improved after the adoption of IFRS (Wang et al. 2008; Byard et al. 2011; Preiato et al. 2009; Cotter et al. 2010; Tan et al. 2009). Byard et al (2011) find that the improvement of prediction accuracy only occurs in companies in countries and regions where the implemented system is quite different from IFRS. Tan et al. (2009) find no evidence that changes in accuracy increased the number of accounting differences between the company's domestic GAAP and IFRS.

The wide adoption of IFRS in the world will lead to the growth of enterprise accounting comparability. Previous research has shown that when a company's GAAP is closer to foreign investors or analysts, it reduces investors' bias (Bradshaw, Bushee, and Miller 2004; Covig, Defond, and Hung 2007; Yu 2010). Other studies suggest that cultural, political and business differences continue to pose major obstacles to improving the comparability of accounting information. Cascino and Gassen (2010) find that the practice before the mandatory adoption of IFRS in Germany and Italy continued. Beneish, Miller and Yohn (2010) find that mandatory adoption of IFRS will increase liability instead of equity investment; this shows that IFRS does not provide comparable returns in the stock market. Lang, Maffett and Owens (2010) find that the accounting comparability of IFRS adoption did not improve.

III. Hypothesis Development

IFRS is written standard for financial reports formulated by the English-speaking countries with advanced economies (Sunder 2009; Tyrrall et al., 2007). According to the China Securities Regulatory Commission (SFC) and the National Bureau of statistics, by the end of 2018, the total market value of publicly traded shares in China was about $7 trillion dollars and $860 billion

dollars. Chinese economic achievement has been universally recognized. China joined WTO in 2001. As the fact of economic globalization, the significance of IFRS is increasingly prominent.

The application scope of international accounting reporting standards (IFRS) in the world is expanding. More than 100 countries or regions have directly adopted or converged with IFRS. Countries or regions such as the European Union, Australia, Hong Kong and other countries or regions began to adopt international standards as early as 2005. Since 2008, the international convergence of accounting has attracted much attention. Canada, India, South Korea, Japan and other countries have announced the adoption of international standards or similar plans. The United States has also stepped up the process of convergence with international norms and issued a road map for the adoption of international norms in November 2008. Since the outbreak of the financial crisis, although the related accounting problems caused by fair value have become the focus of the accounting community, the determination of the United States Securities and Exchange Commission (SEC) to converge on IFRS is still unshakable.

Globalization and political expediency drive more countries and regions to choose and apply international accounting standards to adapt to the international convergence of IASB. Taking China as an example, as the second largest economy in the world, the accounting standards that it has been adopting have been connected with IFRS since 2007. Due to the influence of its special economic system, historical and cultural background and other factors, the process of Chinese style convergence is very complex but more worthy of exploration. Therefore, many scholars try to demonstrate whether the convergence of accounting standards has more advantages than disadvantages through continuous debate.

It is meaningful to find out that whether IFRS has a great influence on enterprises and what the influences are in detail, especially for the development of listed firms. Because of the complicated factors that influence the market value of a company, it is necessary to integrate other factors and control variables in the research. For example, the main influence of local political and

market factors will be hidden beneath the surface. At the implementation level, there will inevitably be great inconsistencies among countries. (Ball, 2006)

It is commonly believed that IFRS can help the firms to increase the transparency and reliability of the accounting information. It is easier for the oversea investors who are not familiar with the local accounting principle to get to know the information they need. Nevertheless, the implementation of IFRS among countries has great differences. This might cause the difficulty of reading financial report even if they are under the same accounting principle – IFRS. However, it is still necessary to explore the impact of IFRS on accounting quality in this study.

H1: The relevance of accounting value will be significantly improved after the IFRS adoption.

H2: The adoption of IFRS is expected to be positive related to financial performance of Chinese listed firms from the financial industry.

IV. Methodology

The study select data from 2006-2009 and Chinese listed financial companies as samples. Remove missing samples of key variables. In the end, 105 of 109 listed companies in China's financial industry were selected as the final samples.

In this study, the model used to study accounting quality is the most commonly used price method model to study the value relevance of accounting information. In order to test the previous assumptions, the design model of this study is as follows.

$$P_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 BV_{it} + \beta_3 Size_{it} + \beta_4 IFRS + \varepsilon_{it} \quad (1)$$

where i indexes firms in year t, explained variable P_{it} represents closing price at the end of the last four months of the fiscal years divided by net income; EPS_{it} represents earnings per share at the end of the year, which is calculated as net income divided by the number of shares; BV_{it} represents net assets per share, which calculated as total shareholders' equity of the company divided by the numbers of shares; Size is the natural logarithm of the total assets. In order to compare the two stages before and after the adoption of IFRS, this study introduces a dummy variable *IFRS* that represents the adoption of IFRS event. When fiscal year is 2006-2007, *IFRS* is 0; when fiscal year is 2008-2009, *IFRS* is 1(Barth et al., 2006; Lang et al., 2006; Ohlson, 1995; Hope, 2007)

As prior research (Horton et al., 2013; Barth et al., 2008; Liu et al., 2011), with the adoption of IFRS, the accounting quality has been significantly improved. The smoothness of income decreases with the change of standards, while the value relevance of income increases with the change of standards. In order to examine how the change of the adoption of the accounting standards influenced the financial performance of the Chinese listed firms, the focus of this research is in the conversion period of the accounting standards of Chinese listed firms. The study includes control variables associated with the profitability, solvency and equity value.

High accounting quality is one of the main factors of successful financial performances. Conversely, earnings management is used to measure the accounting quality because the accounting quality will significantly influence metrics in the financial reports. The most important aspect of earnings management is profitability and it will be measured by scaled net income. There are some control variables identified in the previous studies to do the regression analysis (Barth et al., 2006; Lang et al., 2006; Paananen & Lin, 2009; Liu et al., 2011).

$$\Delta NI_{it} = \beta_0 + \beta_1 Size_{it} + \beta_2 Growth_{it} + \beta_3 Eissue_{it} + \beta_4 Dissue_{it} + \beta_5 Turn_{it} + \beta_6 Lev + \beta_7 CFO + \beta_8 IFRS + \varepsilon_{it} \quad (2)$$

where i indexes firms in year t, ΔNI is the change of net income scaled by total asset; Size is the natural logarithm of the total assets; Growth is the percentage changes of sales revenue; Eissue is the percentage change of the common shareholders' equity; Dissue is the percentage change of the total liability; Turn is the sales revenue divided by total assets; Lev is the financial leverage, which calculated as total liabilities divided by shareholders' equity; CFO is the cash flow from operating activities scaled by total assets. In order to compare the two stages before and after the adoption of IFRS, this part also introduces a dummy variable *IFRS* that represents the adoption of IFRS event. When fiscal year is 2006-2007, *IFRS* is 0; when fiscal year is 2008-2009, *IFRS* is 1 (Liu et al., 2011).

V. Sample, Descriptive Statistics and Results

Chinese firms from the financial industry with the financial information is available in CSMAR. Data from the 2006 to 2009 two periods around the adoption of IFRS are selected for this study. The companies with the missing values are removed to reduce the difference between the samples. A total of 105 out of 109 financial corporations were studied.

From table 1 it can be found out that although the average value of the stock price has declined, the standard deviation of all variables has been significantly reduced. The distribution of earnings per share and net assets per share is relatively concentrated, and the size of the company is relatively concentrated, but there is a trend of small dispersion.

Table 1
Descriptive Statistics (2006-2007)

Variable	Obs	Mean	Std.Dev.	Min	Max
Price	161	95.108	151.797	5.993	941.867
EPS	166	.311	.924	-4.072	4.086
BV	166	3.082	3.838	-3.774	24.08
Size	166	21.973	2.01	15.468	29.793

Descriptive Statistics (2008-2009)

Variable	Obs	Mean	Std.Dev.	Min	Max
Price	163	75.164	120.496	6.27	809.924
EPS	166	.349	.603	-1.965	2.211
BV	166	2.975	2.687	-6.405	9.775
Size	166	21.946	2.16	14.937	30.098

****note: Price: closing price at the end of the last four months of the fiscal years divided by net income; EPS: earnings per share at the end of the year; BV: net assets per share, which calculated as total shareholders' equity of the company divided by the numbers of shares; Size: natural logarithm of total asset.*

Table 2 shows the descriptive statistics of sample variables studied in the two periods. The mean of net income scaled by total asset is increasing 1% after the adoption of IFRS. The mean of Size is increase 0.2 after the adoption of IFRS. However, the mean of growth of sales revenue decrease 1.03 after the IFRS adoption. The growth tends to stagnate.

Table 2
Descriptive Statistics (2006-2007)

Variable	Obs	Mean	Std.Dev.	Min	Max
NI	161	.034	.531	-3.987	6.109
Size	161	21.972	2.01	15.468	29.793
Growth	161	3.873	70.839	-104.95	1381.656
Turn	161	.394	.411	-.016	2.779
Leverage	161	398.053	234.235	1	795
Eissue	161	399.25	236.121	1	802
Dissue	161	2.391	16.398	-.999	191.502
CFO	161	.912	9.251	-5.45	172.613

Descriptive Statistics (2008-2009)

Variable	Obs	Mean	Std.Dev.	Min	Max
NI	165	.004	.257	-3.155	2.139
Size	165	21.946	2.16	14.937	30.098
Growth	165	1.14	25.15	-265.824	239.563
Turn	165	.47	.571	0	5.417
Leverage	165	401.381	226.512	6	795
Eissue	165	398.42	226.298	1	801
Dissue	165	38.531	588.939	-1	11525.79
CFO	165	.135	4.13	-48.562	55.4

****note: NI: The change of Net Income scaled by total asset; Growth: the percentage change of Revenue Turn: Asset Turnover; Eissue: the percentage change of shareholders' equity; Dissue: the percentage change of total liability; CFO: cash flow from operating activities*

In table 3, the study found that only the correlation between price and EPS passes the 10% significance test, the correlations between price and other variables are not significant, though there is a significant correlation between the control variables.

Table 3
Correlation Matrix

Variables	(1)	(2)	(3)	(4)
(1) Price	1.000			
(2) EPS	0.030*	1.000		
(3) BV	0.045	0.637***	1.000	
(4) Size	-0.017	0.496***	0.485***	1.000

**** p<0.01, ** p<0.05, * p<0.1*
****note: Price: closing price at the end of the last four months of the fiscal years divided by net income; EPS: earnings per share at the end of the year; BV: net assets per share, which calculated as total shareholders' equity of the company divided by the numbers of shares; Size: natural logarithm of total asset.*

Table 4 represents the correlation among net income (NI) and other control variables. In the following table, the result shows that control variables GROWTH and TURN are significant to NI; CFO is significant to NI and their correlations pass the 5% significance test. The value relevance among control variables is still noteworthy. Turn, Eissue and Dissue are significant to the Growth. However, the level of significance is not high as predicted.

Table 4
Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) ni	1.000							
(2) size	-0.002	1.000						
(3) growth	0.081**	0.032	1.000					
(4) turn	0.079**	-0.293***	0.001	1.000				
(5) eissues	0.003	0.344***	0.131***	-0.071**	1.000			
(6) dissue	-0.001	0.125***	0.066*	-0.036	0.080**	1.000		
(7) lev	-0.016	0.411***	0.025	-0.184***	0.100***	0.054	1.000	
(8) cfo	0.084**	-0.057*	-0.005	0.026	0.015	-0.003	-0.080**	1.000

*** p<0.01, ** p<0.05, * p<0.1

****note: NI: The change of Net Income scaled by total asset; Growth: the percentage change of Revenue Turn: Asset Turnover; Eissue: the percentage change of shareholders' equity; Dissue: the percentage change of total liability; CFO: cash flow from operating activities*

The (1) and (2) represent two periods 2006-2007, 2008-2009 respectively. Compared with that before the revision of the standard, the regression coefficient of earnings per share decreased and the coefficient of net asset per share increased after the revision of the standard, which shows that the value relevance of earnings per share, net asset per share and stock price is enhanced after the revision of the standard. Although the result shows certain degree of positive relationship, the hypothesis 1 still cannot be verified.

Table 5
Regression Analysis of Stock Price

VARIABLES	(1) price	(2) price
EPS	9.642	-32.641
	(0.307)	(-0.846)
BV	-1.601	18.695**
	(-0.270)	(2.045)
Size	4.517	-12.972*
	(0.485)	(-1.746)
Constant	-3.511	323.418**
	(-0.017)	(2.077)
Observations	166	166
R-squared	0.208	0.281
Year FE	YES	YES
Industry FE	YES	YES

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1
****note: Price: closing price at the end of the last four months of the fiscal years divided by net income; EPS: earnings per share at the end of the year; BV: net assets per share, which calculated as total shareholders' equity of the company divided by the numbers of shares; Size: natural logarithm of total asset.*

In table 6 and table 7, the regression analytic result of NI is separately presented according to two methods to use the dummy variable to differentiate the targeted data. In table 6, (1) represents the regression analysis of NI in the first period (2006-2007); (2) represents the regression result of NI in the second period (2008-2009); (3) represents the combination analysis of two periods.

The result shows an increasing trend of the Turn's significance to the NI, which means that after the adoption of IFRS, the companies asset turnover has more positive relevance with the NI, showing the IFRS increase some of the index's effect on the profitability of the companies. Hypothesis 2 is verified to a certain degree. Standardized management of accounting standards is not only conducive to improving the quality and effect of financial reports, but also can provide reliable information and data basis for the establishment of the performance evaluation system of enterprises. Moreover, with the deepening of scientific and theoretical management of our

enterprises, the methods and methods of performance evaluation are becoming more and more mature. The process of performance evaluation is also changing from traditional methods to modern methods. Under the influence of new accounting standards, the performance evaluation system of enterprises is more and more moving towards the direction of refined management.

Table 6
Regression Analysis of NI

VARIABLES	(1) NI	(2) NI	(3) NI
Size	0.020	-0.002	0.006
	(1.311)	(-0.315)	(0.753)
Growth	0.000	-0.000	0.000
	(0.272)	(-0.443)	(0.286)
Turn	0.339***	-0.053**	0.070**
	(5.133)	(-2.313)	(2.338)
Eissue	-0.000	0.000	-0.000
	(-0.621)	(0.999)	(-0.096)
Dissue	0.000	-0.000	-0.000
	(0.131)	(-0.153)	(-0.050)
Leverage	-0.000	0.000	-0.000
	(-0.465)	(1.040)	(-0.158)
CFO	0.005*	0.000	0.005**
	(1.915)	(0.018)	(2.386)
Constant	-0.500	0.028	-0.144
	(-1.558)	(0.194)	(-0.847)
Observations	161	165	326
R-squared	0.376	0.321	0.214
Year FE	YES	YES	YES
Industry FE	YES	YES	YES

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1
****note: NI: The change of Net Income scaled by total asset; Growth: the percentage change of Revenue Turn: Asset Turnover; Eissue: the percentage change of shareholders' equity; Dissue: the percentage change of total liability; CFO: cash flow from operating activities; (1):2006-2007; (2):2008-2009; (3):2006-2009*

In table 7, it shows that although the coefficient of IFRS is small, it still shows positive relevance between the IFRS adoption and the NI. IFRS might positively influence the NI by

increase the accounting quality and enhance the credibility of Chinese listed firms in financial industry.

In summary, the adoption of IFRS generally positively influenced the Chinese financial listed firms during the transformation period. The mean of NI and Size is increasing. One of the reasons why the influence is not significant as predicted is that the financial industry may already had high standard for their accounting report because of the industry particularity.

Table 7
Regression Analysis of NI with IFRS

VARIABLES	(1) NI
Size	0.000
	(0.481)
Growth	0.000
	(1.135)
Turn	0.752***
	(34.191)
Leverage	0.000
	(0.270)
Eissue	-0.000*
	(-1.959)
Dissue	-0.000
	(-0.120)
CFO	-0.000
	(-0.029)
IFRS	0.006**
	(2.605)
Constant	-0.013
	(-0.968)
Observations	326
R-squared	0.932
Year FE	YES
Industry FE	YES

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1
****note: NI: Net Income; Growth: the percentage change of Revenue Turn: Asset Turnover; Eissue: the percentage change of shareholders' equity; Dissue: the percentage change of total liability; CFO: cash flow from operating activities*

VI. Conclusion

This study analyzes the impact of IFRS adoption on the financial performance of listed financial companies in China. Before the analysis of the impact on financial performance, this study simply verifies the impact of IFRS on the accounting quality of China's financial listed companies. Although the research results are not strongly supported by the hypothesis, the hypotheses are still positively supported by the study result. The results of this study are also similar to the previous empirical evidence of the Daske et al.'s study (2008) and the Liu et al.'s study (2011). However, there is still a gap between the empirical results and the data, which can only partially prove the positive correlation between IFRS adoption and the financial performance of Chinese listed companies. Financial enterprises have the characteristics of high debt and high risk. They not only pay attention to profitability, security and liquidity, but also pay attention to the level of capital adequacy and various risks. According to the traditional accounting treatment, because of the uncertainty of derivative financial instruments, it is difficult to recognize them as assets or liabilities, only as off-balance sheet items to be disclosed in the notes to the statements. However, the new accounting standards will better deal with these financial derivatives, so the results show a certain positive correlation.

The limitations of this study are obvious. Data only comes from one industry in one major country. Liu et al (2011) have a study on the Chinese Listed firms from other industries, except financial industry and real estate industry. Therefore, this study only focuses on the financial industry of Chinese Market and the Sample in the CSMAR database is quite small. And due to some incomplete value issues, only 105 out of 109 companies are used as the sample to study the impact of adoption of IFRS eventually. Therefore, the sample size is too small and lacks universality. The only model used in this study for analyze the financial performance is revised on the model from previous studies. It can only partially show the impact of IFRS to the financial industry and the impact mainly related to the profitability. The limitations of this study also include

ignoring the impact of voluntary adoption of IFRS on corporate performance. Although previous studies have not been able to confirm this effect, ignoring this factor is still a limitation.

Reference

Atwood, T. J., M. S. Drake, J. N. Myers, and L. A. Myers. 2011. Do earnings reported under IFRS tell us more about future earnings and cash flflows? Journal of Accounting and Public Policy 30 (1): 103–21.

BALL, R. “International Financial Reporting Standards (IFRS): Pros and Cons for Investors.” Accounting & Business Research, International Accounting Policy Forum (2006): 5–27.

Barry, C.B. and S.J. Brown (1985), ‘Differential Information and Security Market

Barth, M., Landsman, W., & Lang, M. (2008). International accounting standards and accounting quality. Journal of Accounting Research, 46, 467-498.

Barth, M., Landsman, W., Lang, M., & Williams, C. (2006). Accounting quality: International accounting standards and U.S. GAAP (Working paper series). Stanford, CA and Chapel Hill, NC: Stanford UNIersity and UNIersity of North Carolina.

Beneish, M.D., B.P. Miller, and T.L. Yohn. 2010. The effect of IFRS adoption on cross-border nvestment in equity and debt markets. Working paper, Indiana University Bloomington, available online at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1403451, retrieved Nov 19, 2019.

Bradshaw, M., B. Bushee, and G. Miller. 2004. Accounting choice, home bias, and U.S. investment in non-U.S. firms. *Journal of Accounting Research* 42: 795–841.

Byard, D., Y. Li, and Y. Yu. 2011. The effect of mandated IFRS adoption on analyst' forecast errors. *Journal of Accounting Research*, 49(1): 69–96.

Capkun, Vedran and Jeny, Anne and Jeanjean, Thomas and Weiss, Lawrence A., Earnings Management and Value Relevance During the Mandatory Transition from Local GAAPs to IFRS in Europe (April 25, 2008).

Cascino, S., and J. Gassen. 2010. Mandatory IFRS adoption and accounting comparability. Working paper, available online at SSRN: http://ssrn.com/abstract=1402206, retrieved Nov 19, 2019.

Cotter, J, A. Tarca, and M. Wee. 2010. IFRS adoption and analysts' earnings forecasts: Australian evidence. *Accounting and Finance* (forthcoming), available online http://onlinelibrary.wiley.com/doi/10.1111/j.1467-629X.2010.00392.x/abstract, retrieved Nov 19, 2019.

Covrig, V., M. DeFond, and M. Hung. 2007. Home bias, foreign mutual fund holdings, and the voluntary adoption of International Accounting Standards. *Journal of Accounting Research* 45: 41–70.

Daske, H. 2006. Economic benefifits of adopting IFRS or U.S. GAAP: Has the expected cost of equity capital really decreased?. Journal of Business Finance and Accounting 33 (3–4): 329–73.

DASKE, H., HAIL, L., LEUZ, C., & VERDI, R. (2008). Mandatory IFRS Reporting around the World: Early Evidence on the Economic Consequences. Journal of Accounting Research.

Diamond, D.W. and R.E. Verrecchia (1991), 'Disclosure, Liquidity, and the Cost of Capital', Journal of Finance, Vol. 46, No. 4, pp. 1325–59.
Equilibrium', Journal of Financial and Quantitative Analysis, Vol. 20, No. 4, pp. 407–23.

Hope, O. K. (2007). Discussion of attribute differences between U.S. GAAP and IFRS earnings: An exploratory study. International Journal of Accounting, 42, 143-147.

Horton, J., and G. Serafeim. 2010. Market reaction to and valuation of IFRS reconciliation adjustments: First evidence from the UK. Review of Accounting Studies 15 (4): 725–51

Horton, J., Serafeim, G., & Serafeim, I. (2013). Does Mandatory IFRS Adoption Improve the Information Environment?: Does Mandatory IFRS Adoption Improve the Information Environment? *Contemporary Accounting Research*, *30*(1), 388–423.

Jermakowicz, E. K., Prather-Kinsey, J., & Wulf, I. (2007). The Value Relevance of Accounting Income Reported by DAX-30 German Companies. Journal of International Financial Management & Accounting, 18(3), 151–191.

Lang, M., M. Maffett, and E. Owens. 2010. Earnings co-movement and accounting comparability: The effects of mandatory IFRS adoption. Working paper, University of North Carolina.

Lang, M., Raedy, J., & Wilson, W. (2006). Earnings management and cross-listing: Are reconciled earnings comparable to U.S. earnings? Journal of Accounting and Economics, 42, 255-283.

Liu, C., Yao, L. J., Hu, N., & Liu, L. (2011). The Impact of IFRS on Accounting Quality in a Regulated Market: An Empirical Study of China. Journal of Accounting, Auditing & Finance, 26(4), 659–676.

Ohlson, J. A. (1995). Earnings, book values, and dividends in security valuation. Contemporary Accounting Research, 11, 661-687.

Paananen, M., & Lin, H. (2009). The development of accounting quality of IAS and IFRS over time: The case of Germany. Journal of International Accounting Research, 8, 31-55.

Preiato, J., P. Brown, and A. Tarca. 2009. Mandatory IFRS and properties of analysts' forecasts: How much does enforcement matter? Working paper, University of Western Australia.

SECURITIES AND EXCHANGE COMMISSION (SEC). SEC Soliciting Public Comment on Role of IFRS in the U.S. Washington, DC: SEC, July 25, 2007.

Soderstrom, N. S., & Sun, K. J. (2007). IFRS Adoption and Accounting Quality: A Review. European Accounting Review, 16(4), 675–702.

Sunder, S. (2009). IFRS and the accounting consensus. Accounting Horizons, 23, 101-111
Tan, H., S. Wang, and M. Welker. 2011. Foreign analysts following and forecast accuracy around mandatory IFRS adoptions. *Journal of Accounting Research*, 49(5): 1307-1357.

Wang, X., G. Young and Z. Zhuang. 2008. The effects of mandatory adoption of International Financial Reporting Standards on information environments. Working paper, paper presented at the American Accounting Association Annual meeting, Chicago, IL.

Yu, G. 2010. Accounting standards and international portfolio holdings: Analysis of cross-border holdings following mandatory adoption of IFRS. Working paper, available online at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1430589, retrieved Nov 19, 2019.