Article:
Harakeh, M orcid.org/0000-0003-3294-4391, Lee, E and Walker, M (2019) The effect of information shocks on dividend payout and dividend value relevance. International Review of Financial Analysis, 61. pp. 82-96. ISSN 1057-5219

https://doi.org/10.1016/j.irfa.2018.10.009

The effect of information shocks on dividend payout and dividend value relevance

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(Accepted: 19 October 2018)

ABSTRACT: We exploit the mandatory adoption of International Financial Reporting Standards (IFRS) as a source of exogenous shock to the corporate financial information environment to study the potential effect that this information shock might have on the dividend payout policy and dividend value relevance in the UK and France. We employ a difference-in-differences research design, in which our choice of the control and treatment groups is mainly based on the divergence between domestic accounting standards and IFRS, while holding institutional factors constant. The UK domestic accounting standards slightly diverge from IFRS (low-divergence firms), whereas French domestic accounting standards substantially diverge from IFRS (high-divergence firms). Nevertheless, both countries have similar institutional factors that might confound the effect of IFRS adoption. Our theoretical argument is that IFRS adoption is expected to mitigate information asymmetry, a major reason for the free cash flow problem (Jensen, 1986) and cash over-retention (Myers and Majluf, 1984). Our findings suggest that IFRS adoption is a major contributor in increasing dividend payouts among high-divergence firms via reduction of asymmetric information. Moreover, improving the information environment helps investors become more confident about using accounting numbers to assess firm financial performance, which causes a significant reduction in dividend value relevance among high-divergence firms.

Keywords: Information Shocks, Information Asymmetry, IFRS, Dividend Payout, Dividend Value Relevance.

1. Introduction

Publicly listed companies in the European Union have been required to report their consolidated financial statements in compliance with the International Financial Reporting Standards (IFRS) as of the beginning of January 2005 (European Union, 2002; Iatridis, 2010). The IFRS mandate forms a positive information shock to the corporate financial reporting environment by imposing high-quality accounting standards and financial disclosure requirements (Hail et al., 2014). This information shock was found to enhance financial reporting (Barth et al., 2008) and mitigate information asymmetry (Daske et al., 2008). In this paper, we exploit the mandatory adoption of IFRS in Europe to test the potential impact this information shock has on the dividend payout policy and dividend value relevance.

Christensen et al. (2013) find that the benefits of IFRS are concentrated in the European Union, especially in countries with a high enforcement of financial reporting standards. As such, to identify the effect of IFRS adoption, we employ a difference-in-differences methodology in which we contrast the changes in dividend payout and dividend value relevance around IFRS adoption between the UK and France. The selected countries primarily differ in the extent to which their pre-IFRS domestic accounting standards are different from IFRS, but are similar in terms of institutional factors that might confound the effect of IFRS adoption. We expect a relatively small effect for IFRS adoption on the corporate financial information environment of firms listed in countries with domestic accounting standards that do not diverge greatly from IFRS compared to firms listed in countries with domestic accounting standards that diverge materially from IFRS. Bae et al. (2008) construct an index that measures to what extent domestic accounting standards differ from IFRS (formerly known as international accounting standards) in 49 countries around the world. Their index shows that out of 21 key accounting items, domestic accounting standards

in the UK have only 1 key accounting item that does not conform to IFRS whereas domestic accounting standards in France have 12 key accounting items that do not conform to IFRS. Accordingly, we refer to firms listed in the UK as low-divergence firms and to firms listed in France as high-divergence firms.

In general, the accounting and finance literature concludes that the introduction of IFRS has been broadly beneficial (see the surveys by Ball et al., 2015; Brüggemann et al., 2013; Singleton-Green, 2015). The present paper contributes further evidence to the effects of IFRS by specifically focusing on the possibility that IFRS may have served to reduce information asymmetry in situations in which asymmetry was relatively high. We compare France with the UK because both economies have similar institutional factors that may confound IFRS adoption, such as political institutions, industrial composition, size of the economy, shareholder protection, and enforcement of accounting standards. In addition, our focus on mandatory adoption in two similar economies with different accounting standards pre-IFRS helps mitigate the potential issues of selection bias and omitted correlated variables in voluntary adoption studies (Chan et al., 2015; Leuz and Wysocki, 2016), which makes implementing a difference-in-differences research design a feasible identification strategy that allows determining whether the effect of IFRS adoption depends on the nature of the accounting system prior to the mandate.

We focus on the level of dividend payout and on dividend value relevance because theory and empirical findings suggest that both outcome variables are driven by information asymmetry related to assets in place and by the quality of financial reporting (Hand and Landsman, 2005; Jensen, 1986; Koo et al., 2017; Myers and Majluf, 1984; Rees, 1997). In this paper, we argue that a potentially important feature of IFRS is that it serves to reduce the level of information asymmetry related to assets in place and to improve the corporate financial information

environment. We anticipate that the reduction in asymmetric information would make external financing less costly and, consequently, encourage managers to pay more dividends. In addition, the better financial information environment under IFRS is expected to mitigate the free cash flow problem and make unprofitable projects more visible to investors, which induces managers to pay more dividends rather than expropriating investors' wealth (Jensen, 1986). Moreover, as a result of the higher quality of financial reporting, investors would rely more on accounting measures, rather than on dividends, in assessing firms' financial performance. Thus, we anticipate a significant reduction in dividend value relevance under IFRS. We expect a larger effect for the information shock caused by IFRS adoption in the country that has the greater difference between its pre-IFRS domestic accounting standards and IFRS, i.e., the high-divergence country.

First, we examine the difference in the change in the dividend payout level between low-divergence and high-divergence firms. Next, we test the difference in the change in the dividend payout level between high- and low-accounting quality firms within the high-divergence country, where lower accounting quality firms are expected to be more affected by IFRS. Lastly, we examine the change in the value relevance of dividends. We believe that this triangulation strategy gives more credibility and reliability to our study.

Consistent with our hypotheses, our findings suggest that IFRS adoption has a significantly larger effect on high-divergence firms than on low-divergence firms. The level of dividend payouts increases in the high-divergence country. This increase in dividend payouts is more significant for high-divergence firms with lower accounting quality prior to IFRS compared to high-divergence firms with higher accounting quality. In addition, we find that the reduction in the level of information asymmetry and the enhancement in the financial reporting environment improve

investors' confidence in the reported accounting numbers, which results in a significant reduction in the value relevance of dividends among the treatment firms relative to the control firms.

In a similar study to ours, Hail et al. (2014) use an international sample to test the effect of IFRS on dividend policy. They find that IFRS adoption decreases dividend payouts because it mitigates information asymmetry and, consequently, moderates the problem of free cash flow in a way that assures shareholders about their invested funds (Jensen, 1986); as a result, investors will put lower pressure on managers to pay dividends. Conversely, Koo et al (2017) use a US-based sample to provide causal evidence that improving financial reporting leads to an increase in dividend payouts. The authors argue that under higher financial reporting quality, the free cash flow problem is lessened and investors are able to better monitor managerial decisions, which reduces managers' incentives to retain cash and underpay dividends, especially when managers are motivated to build a good reputation. Our study supports the general conclusion of Koo et al. (2017) and contradicts the findings of Hail et al. (2014) as we believe that the results of the latter study are overgeneralized due to non-comparable control and treatment groups. In our research setting, we select two capital markets in Western Europe (UK and France) with similar institutional factors, but with accounting systems that diverge differently from IFRS.[1] Compared with international samples, our restricted sample provides a more controlled research setting that isolates potential confounding (institutional) effects and enables better identification of the treatment effect of IFRS on the outcome variables (Leuz, 2003). In contrast to Hail et al. (2014), we find that IFRS adoption increases dividend payouts in the high-divergence country relative to the low-divergence country due to the positive information shock that reduced information asymmetry and improved the quality of financial reporting. Adoption of IFRS is expected to (1) reduce the costs associated with

[1] We provide a detailed explanation of the sample selection in section 4.1.

external financing, which accordingly decreases cash retention (Myers and Majluf, 1984), and (2) to lessen the free cash flow problem by making managerial activities more visible to shareholders (Jensen, 1986; Koo et al., 2017).

The remainder of the paper is structured as follows: section 2 provides a literature review and hypotheses development; section 3 discusses the research design; section 4 describes the data sample; section 5 discusses the results; and section 6 concludes the study.

2. Literature Review and Hypotheses Development

2.1. IFRS, legal systems and information asymmetry

In 2005, the European Union (EU) imposed IFRS as obligatory reporting standards on publicly listed companies in all countries that fall under its authority (European Union, 2002; Iatridis, 2010). IASB's initial objectives were to develop a set of global accounting standards that are relevant to economic decisions made by capital market participants (Choi et al., 2013; Pope and McLeay, 2011). In a recent survey on IFRS adoption, De George et al. (2016) discuss the differences in financial reporting systems between code-law and common-law legal systems. As a matter of fact, the difference between legal systems is a main source of variation in accounting quality between high-divergence and low-divergence firms prior to IFRS adoption. De George et al. (2016) note the importance of differentiating between legal systems when studying the effect of IFRS adoption across countries since IFRS are developed in the spirit of the common-law system (Ball et al., 2000). To be more specific, the demand for financial reporting is higher in common-law countries because firms are more financially dependent on capital markets, whereas firms in code-law countries are mainly reliant on banks for raising money. Accordingly, relying on capital markets in raising funds requires firms to maintain transparent and decision-relevant financial statements. In addition, the common-law financial reporting system tends to be less

regulated by laws than the code-law financial reporting system. In code-law countries, accounting regulations are incorporated in national laws. On the other hand, national laws in common-law countries are less detailed regarding financial reporting, which allows managerial judgment and allows accounting standards to play a major role in financial reporting. Similar to the common-law financial reporting system, IFRS are principles-based accounting standards that specify more general rules, where firms are responsible for presenting credible financial statements. In stark contrast, firms in code-law countries resolve information asymmetry conflicts through private communication whereas firms in common-law countries use public disclosure in resolving such conflicts, which explains a great deal of the divergence between domestic accounting standards and IFRS in the UK and France, i.e., the low-divergence country and the high-divergence country, respectively. In light of the aforementioned points, we expect a minor change in the financial reporting system in the UK following IFRS adoption. On the other hand, France is expected to experience a more substantial change in the financial reporting system after adopting IFRS (Armstrong et al., 2010; Barth et al., 2012).

The quality of financial reporting is determined mutually by the accounting standards and the enforcement of these standards (Christensen et al., 2013). Similarly, a main determinant of the effectiveness of IFRS adoption is how well these standards are being enforced (Leuz and Wysocki, 2016). IFRS might enhance accounting quality, given that it is accompanied by a rigid enforcement and a robust institutional infrastructure (Chan et al., 2015; Hail and Leuz, 2006). Christensen et al. (2013) find that European countries that have improved their accounting enforcement have experienced a greater effect for IFRS on their capital markets. Thus, it is important for our study to make sure that the improvement in the financial reporting environment in France, following IFRS adoption, is not due to a change in the enforcement of accounting standards. Brown et al.

(2014) construct a comprehensive index that measures the enforcement of accounting standards in 51 countries before, during, and after IFRS adoption.[2] Their index of enforcement of accounting standards in France had a score of 19 in 2002, 19 in 2005, and 16 in 2008, which shows that the enforcement of accounting standards in France remained stable before and around IFRS adoption and then it fell slightly after IFRS adoption in 2008.[3] The same index in the UK shows a score of 14 in 2002, 22 in 2005, and 22 in 2008. This slight increase in the enforcement of accounting standards in the UK around IFRS would have a counter effect on our findings, if any. Therefore, we rule out the possibility that changes in the enforcement of accounting standards in both countries might drive the obtained results, which facilitates the implementation of the difference-in-differences methodology because the only changing factor in this case is accounting standards.

Lastly, as far as information asymmetry is concerned in the financial reporting context, the accounting literature documents that accounting standards directly affect information asymmetry through determining the quality of financial reporting and disclosure (Armstrong et al., 2010; Ball, 2008; Barth et al., 2008; Charitou et al., 2015; Daske et al., 2008; Iatridis, 2011, 2010; Leuz and Verrecchia, 2000; Leuz and Wysocki, 2016; Muller et al., 2011; Panaretou et al., 2013; Ramalingegowda et al., 2013; Wang and Welker, 2011). Brüggemann et al. (2013) argue that financial reporting under IFRS should produce positive economic consequences for investors through providing enhanced transparency and comparability. Leuz and Verrecchia (2000) and Leuz and Wysocki (2016) conclude that International Accounting Standards (represented by IFRS) are able to decrease adverse selection among investors through imposing an increased level of

[2] The index constructed by Brown et al. (2014) consists of an 'auditing' index and an 'enforcement' index. We are particularly interested in the enforcement of the accounting standards index. The maximum score for the aforementioned index is '24',which was measured in 2002, 2005 and 2008.

[3] This decrease of the enforcement index in 2008 might be due to the global financial crisis. When we run all of the regressions while excluding the year 2008 from the sample period, the results persist.

accounting disclosure on adopting firms. Their analyses show that this increased disclosure reduces the cost of capital among firms. Therefore, we treat IFRS as a positive information shock to the corporate financial reporting environment (Hail et al., 2014).

2.2. Dividend payout policy and the information environment

The relationship between IFRS adoption and dividend payout policy is characterized by the change in the level of information asymmetry (DeAngelo et al., 2008). In their survey on the corporate payout policy literature, DeAngelo et al. (2008) propose a theoretical framework which develops the pioneering theory of Miller and Modigliani (1961) in determining the optimal payout policy through introducing information asymmetry in light of Myers and Majluf (1984) and Jensen (1986). Miller and Modigliani (1961) theorize that dividend payout policy is irrelevant under certain assumptions.[4] However, these assumptions do not hold in a corporate world that suffers from asymmetric information, which suggests that the dividend payout policy is a relevant financial decision to the firm under information asymmetry. The surveys by Allen and Michaely (2003) and DeAngelo et al. (2008) document that the finance literature selects information asymmetry as a major factor in determining the behavior of dividend policy. In the same vein, Clubb and Walker (2014) demonstrate that, in a perfect capital market with moral hazard, where managers' actions are less than perfectly observed by investors, managers' choices might not be in the best interest of investors. Therefore, if IFRS adoption mitigates information asymmetry and partially solves the moral hazard problem, investors are more capable of monitoring managers who are expected to increase dividend payouts rather than expropriate investors' wealth (i.e., the free

[4] The assumptions that support Miller and Modigliani (1961) are: (1) there are no friction costs and no taxes, (2) investors are rational and securities are fairly priced, and (3) firms are price takers and not price makers and all investors are equally informed.

cash flow problem) through incurring excessive operating expenses and investing in negative NPV projects (Jensen, 1986; Koo et al., 2017; La Porta et al., 2000a).

Moreover, in the presence of asymmetric information, the firm might experience corporate underinvestment especially if the firm relies on external financing (Myers and Majluf, 1984). The possibility of underinvestment comes from the 'lemons problem' that emerges when the firm issues new equity or new debt and investors undervalue equity or overprice debt due to high uncertainty. The framework of Myers and Majluf (1984) suggests that the higher the level of information asymmetry about assets in place, the higher the likelihood of underinvestment. The authors argue that the firm may limit the underinvestment problem through increasing cash retention, which results in a lower dividend payout. Thus, a higher level of asymmetric information leads to a lower dividend payout to lessen the underinvestment problem. In light of the aforementioned discussion, we expect dividend payouts to increase after the adoption of IFRS due to the improved information environment induced by the new reporting regime.

Hypothesis (H1): Following IFRS, there is a greater increase in the average dividend payout among high-divergence firms than among low-divergence firms.

If IFRS are expected to improve the financial reporting environment where accounting quality is relatively low, then firms with lower accounting quality are expected to be more affected by IFRS than those with higher accounting quality. Given that we expect IFRS to induce a greater change in accounting quality among high-divergence firms, we also believe that IFRS will have a greater influence on high-divergence firms with lower accounting quality. That is, we predict that the level of dividend payout will increase among high-divergence firms with low accounting quality more than it will among high-divergence firms with high accounting quality.

Hypothesis (H2): IFRS adoption affects the average dividend payout for low accounting quality firms more significantly than it does for high accounting quality firms in the high-divergence country.

2.3. Dividend value relevance and the information environment

Under perfectly symmetric information, dividends should be irrelevant in determining the market value of the firm (Miller and Modigliani, 1961). However, when insiders possess more valuable information than outsiders, dividends become value-relevant, as they convey signals about the firm's future (Bhattacharya, 1979; Miller and Rock, 1985). Fama and French (1998) provide evidence suggesting that, under information asymmetry, dividends are highly value-relevant and have a positive effect on the market value of the firm. Rees (1997) argues that, under information asymmetry, the positive significant association between dividends and market value is attributed to the role of dividends in conveying credible information related to the firm's future. This information-carrying role of dividends is more prominent when earnings quality is low (Rees, 2005). Hand and Landsman (2005) use the Ohlson (1995) model to test four explanations for the high value relevance of dividends. They propose four possible explanations for the positive pricing of dividends: (1) dividends proxy for public information that help predict future earnings, (2) managers use dividends as a signaling tool for their private information, (3) managers pay dividends to signal their good intentions about maximizing shareholders' value, and (4) dividends are positively priced because of analysts' mis-forecasting or investors' mispricing of earnings and book equity. Their results are mostly consistent with the fourth proposition. After controlling for one-year-ahead analysts' forecast errors, Hand and Landsman (2005) rule out the possibility of analysts' mis-forecasting. Thus, they conclude that the positive value relevance of dividends is caused by investors' mispricing of current earnings and book equity.

When the quality of reported earnings and book value of equity is low, the value relevance of dividends is expected to be high because it provides a source of information to investors (Rees, 2005). In this case, dividends will have a higher impact on the market value of the firm. Rees and Valentincic (2013) study the association between the market value of equity and dividends. They find a strong association between market value and dividends among UK firms. They explain their findings by reference to the study by Clubb (2013) who concludes that dividends exert a strong positive effect on market value from their role as a proxy for financial expectations. In the same vein, Hand and Landsman (2005) conclude that dividends are value-relevant because investors are unwilling to rely entirely on accounting numbers and, therefore, place some weight on dividends as an alternative proxy for financial expectations. Another source for financial expectations is analysts' forecasts. Choi et al. (2013) find that forecasted earnings become less value-relevant under IFRS whereas reported earnings become more value relevant to investors, which suggests that IFRS were successful in improving the decision usefulness of reported numbers through reducing information asymmetry.

We exploit the information shock caused by IFRS, which is expected to decrease information asymmetry and improve financial reporting quality, to hypothesize that investors become more confident about using accounting measures in assessing the financial performance of the firm following IFRS adoption. As a result, dividends are expected to lose some of their signaling power and convey less information, i.e., become less value-relevant, especially where IFRS have a higher impact.

Hypothesis (H3): Dividend value relevance decreases by a significantly greater magnitude among high-divergence firms than it does among low-divergence firms.

3. Research Methodology

We test our hypotheses using a difference-in-differences research design. The low-divergence sample (UK firms) serves as the control group and the high-divergence sample (French firms) serves as the treatment group. A detailed discussion of sample selection is available in section 4. The sample period starts in 2001 and ends in 2008 (Hail et al., 2014).[5] We argue that IFRS adoption serves as a proxy for the change in the level of information asymmetry since it serves as a positive exogenous information shock to the information environment (Florou and Kosi, 2015; Hail et al., 2014). We denote the IFRS adoption period using the dummy variable *POST* that takes the value 1 if the year is 2005 or beyond, and 0 otherwise. It is important to note that we do not claim that IFRS is the only driving factor in our findings; however, we develop a research design and perform additional tests which make us confident of attributing our findings to the change in the information environment following IFRS adoption.

Lastly, we differentiate the high-divergence sample from the low-divergence sample using the dummy variable *HIDIVRG* that takes the value 1 if the firm is listed in France (i.e., treated firm), and 0 otherwise. We identify the difference-in-differences estimator as the interaction between *POST* and *HIDIVRG*. The variable *POST*HIDIVRG* takes the value 1 if the firm is listed in the high-divergence country between 2005 and 2008, and 0 otherwise.

3.1. Dividend payout regression model

To model the behavior of dividend payouts, we mainly follow (Fama and French, 2001;2002) in modelling dividends. Their model includes four firm-specific economic characteristics that determine its dividend payout: profitability, investment opportunities, leverage and size. In what

[5] As a robustness check, we run the regressions after excluding the year 2008, the beginning of the world financial crisis. In addition, we run the regressions after excluding the year 2005, which is considered a transitional period with a high level of asymmetric information (Wang and Welker, 2011). The results remain unchanged when excluding the years 2008 and 2005 from the sample period.

follows, we discuss the rationale behind including these economic characteristics. First, Denis and Osobov (2008) find that dividend payers tend to be more profitable firms as they can maintain their dividend payout level while keeping some reserve funds for unseen circumstances. We proxy profitability using earnings before interest and after tax (*EBI*), net income available to common stockholders (*NI*), and income taxes (*TAX*).[6] Second, firms with high investment opportunities usually pay fewer dividends because they need to finance their ongoing projects (Fama and French, 2001). We proxy the firm's investment opportunities using the percentage change in total assets ($\%\Delta TA$), research and development expenses (*RND*), and Tobin's Q using the market-to-book ratio (*TOBINQ*). Third, the level of debt should be taken into consideration since it is one of the obstacles that delay dividend payments (DeAngelo et al., 2006; Eije and Megginson, 2008). We proxy the level of debt using the variable *LEV,* the ratio of total liabilities to lagged total assets.[7] Fourth, a major determinant of dividend payout is the firm's maturity. DeAngelo et al. (2008) state that prior literature finds a positive association between the firm's maturity and dividend payouts. Fama and French (2001) proxy the firm's maturity by its size since a more mature firm is expected to have a larger size. We measure the firm's size using the natural logarithm of total assets (*LOGTA*).

Lastly, following Ramalingegowda et al. (2013), we add the tangibility ratio *TANG*, the liquidity ratio *LIQDT*, and share repurchases *REPUR* – an alternative method of distributing profits to shareholders. All variables are defined in Appendix A. In light of these ideas, the initial

[6] Income taxes proxy profitability because higher taxes are paid by more profitable firms. In addition, Mills et al. (2013) find that firms with higher political cost generally pay higher taxes as they undergo higher scrutiny. Therefore, the inclusion of taxes in the model might capture some of the political cost, which puts more pressure on firms to pay dividends in order to silence investors.

[7] As a robustness check, we deflate the variables using (i) the total assets at the end of the year t and (ii) the firm's average of the total assets in years 2001, 2002, 2003 and 2004 in order to isolate the fair value adjustment effect on total assets after IFRS. Our results are insensitive to either deflator. An alternative deflator is market value; however, we cannot use market value because it is the dependent variable in equation (2).

regression model is given below in equation (1), where the dependent variable *TDVD* is total dividend payout deflated by lagged total assets.

$$TDVD = \alpha_0 + \alpha_1 POST + \alpha_2 HIDIVRG + \alpha_3 POST*HIDIVRG + \sum \alpha_i Controls_i + \sum \alpha_j Year\ FE_j + \sum \alpha_k Industry\ FE_k + \varepsilon \quad (1)$$

The coefficients of interest are α_1, α_2, and α_3. When running the regression using the full sample, α_1 captures the change in total dividends after IFRS adoption among low-divergence firms, α_2 captures the difference in the level of dividend payout between both groups prior to IFRS adoption, and α_3 captures the difference-in-differences effect (i.e., the difference in the effect of IFRS adoption on the level of dividend payouts between low-divergence and high-divergence firms). When running the regression of equation (1) for each country separately (i.e., α_2, and α_3 are omitted), we expect α_1 to be insignificant when using the low-divergence sample and to be significantly positive when using the high-divergence sample.

3.2. Dividend payout regressions among high-divergence firms

We run the subsample analysis by splitting the high-divergence sample into two groups: low accounting quality firms and high accounting quality firms. We use three proxies for accounting quality in partitioning the high-divergence sample. All the proxies are calculated in years prior to IFRS. The first proxy is the average absolute value of discretionary accruals. We calculate discretionary accruals for the first proxy using the modified Jones (1991) model as described in Dechow et al. (1995) and we incorporate idiosyncratic economic shocks following Owens et al.

(2017), as shown in Appendix B.1.[8] The dummy variable *ACCDUM1* takes the value 1 if the firm's average absolute value of discretionary accruals is greater than the median value of the high-divergence sample, and 0 otherwise. That is, firms with an average absolute value of discretionary accruals greater than the median value of the high-divergence sample are assigned to the low accounting quality group. With respect to the second proxy for accounting quality, we calculate discretionary accruals based on the cross-sectional version of the Dechow and Dichev (2002) model, as shown in Appendix B.2. Then, for each firm, we calculate the variance of discretionary accruals prior to IFRS adoption, since high volatility of discretionary accruals implies low accounting quality (Dechow and Dichev, 2002). The dummy variable *ACCDUM2* takes the value 1 if the variance of the firm's discretionary accruals is greater than the median value of the high-divergence sample, and 0 otherwise. That is, firms with a variance of discretionary accruals greater than the median variance of the high-divergence sample are assigned to the low accounting quality group. Lastly, the third proxy for accounting quality is calculated as the average annualized return volatility of the firm in years prior to IFRS. We calculate the firm's annualized return volatility as the annualized variance of daily stock returns. Firms with highly volatile returns tend to have a lower level of innate earnings quality (Rajgopal and Venkatachalam, 2011). The dummy variable *RETDUM* takes the value 1 if the firm's average annualized return volatility is greater than the median value of the high-divergence sample, and 0 otherwise. That is, firms with an average annualized stock volatility greater than the median value of the high-divergence sample are assigned to the low accounting quality group.

[8] Owens et al. (2017) find that large shifts in unsigned (absolute) abnormal accruals are caused by changes in the firm's economics. We follow their study and proxy idiosyncratic economic shocks using the variable *ECON*, as defined in Appendix B.1.

3.3. Dividend value relevance regression model

To model the change in dividend value relevance following IFRS adoption, we use an accounting-based valuation model that includes a number of variables from various prior studies. Given that the data sample consists of Western European companies, we mainly follow Shen and Stark (2013) and Shah et al. (2013). We also include other variables relevant to the valuation of loss firms (Darrough and Ye, 2007; Jiang and Stark, 2013). Lastly, we add the variable *OINFO* as a proxy for *other information* which cannot be captured in accounting-based models (Ohlson, 1995). This variable is the estimated residuals from year (t-1) regression, as performed in Akbar and Stark (2003). We deflate both sides of the equation by lagged total assets. This step requires suppressing the constant term and including the reciprocal of the deflator (*1/TA*) among the covariates. The definition of the variables in the regression equation below is given in Appendix A.

$$MV = 1/TA + \beta_1 POST + \beta_2 TDVD + \beta_3 POST*TDVD$$
$$+ \sum \beta_i Controls_i + \sum \beta_j Year\ FE_j + \sum \beta_k Industry\ FE_k + \varepsilon \qquad (2)$$

The main coefficient of interest in this model is β_3, which represents the change in the value relevance of dividends after IFRS adoption. We run three models of the above regression equation using both samples (high-divergence and low-divergence). We compare the estimates of β_3, for both samples, using the Chi^2 statistic. We expect β_3 to be more negative for the high-divergence sample regression, suggesting that the value relevance of dividends drops more significantly among high-divergence firms than among low-divergence firms following the introduction of

IFRS. We are also interested in the change in the value relevance of accounting measures, as we expect the value relevance of accounting variables to increase after IFRS adoption.

4. Data and Descriptive Statistics

4.1. Sample construction

To identify the treatment effect of IFRS on dividend payout and dividend value relevance, we choose two European countries that have different domestic accounting standards prior to adopting IFRS while sharing similar institutional factors that are likely to affect the quality of financial reporting (Chan et al., 2015). We select the UK and France to serve as the control and treatment groups, respectively, as the former has very similar domestic accounting standards to IFRS (i.e., low-divergence) while the latter has materially different domestic accounting standards from IFRS (i.e., high-divergence). The selected countries share similar economic characteristics, corporate governance, ownership dispersion, institutional infrastructure, and enforcement of accounting standards. The high comparability between both countries is a main advantage of our restricted sample because the aforementioned factors might confound the treatment effect of IFRS adoption had they been changing differently across countries over time (Leuz, 2003). At the country level, both countries have similar enforcement of accounting standards around IFRS adoption (Brown et al., 2014), have comparable shareholder's protection (Katelouzou and Siems, 2015), both economies have relatively comparable sizes (World Bank, 2014), and both countries did not allow the voluntary adoption of IFRS (Leuz and Wysocki, 2016). At the corporate level, both capital markets share similar regulations of securities markets (La Porta et al., 2006), have similar scores for corporate governance (Katelouzou and Siems, 2015) and have relatively comparable ownership

dispersion (Enriques and Volpin, 2007).[9] This leaves the introduction of IFRS as the main relevant change around 2005, which facilitates employing a difference-in-differences research design using the UK and France as the control and treatment groups, respectively.

The data source is Worldscope for financial variables and Datastream for stock returns. We apply two sets of sample restrictions. In the first set of restrictions, after we download all publicly listed companies in the UK and France between 2001 and 2008, we exclude financial companies, unquoted equities, and unspecified industries. In the second set of restrictions, we drop all firms that did not adopt IFRS in 2005. Then, we drop all firms with total assets below one million Euros. Lastly, we require each firm to have at least one observation in the pre-IFRS period and at least one observation in the post-IFRS period. The final sample consists of 673 low-divergence firms and 476 high-divergence firms, which is equivalent to 4,340 firm-year low-divergence observations and 3,075 firm-year high-divergence observations.

4.2. Descriptive statistics

We begin the descriptive statistics with Figure 1, which shows the trend of average dividend payouts for low-divergence and high-divergence firms between 2001 and 2008. The graph shows how dividend payouts have significantly increased on average after 2005 among high-divergence firms. However, no similar change in dividend payouts occurred among low-divergence firms.

[Insert Figure 1 Here]

Panel A Table 1 reports summary statistics for the variables used in the dividend payout model for the low-divergence and the high-divergence samples. The percentage of low-divergence dividend payers is higher than that of high-divergence dividend payers (74.84% vs. 65.56%). Both

[9] Compared to other Western European countries, such as Germany, the UK and France have the closest scores for ownership dispersion and corporate governance.

groups have similar ratios for the profitability proxies (*EBI*, *NI* and *TAX*). Low-divergence firms have on average slightly higher investment and growth opportunities than high-divergence firms, as observed when comparing the ratios on investment opportunity proxies (*RND*, *TOBINQ* and *%*Δ*TA*). The average size of a firm is similar between both groups; however, the leverage ratio shows that high-divergence firms are more dependent on debt than low-divergence firms. Lastly, low-divergence firms repurchase more stocks and have higher tangibility and liquidity ratios than high-divergence firms. Panel B Table 1 reports the average dividend payout for each sample before and after IFRS adoption. It shows that the average dividend payout among high-divergence firms increases by 29.41% after IFRS implementation, whereas the same figure increases by 0.44% for low-divergence firms. Lastly, Panel C Table 1 reports summary statistics for the variables used in the dividend value relevance model. On average, low-divergence firms have a higher market value *(MV*) than high-divergence firms. The summary statistics for the variable *BVE* show that the financial structure of an average low-divergence firm is more reliant on equity than an average high-divergence firm. The summary statistics for the variable *NIBX* show that high-divergence firms report slightly higher profits than low-divergence firms possibly because of the higher capital expenditure (*CAPX*) and higher research and development expenses (*RND*) incurred by low-divergence firms. Furthermore, low-divergence firms have on average a greater change in sales over the years (Δ*SALES*), and this might be one of the reasons why low-divergence firms are more solvent (*LIQDT*) than high-divergence firms. As for equity movements, summary statistics show that low-divergence firms buy and sell equity more frequently than do high-divergence firms (*REPUR* and *PROCD*, respectively). Lastly, an average low-divergence firm pays more dividends than does an average high-divergence firm.

[Insert Table 1 Here]

The Pearson correlation coefficients between variables are similar for low-divergence and high-divergence samples; thus, we only report the correlation matrices of the dividend payout model and the dividend value relevance model based on the full sample. The univariate analysis of the dividend payout model in Panel A Table 2 shows that the correlation between the total dividend payout and the profitability proxies is positive and significant. The correlation between the total dividend payout and the investment proxies is negative and significant, which suggests that firms with higher investment opportunities pay fewer dividends. Regarding the dividend value relevance model, the univariate analysis in Panel B Table 2 shows that the book value of equity is positively correlated with market value. The correlation coefficient of net income (*NIBX*) shows a negative correlation with market value possibly because of loss-making firms with high market value (e.g., pharmaceutical firms with high research and development expenses). Furthermore, the statistics show that research and development expenses, change in sales, the liquidity ratio, proceeds, repurchases and dividends are positively correlated with the market value.

[Insert Table 2 Here]

5. Empirical Results

5.1. Dividend payout following IFRS

We estimate equation (1) using OLS regression with the industry and year fixed effects, as shown in the first set of regressions in Table 3. We run three regressions using the low-divergence sample, the high-divergence sample and the full sample. The profitability proxies have a positive and statistically significant effect on the dependent variable *TDVD*, except for *NI*, which has an insignificant coefficient in all three regressions (probably because it is the only variable being deflated by book equity). The variables *RND* and $\%\Delta TA$, which proxy for investment opportunities, have a significantly negative effect on dividend payouts in general (*RND* has an insignificant

coefficient in the low-divergence and the full sample regressions), which indicates that firms with higher investments pay fewer dividends due to their need for cash. Yet, the coefficient of *TOBINQ* (the third proxy for investment opportunities) is positive and significant. One possible explanation for this result might be that *TOBINQ* captures the firm's profitability, which is positively correlated with dividend payout, since more profitable firms have high stock prices. Moreover, the coefficient of *LOGTA* is positive and statistically significant in the high-divergence and the full sample regressions, suggesting that larger firms and more mature firms pay more dividends. The coefficient of *LEV* is significantly negative for the high-divergence regression, suggesting that firms might cut on dividends to meet their debt obligations (Myers, 1984).

More importantly, the coefficient of *POST* in the low-divergence regression in the first set is statistically insignificant (t-statistic = −0.64). On the other hand, the corresponding coefficient for the high-divergence sample is positive and highly significant (t-statistic = 4.40), suggesting that IFRS adoption has a significantly positive effect on dividend payouts in the high-divergence country and has an insignificant effect in the low-divergence country. Moreover, the third regression in the first set uses the full sample and shows that the coefficient of *HIDIVRG* is negative and highly significant, suggesting that high-divergence firms used to pay significantly lower dividends than low-divergence firms in the pre-IFRS period. This result is consistent with La Porta et al. (2000b), who find that firms operating in code-law countries pay fewer dividends to their investors than firms operating in common-law countries. Lastly, the coefficient of the difference-in-differences dummy is positive with a value of 0.0034 and a t-statistic of 4.07, suggesting that high-divergence firms significantly increased their dividend payouts in the post-IFRS period compared to low-divergence firms.

To reinforce our main finding, we attempt to control for possible change in the economics of high-divergence firms. If this change in the economics was in favor of increasing dividend payout, then our finding may not be caused by IFRS adoption. We control for the change in the underlying economics among high-divergence firms by constructing a one-to-one matched sample. Specifically, we match high-divergence observations to low-divergence observations using the Coarsened Exact Matching (CEM) technique (Iacus et al., 2012). We use the CEM procedure to create the treatment and the control samples with balanced characteristics in terms of several covariates (Duygan-Bump et al., 2013). We match based on firm performance (ROA), firm size (total assets), industry and IFRS. We believe that matching on these variables would capture some of the effects, caused by changes in the underlying economics among high-divergence firms, which might drive an increase in the level of dividend payout. The second set of regressions in Table 3 shows that our results hold, as the economic and statistical significance persists when performing a matched difference-in-differences analysis. The coefficient of *POST* remains statistically insignificant for low-divergence firms and positively significant for high-divergence firms, which generates a significant difference-in-differences estimate, as shown in the last regression in Table 3. The results in Table 3 lead us to reject the null hypothesis of H1 in favor of the alternative.[10]

[Insert Table 3 Here]

It is possible that our reported results in Table 3 were driven by some unobserved factors that were not captured in equation (1). If these unobservable factors remain constant over time, then we can control for the source of endogeneity using a firm fixed effects regression (Wooldridge,

[10] Christensen et al. (2007) find that IFRS adoption does not affect all firms equally and the effectiveness of IFRS is conditional on the firm's perceived benefit. Therefore, allowing for the heterogeneous impact of firms' characteristics would control for the variation of the effectiveness of IFRS adoption. In an additional test, we allow for a heterogeneous impact of the control variables by interacting all of the control variables with the three difference-in-differences dummy variables (Angrist and Pischke, 2015). Our conclusion remains unchanged.

2010, p. 285). In this case, firm fixed effects control for the unobserved differences between the treatment group and the control group as long as these differences are time invariant (Baltagi, 2013; Bertrand et al., 2004). The first set of regressions in Table 4 reports regression results for the dividend payout model using firm fixed effects. Our main result remains unchanged after controlling for time-invariant unobservable factors. Furthermore, as shown in the second set of regressions in Table 4, we run a Logistic regression using the same set of covariates to test for the change in the propensity to pay dividends among firms. The dependent variable *DIVDUM* used in the second set of regressions in Table 4 is a dummy variable that takes the value 1 if the firm pays dividends in that year, and 0 otherwise. The coefficient of *POST* in the second set of regressions remains insignificant for low-divergence firms and significantly positive for high-divergence firms. The coefficient of *POST*HIDIVRG* for the full sample, which captures the difference-in-differences effect, also remains significantly positive, suggesting that the propensity to pay dividends increases among high-divergence firms relative to that of low-divergence firms following IFRS adoption. Thus, we strengthen the rejection of the null hypothesis of H1 in favor of the alternative.

[Insert Table 4 Here]

In short, after performing a set of difference-in-differences regressions and controlling for several potential driving factors, we attribute the increase in dividend payouts among high-divergence firms to the adoption of IFRS.[11]

[11] André et al. (2015) find that conditional conservatism decreases in Europe after IFRS adoption, which implies that the reported earnings may have increased after IFRS, and as a result, managers may have increased their dividend payout. Therefore, we run an additional test in which we control for the change in net income. There is no material impact on our findings.

5.2. Dividend payout among high-divergence firms

We enrich our examination of the change in the level of dividend payout by examining the heterogeneous effects of IFRS on high-divergence firms. IFRS are expected to have a greater impact on firms with low accounting quality ex ante (Iatridis, 2010); therefore, the increase in dividend payouts among high-divergence firms should be more prominent among low accounting quality firms, compared to high accounting quality firms. We split the high-divergence sample into high and low accounting quality firms using three proxies (calculated pre-IFRS): the average absolute value of discretionary accruals (*ACCDUM1*), the variance of discretionary accruals (*ACCDUM2*) and the average annualized return volatility (*RETDUM*). Firms that fall above the median of each proxy are considered low accounting quality firms.

Table 5 includes three sets of regression results for the dividend payout model, where each set uses three samples: high-divergence firms with high accounting quality, high-divergence firms with low accounting quality and the full high-divergence sample. The first and the second regressions of each set in Table 5 report the results for the high accounting quality and the low accounting quality subsamples, respectively. The last regression of each set in Table 5 reports the regression results for the full high-divergence sample including, the difference-in-differences estimators *POST*ACCDUM1, POST*ACCDUM2* and *POST*RETDUM*, respectively.

The first set of regressions in Table 5 shows a lower coefficient estimate and significance on *POST* for the high accounting quality regression compared to the low accounting quality regression, suggesting that the level of dividend payout for low accounting quality firms is more affected by IFRS adoption. Specifically, the coefficient of *POST* for the high accounting quality subsample is 0.0017 with a t-statistic of 1.85, while the same coefficient for the low accounting quality subsample is 0.0032 with a t-statistic of 4.09. The difference-in-differences estimator

(*POST*ACCDUM1*) has a significantly positive coefficient, indicating that the level of dividend payout among high-divergence firms with lower accounting quality is more affected by IFRS adoption.

The results in the second set confirm the results in the first set. The dividend payout level increases more among high-divergence firms with an average variance of discretionary accruals above the median (low accounting quality), compared to high-divergence firms that fall below the median (high accounting quality). The coefficient of *POST* for the high accounting quality subsample is 0.0008 with a t-statistic of 0.94, while the same coefficient for the low accounting quality subsample is 0.0039 with a t-statistic of 4.89. The difference-in-differences estimator (*POST*ACCDUM2*) has a significantly positive coefficient, indicating that the level of dividend payout among high-divergence firms with lower accounting quality is more affected by the IFRS mandate.

Lastly, the results reported in the last set of regressions in Table 5 are also consistent with those in the first two sets. The dividend payout level increases more among high-divergence firms with an average annualized variance of daily stock returns above the median of the high-divergence sample (low accounting quality), compared to those that fall below the median (high accounting quality). The coefficient of *POST* for the high accounting quality subsample is 0.0016 with a t-statistic of 2.08, while the same coefficient for the low accounting quality subsample is 0.0030 with a t-statistic of 3.66. The difference-in-differences estimator (*POST*RETDUM*) has a significantly positive coefficient, indicating that the level of dividend payout among high-divergence firms with lower accounting quality is more affected by the implementation of IFRS.[12]

[12] We run the same analysis on the low-divergence sample and find no significant differences between high- and low-quality firms.

In light of the consistent results from the subsample analysis using different proxies for accounting quality, we reject the null hypothesis of H2 in favor of the alternative.

[Insert Table 5 Here]

5.3. Dividend value relevance following IFRS

In the last table, we test the change in the value relevance of dividends following IFRS adoption. We estimate three models of equation (2), using the low-divergence and the high-divergence samples, as shown in Table 6. In the first model, we interact *POST* with total dividend payout and stock repurchases. In the second model, we interact *POST* with total dividend payout, stock repurchases and the main accounting variables. The purpose of interacting the accounting variables with *POST* is to test whether the value relevance of the accounting numbers has increased after IFRS adoption. In the third model, we interact all the variables with *POST* to capture other unobserved factors which might affect these variables over time.

To differentiate profitable firms from loss firms, we interact the loss dummy *LOSS* with the book value of equity *BVE* and net income before extraordinary items *NIBX*. After performing this step, the coefficients on *BVE* and *NIBX* become closer to the conventional Ohlson (1995) model's estimates. Other covariates, such as *CAPX*, Δ*SALES*, *LIQDT*, and *RND* have a significantly positive effect on the market value in both regressions, indicating that an increase in investments (*CAPX* and *RND*) and/or profitability (Δ*SALES* and *LIQDT*) send positive signals to investors, which in return, elevate the market value of the firm.

As for the value relevance of dividends, the coefficient of *POST***TDVD* for the low-divergence sample in Model 1 of Table 6 is equivalent to −1.0693 with a t-statistic of −1.03, which implies that the value relevance of dividends among low-divergence firms does not significantly change after IFRS adoption. On the other hand, the same coefficient for the high-divergence sample is

−5.5257 with a t-statistic of −3.97, suggesting that the value relevance of dividends significantly falls by almost half of its original magnitude before IFRS. The Chi^2 statistic that tests the statistical significance of the difference between the coefficients on *POST*TDVD* in both countries is 3.29 (p-value = 0.0697).

After we include the interaction between *POST* and the accounting variables in Model 2 of Table 6, we find that the reduction in the value relevance of dividends for the high-divergence sample becomes more prominent, with an estimate of −7.9643 and a t-statistic of −4.91. On the other hand, the reduction in the value relevance of dividends for the low-divergence sample is smaller in magnitude compared to the high-divergence sample and is only significant at the 10% level. After including the interactions between *POST* and the accounting variables, the difference between the estimates on *POST*TDVD* for the low-divergence and high-divergence firms becomes statistically significant at the 5% level with a Chi^2 statistic of 4.41 (p-value = 0.0365). The additional reduction in the dividend value relevance is due to the increase in the value relevance of the accounting measures. That is, the value relevance of the book value of equity increases only among high-divergence firms, while the value relevance of net income increases for both samples. This result confirms that the effect of IFRS is more significant and material in the high-divergence country due to the improvement in the financial reporting system and the reduction in the level of information asymmetry. Lastly, the main results persist after interacting the *POST* with of the all economic variables, as shown in the regressions of Model 3 in Table 6. In light of the results presented in Table 6, we reject the null hypothesis of H3 in favor of the alternative.

[Insert Table 6 Here]

6. Conclusion

We study how dividend payout policy and dividend value relevance change under information shocks caused by changing accounting and disclosure standards. We exploit the mandatory adoption of IFRS in Europe in 2005 and treat this event as a positive shock to the corporate financial information environment (Florou and Kosi, 2015; Hail et al., 2014). To identify the treatment effect of IFRS adoption on the outcome variables, we select two countries that differ in the extent to which their domestic accounting standards diverge from IFRS; however, both countries are similar in terms of institutional factors that might confound the effect of IFRS adoption. To satisfy the aforementioned criteria, we select the UK as the control group as we do not expect a significant impact of IFRS on the information environment of firms listed in the UK, since IFRS were developed in the spirit of the domestic accounting standards of common-law countries, such as the UK (Ball et al., 2000). We select France as the treatment group, as we expect a significant shock to the information environment of firms listed in France due to the high divergence between the French domestic accounting standards and IFRS. Nevertheless, the UK and France share similar economic characteristics, corporate governance, ownership dispersion, institutional infrastructure, and enforcement of accounting standards.

We contribute to the literature on financial reporting in several ways. We provide evidence that dividend payout policy changes in favor of shareholders under IFRS in countries with domestic accounting standards that greatly diverge from IFRS, holding the enforcement factor constant. Our results suggest that high-divergence firms increase their dividend payouts in response to the reduction in asymmetric information related to assets in place (Myers and Majluf, 1984) and to the alleviated free cash flow problem (Jensen, 1986). Next, we examine how the effect of IFRS on high-divergence firms varies with the firm's accounting quality. We find that the effect of IFRS

on dividend payout is more prominent for high-divergence firms with lower accounting quality. Lastly, we find that the value relevance of dividends decreases substantially among high-divergence firms under IFRS, whilst the value relevance of accounting numbers increases. This reduction in dividend value relevance is mainly caused by the reduction in information asymmetry and improvement in financial reporting quality among high-divergence firms, suggesting that investors have more confidence in the accounting measures of the financial performance following the IFRS mandate. In general, our results suggest that implementing and enforcing a finer set of accounting standards serve to mitigate information asymmetry between insiders and outsiders.

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Appendix A: Variable Definitions (sorted alphabetically)

Variable	Definition
%ΔTA	Change in total assets from year (t−1) to year (t), deflated by the lagged total assets.
ΔLTD	Change in long-term debt from year (t-1) to year (t), deflated by the lagged total assets.
ΔSALES	Change in sales from year (t-1) to year (t), deflated by the lagged total assets.
1/TA	Reciprocal of the deflator (lagged total assets).
ACCDUM1	Dummy variable that takes a value 1 if the firm is a low accounting quality firm and zero otherwise. This variable is constructed based on the firm's average absolute value of discretionary accruals in years prior to IFRS (see Appendix B.1 for calculation).
ACCDUM2	Dummy variable that takes a value 1 if the firm is a low accounting quality firm and zero otherwise. This variable is constructed based on the firm's variance of discretionary accruals in years prior to IFRS (see Appendix B.2 for calculation).
BVE	Book value of shareholders' equity, deflated by the lagged total assets.
CAPX	Capital expenditure, deflated by the lagged total assets.
DIVDUM	Dummy variable that takes the value 1 if the firm pays dividends in year t, and zero otherwise.
EBI	Earnings before interest and after tax, deflated by the lagged total assets.
HIDIVRG	Dummy variable that takes a value 1 if the firm is listed in France, and zero otherwise.
LEV	Total liabilities, deflated by the lagged total assets.
LIQDT	Total available cash, deflated by the lagged total assets.
LOGTA	Natural logarithm of the total assets.
LOSS	Dummy variable that takes a value 1 if the net income is less than zero.
MV	Firm's market value, deflated by the lagged total assets; where the market value is the sum of total liabilities and market capitalization (retrieved directly from *DataStream*).
NI	Net income, deflated by the lagged book value of equity.
NIBX	Net income before extraordinary items, deflated by the lagged total assets.
OINFO	Lagged residuals estimated from the regression of the value relevance model, deflated by the lagged total assets.
POST	Dummy variable that takes a value 1 if the year is greater than or equal to 2005, and zero otherwise.

PROCD	Net amount of proceeds a company receives from selling equity, deflated by the lagged total assets.
REPUR	Total stock repurchases, deflated by the lagged total assets.
RETDUM	Dummy variable that takes the value 1 if the firm is a low accounting quality firm, and zero otherwise. This variable is constructed based on the firm's average of annualized return volatility of daily stock returns.
RND	Research and development expenses, deflated by the lagged total assets. Missing values of this variable are replaced with zeros.
TANG	Total of property, plant and equipment, deflated by the lagged total assets.
TAX	Income tax, deflated by the lagged total assets.
TDVD	Total amount of dividend payouts, deflated by the lagged total assets.
TOBINQ	Firm's market value, deflated by the lagged total assets; where the market value is the sum of total liabilities and market capitalization (retrieved directly from *Datastream*).

Appendix B: Accounting Quality Metrics

Appendix B.1: The Modified Jones Model (Dechow et al., 1995)

We employ the modified cross-sectional Jones (1991) model as described in Dechow et al. (1995) to calculate discretionary accruals for the first proxy for accounting quality. The modified Jones model is estimated for the high-divergence sample in years prior to IFRS. We run the regression equation below for each industry-year cross-section, where the industry classification is based on the Datastream variable "INDM2".

$$TACC_{it}/TA_{it-1} = b_0 + b_1(1/TA_{it-1}) + b_2(\Delta REV_{it} - \Delta REC_{it})/TA_{it-1} + b_3 PPE_{it}/TA_{it-1} + b_4 ECON_{it} + e_{it}$$

where:

$TACC_{it}$ = *NIBX* - *OCF*, where *NIBX* is the net income before extraordinary items and *OCF* is operating cash flow (Hribar and Collins, 2002).

TA_{it-1} = lagged total assets,

ΔREV_{it} = change in revenues,

ΔREC_{it} = change in receivables,

PPE_{it} = property, plant and equipment,

$ECON_{it}$ is a proxy for idiosyncratic economic shocks, defined as the firm-specific stock return variation in year t and year t−1 (Owens et al., 2017). $ECON_{it}$ is computed as the mean squared errors of the residuals from the regression of the firm's monthly return on the monthly industry return and monthly market return using 2 years of monthly data (year t and year t−1).

Discretionary accruals are the predicted residuals from the regression model above (Jones et al., 2008; Kim et al., 2012). The first proxy for accounting quality is the average absolute value of discretionary accruals for each firm in years prior to IFRS.

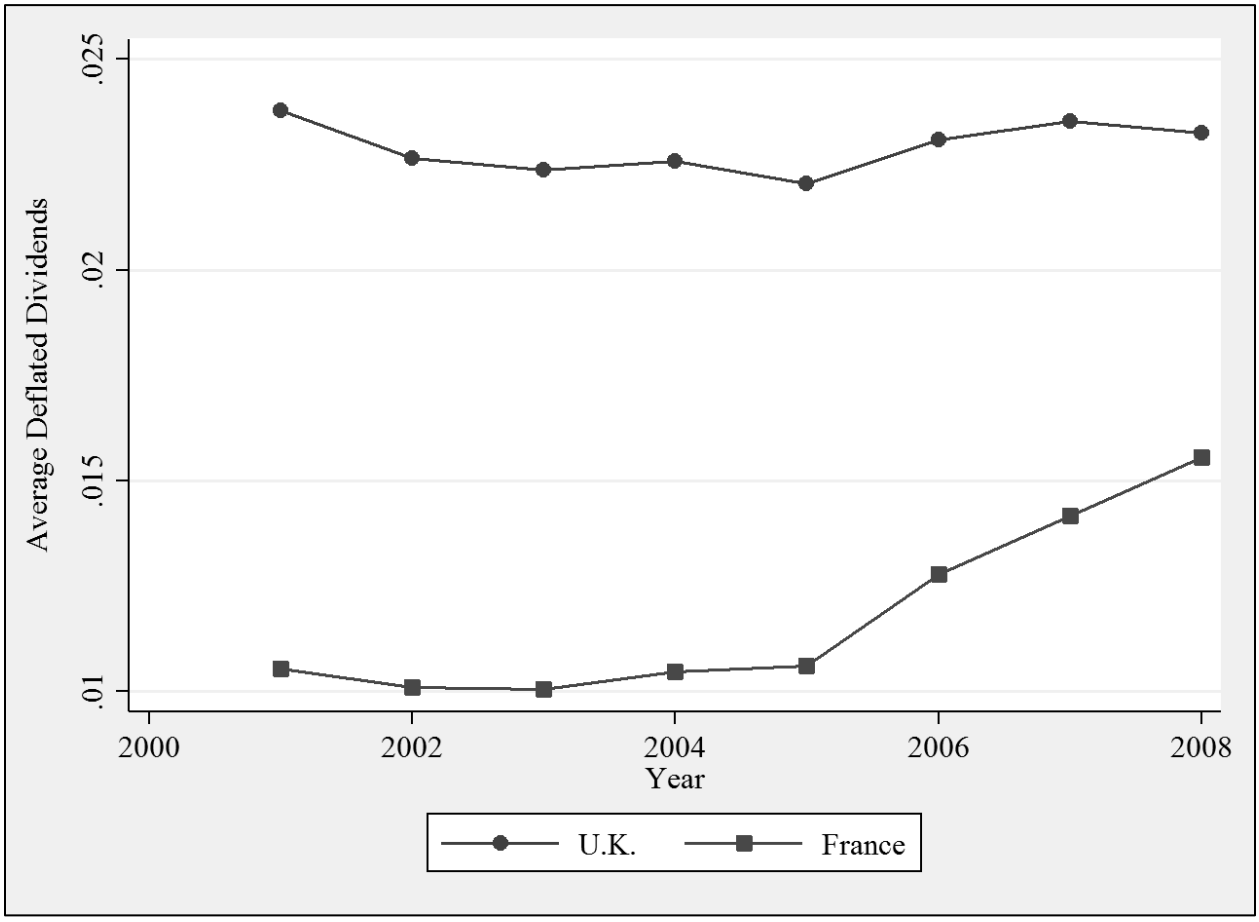
Appendix B.2: The Mapping of Accruals into Cash Flows (Dechow and Dichev, 2002)

We use the cross-sectional version of the Dechow and Dichev (2002) model as described in Jones et al. (2008) in order to estimate the accruals quality. Following Jones et al. (2008), we run the regression equation below for each industry-year cross-section, where the industry classification is based on the Datastream variable "INDM2".

$$TACC_{it}/TA_{it-1} = b_0 + b_1 OCF_{t-1}/TA_{it-1} + b_2 OCF_t/TA_{it-1} + b_3 OCF_{t+1}/TA_{it-1} + b_4 \Delta REV_{it}/TA_{it-1} + b_5 PPE_{it}/TA_{it-1} + e_{it}$$

Discretionary accruals are the predicted residuals from the regression model above (Jones et al., 2008; Kim et al., 2012). The second proxy for accounting quality is the variance of discretionary accruals for each firm in years prior to IFRS (Chen et al., 2015).

Figure 1. The average dividend payout for low-divergence (UK) and high-divergence (France) firms between 2001 and 2008



This figure presents the change in the average dividend payout in the UK (low-divergence firms) and France (high-divergence firms) between 2001 and 2008.

Table 1. Summary statistics

Panel A: Dividend payout model

	Low-divergence sample				High-divergence sample			
	N	Mean	S.D.	Median	N	Mean	S.D.	Median
DIVDUM	4340	0.7484	0.4340	1.0000	3075	0.6556	0.4752	1.0000
TDVD	4340	0.0229	0.0232	0.0182	3075	0.0118	0.0168	0.0071
EBI	4340	0.0189	0.1992	0.0582	3075	0.0242	0.1266	0.0458
NI	4340	0.0329	0.6176	0.1008	3075	0.0272	0.6222	0.0932
TAX	4340	0.0191	0.0268	0.0165	3075	0.0184	0.0237	0.0157
RND	4340	0.0245	0.0616	0.0000	3075	0.0172	0.0496	0.0000
TOBINQ	4340	1.2017	1.2499	0.8159	3075	0.8636	0.9843	0.5780
%ΔTA	4340	0.1509	0.5298	0.0574	3075	0.1049	0.4200	0.0430
LOGTA	4340	12.2716	1.9611	12.0579	3075	12.5791	2.0392	12.2677
LEV	4340	0.5464	0.2425	0.5479	3075	0.6276	0.2258	0.6301
REPUR	4340	0.0887	0.4833	0.0000	3075	0.0093	0.0176	0.0021
LOSS	4340	0.2482	0.4320	0.0000	3075	0.2247	0.4175	0.0000
TANG	4340	0.2783	0.2435	0.2045	3075	0.1885	0.1638	0.1482
LIQDT	4340	0.1148	0.1452	0.0620	3075	0.0689	0.0750	0.0488

Panel B: Dividend payout around IFRS

	Low-divergence sample			High-divergence sample		
	N	*TDVD* (mean)	%Δ	N	*TDVD* (mean)	%Δ
Pre-IFRS	2043	0.0228		1490	0.0102	
Post-IFRS	2297	0.0229	0.44%	1585	0.0132	29.41%

Panel C: Dividend value relevance model

	Low-divergence sample				High-divergence sample			
	N	Mean	S.D.	Median	N	Mean	S.D.	Median
MV	3688	1.1355	1.0933	0.8056	2373	0.8192	0.8274	0.5862
TDVD	3688	0.0232	0.0236	0.0186	2373	0.0124	0.0174	0.0075
REPUR	3688	0.1049	0.5245	0.0000	2373	0.0099	0.0190	0.0023
LOSS	3688	0.2402	0.4273	0.0000	2373	0.2099	0.4073	0.0000
BVE	3688	0.4491	0.2442	0.4486	2373	0.3780	0.2236	0.3754
NIBX	3688	0.0050	0.2063	0.0422	2373	0.0151	0.1167	0.0329
CAPX	3688	0.0481	0.0491	0.0344	2373	0.0455	0.0438	0.0351
ΔSALES	3688	0.0550	0.2608	0.0525	2373	0.0449	0.2080	0.0443
LIQDT	3688	0.1129	0.1395	0.0630	2373	0.0716	0.0774	0.0505
ΔLTD	3688	0.0099	0.0850	0.0000	2373	0.0040	0.0749	−0.0008
RND	3688	0.0249	0.0628	0.0000	2373	0.0194	0.0516	0.0000
PROCD	3688	0.0265	0.0964	0.0011	2373	0.0155	0.0590	0.0002
OINFO	3688	−0.0131	1.1744	−0.0693	2373	−0.0027	0.7642	−0.0527

Panel A reports summary statistics for the variables of the dividend payout model for the low-divergence and high-divergence samples. Panel B reports the percentage change (%Δ) in the average of *TDVD* following IFRS adoption for the low-divergence and high-divergence samples. Panel C reports summary statistics for the variables of the dividend value relevance model for the low-divergence and high-divergence samples. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% level to mitigate the influence of outliers.

Table 2. Correlation matrices

Panel A: Dividend payout model

	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14)*
(1) DIVDUM	1													
(2) TDVD	**0.544**	1												
(3) EBI	**0.346**	**0.287**	1											
(4) NI	**0.191**	**0.162**	**0.441**	1										
(5) TAX	**0.372**	**0.486**	**0.414**	**0.249**	1									
(6) RND	**−0.269**	**−0.105**	**−0.324**	**−0.161**	**−0.203**	1								
(7) TOBINQ	**−0.100**	**0.248**	**−0.133**	**−0.029**	**0.181**	**0.386**	1							
(8) %ΔTA	**−0.019**	**−0.077**	**0.154**	**0.093**	**0.045**	**−0.054**	0.001	1						
(9) LOGTA	**0.399**	**0.133**	**0.239**	**0.120**	**0.142**	**−0.229**	**−0.196**	0.013	1					
(10) LEV	**0.021**	**−0.055**	**−0.072**	**0.020**	**−0.094**	**−0.161**	**−0.208**	**−0.077**	**0.231**	1				
(11) REPUR	**0.072**	**0.124**	**0.058**	**0.031**	**0.092**	−0.003	**0.051**	0.018	**0.113**	**0.025**	1			
(12) LOSS	**−0.431**	**−0.273**	**−0.572**	**−0.352**	**−0.436**	**0.234**	**0.051**	**−0.116**	**−0.264**	**0.034**	**−0.056**	1		
(13) TANG	**0.143**	**0.109**	**0.113**	**0.048**	**0.020**	**−0.190**	**−0.158**	**−0.033**	**0.207**	−0.002	**0.022**	**−0.086**	1	
(14) LIQDT	**−0.199**	0.014	**−0.135**	**−0.044**	−0.014	**0.262**	**0.302**	**0.035**	**−0.285**	**−0.239**	−0.004	**0.118**	**−0.256**	1

Panel B: Dividend value relevance model

	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*
(1) MV	1											
(2) TDVD	**0.311**	1										
(3) REPUR	**0.084**	**0.138**	1									
(4) LOSS	**0.027**	**−0.268**	**−0.059**	1								
(5) BVE	**0.221**	**0.068**	−0.016	**−0.048**	1							
(6) NIBX	**−0.097**	**0.288**	**0.064**	**−0.573**	**0.127**	1						
(7) CAPX	0.015	**0.067**	−0.005	**−0.093**	−0.001	**0.081**	1					
(8) ΔSALES	**0.079**	**0.050**	**0.026**	**−0.297**	**0.065**	**0.269**	**0.055**	1				
(9) LIQDT	**0.278**	0.012	−0.010	**0.116**	**0.220**	**−0.116**	**−0.109**	**−0.028**	1			
(10) ΔLTD	−0.020	−0.001	**0.040**	**−0.083**	**−0.043**	**0.038**	**0.089**	**0.172**	**−0.053**	1		
(11) RND	**0.395**	**−0.115**	−0.007	**0.249**	**0.164**	**−0.319**	**−0.133**	**−0.076**	**0.271**	**−0.053**	1	
(12) PROCD	**0.199**	**−0.154**	**−0.025**	**0.222**	**0.113**	**−0.317**	−0.014	−0.004	**0.187**	−0.001	**0.248**	1

Panel A and Panel B report the Pearson correlation coefficients between the main variables of the dividend payout and the dividend value relevance models, respectively, based on the full sample. All continuous variables are winsorized at the 1% level to mitigate the influence of outliers. Bold text indicates significance at the 10% level or better, two-tailed.

Table 3. Dividend payout around IFRS adoption (OLS regressions – H1)

	OLS regressions			Matched OLS regressions		
	Low-divergence	**High-divergence**	**All**	**Low-divergence**	**High-divergence**	**All**
Dep. variable =	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***
POST	−0.0004	0.0026***	−0.0005	−0.0003	0.0025***	−0.0004
	(−0.64)	(4.40)	(−0.89)	(−0.35)	(3.85)	(−0.56)
HIDIVRG			−0.0114***			−0.0104***
			(−13.44)			(−12.03)
POST HIDIVRG*			0.0034***			0.0032***
			(4.07)			(3.24)
EBI	0.0156***	0.0153***	0.0159***	0.0160***	0.0157***	0.0161***
	(4.77)	(3.66)	(6.08)	(3.55)	(3.38)	(5.09)
NI	−0.0005	0.0003	−0.0002	0.0003	0.0002	0.0002
	(−0.69)	(0.88)	(−0.39)	(0.31)	(0.40)	(0.49)
TAX	0.3276***	0.2615***	0.3063***	0.2527***	0.2699***	0.2649***
	(12.15)	(8.09)	(14.91)	(9.27)	(7.69)	(11.86)
RND	−0.0022	−0.0223**	−0.0106	−0.0085	−0.0196**	−0.0141*
	(−0.22)	(−2.35)	(−1.49)	(−0.69)	(−2.03)	(−1.76)
TOBINQ	0.0043***	0.0035***	0.0042***	0.0031***	0.0033***	0.0033***
	(6.93)	(4.20)	(8.51)	(4.37)	(3.77)	(6.10)
%ΔTA	−0.0059***	−0.0034***	−0.0053***	−0.0060***	−0.0035***	−0.0052***
	(−7.74)	(−4.46)	(−9.16)	(−6.71)	(−4.14)	(−8.25)
LOGTA	0.0006	0.0005**	0.0006***	0.0005	0.0005	0.0005**
	(1.56)	(2.04)	(2.75)	(1.36)	(1.45)	(2.21)
LEV	0.004	−0.0064**	0.0012	0.0038	−0.0053*	−0.0004
	(1.47)	(−2.27)	(0.64)	(1.29)	(−1.76)	(−0.18)
REPUR	0.0025***	0.0238	0.0027***	0.0025**	0.0212	0.0024**
	(3.14)	(0.73)	(3.24)	(2.31)	(0.61)	(2.13)
LOSS	−0.0014	0.0003	−0.0011	−0.0018	0.0003	−0.001
	(−1.32)	(0.32)	(−1.50)	(−1.33)	(0.32)	(−1.17)
TANG	0.0042	0.0002	0.0032	0.0070**	0.0005	0.0050**
	(1.61)	(0.06)	(1.52)	(2.38)	(0.15)	(2.24)
LIQDT	0.0018	−0.0034	−0.0002	0.0037	−0.0034	0.0005
	(0.43)	(−0.50)	(−0.05)	(0.73)	(−0.47)	(0.12)
Intercept	0.0018	0.0027	0.0041	−0.0006	0.0041	0.006
	(0.25)	(0.40)	(0.78)	(−0.08)	(0.64)	(1.16)
Adj. R^2	0.3674	0.3349	0.3879	0.2703	0.3427	0.3269
N	4340	3075	7415	2526	2526	5052

The first set of regressions in this table report results from OLS regressions of total dividend payout on a set of firm characteristics and the difference-in-differences dummies using the low-divergence, the high-divergence and the full sample, respectively. The second set of regressions in this table report results from matched OLS regressions of total dividend payout on a set of firm characteristics and the difference-in-differences dummies using the low-divergence, the high-divergence and the full sample, respectively. The samples are matched using CEM matching based on ROA, Total Assets, Industry and IFRS. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% level to mitigate the influence of outliers. All regressions include year and industry fixed effects. The t-statistics, presented in parentheses below the coefficients, are clustered at the firm level. *, **, *** Denote significance at the 10%, 5%, and 1% levels, respectively.

Table 4. Dividend payout around IFRS adoption (Fixed Effects and Logistic regressions – H1)

	Firm FE regressions			Logistic regressions		
	Low-divergence	**High-divergence**	**All**	**Low-divergence**	**High-divergence**	**All**
Dep. variable =	***TDVD***	***TDVD***	***TDVD***	***DIVDUM***	***DIVDUM***	***DIVDUM***
POST	0.0008	0.0017***	0.0006	−0.1002	0.5184**	0.0616
	(1.36)	(3.28)	(0.96)	(−0.53)	(2.49)	(0.39)
HIDIVRG						−1.2212***
						(−11.50)
*POST*HIDIVRG*			0.0017**			0.2976**
			(2.25)			(2.18)
EBI	0.0012	0.003	0.0012	1.4229***	2.1453***	1.2643***
	(0.52)	(1.14)	(0.65)	(3.43)	(2.70)	(3.34)
NI	−0.0009*	0.0001	−0.0004	−0.1215	0.2436**	0.0176
	(−1.90)	(0.91)	(−1.59)	(−1.08)	(2.33)	(0.25)
TAX	0.0884***	0.0560**	0.0761***	24.0655***	33.4463***	27.3258***
	(5.21)	(2.49)	(5.70)	(9.64)	(10.41)	(14.23)
RND	−0.0021	0.0026	−0.0012	−5.5126***	−5.8688***	−4.6230***
	(−0.24)	(0.26)	(−0.20)	(−5.08)	(−4.07)	(−5.56)
TOBINQ	0.0015***	0.0026***	0.0019***	0.0293	−0.2345***	−0.0347
	(3.70)	(3.95)	(5.44)	(0.52)	(−3.09)	(−0.84)
%ΔTA	−0.0023***	−0.0024***	−0.0024***	−0.5124***	−0.0469	−0.3888***
	(−5.56)	(−4.52)	(−7.07)	(−5.89)	(−0.49)	(−5.51)
LOGTA	0.0001	0.0021**	0.0009	0.3823***	0.5701***	0.4949***
	(0.16)	(2.11)	(1.33)	(11.43)	(16.45)	(20.93)
LEV	−0.0039	−0.0023	−0.0036*	−0.1551	−2.3591***	−0.9572***
	(−1.29)	(−1.00)	(−1.74)	(−0.71)	(−8.67)	(−6.18)
REPUR	0.0016**	0.0398*	0.0016***	0.4359**	11.9348***	0.4164*
	(2.57)	(1.67)	(2.60)	(2.17)	(3.09)	(1.91)
LOSS	−0.0007	0.0001	−0.0004	−1.1053***	−0.8125***	−1.0652***
	(−0.92)	(0.19)	(−0.69)	(−8.50)	(−4.68)	(−10.48)
TANG	0.0048	0.0007	0.0038	−0.5818**	0.0324	−0.4040**
	(1.25)	(0.17)	(1.25)	(−2.43)	(0.09)	(−2.07)
LIQDT	0.0023	0.0025	0.0024	−2.8189***	−1.4124**	−2.3082***
	(0.76)	(0.44)	(0.89)	(−7.04)	(−2.22)	(−6.86)
Intercept	0.0184*	−0.0178	0.0046	−2.6382***	−5.5832***	−3.0243***
	(1.81)	(−1.35)	(0.56)	(−4.20)	(−6.74)	(−5.91)
Overall R^2 / Pseudo R^2	0.0493	0.0806	0.0556	0.3843	0.3881	0.3721
N	4340	3075	7415	4340	3075	7415

The first set of regressions in this table report results from Firm Fixed Effects regressions of total dividend payout on a set of firm characteristics and the difference-in-differences dummies using the low-divergence, the high-divergence and the full sample, respectively. The second set of regressions in this table report results from Logistic regressions of dividend payout dummy on a set of firm characteristics and the difference-in-differences dummies using the low-divergence, the high-divergence and the full sample, respectively. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% level to mitigate the influence of outliers. Firm Fixed Effects regressions include year fixed effects. Logistic regressions include year and industry fixed effects. The t-statistics, presented in parentheses below the coefficients, are clustered at the firm level. *, **, *** Denote significance at the 10%, 5%, and 1% levels, respectively.

Table 5. The variation in the IFRS effect on dividend payouts among high-divergence firms (H2)

	ACCDUM1			*ACCDUM2*			*RETDUM*		
	High-quality	**Low-quality**	**All**	**High-quality**	**Low-quality**	**All**	**High-quality**	**Low-quality**	**All**
Dep. variable =	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***
POST	0.0017*	0.0032***	0.0015*	0.0008	0.0039***	0.0009	0.0016**	0.0030***	0.0016**
	(1.85)	(4.09)	(1.75)	(0.94)	(4.89)	(1.09)	(2.08)	(3.66)	(2.08)
ACCDUM1			0.0000						
			(0.01)						
*POST*ACCDUM1*			0.0022*						
			(1.94)						
ACCDUM1						0.0004			
						(0.36)			
*POST*ACCDUM2*						0.0036***			
						(3.19)			
RETDUM									0.0053***
									(4.77)
*POST*RETDUM*									0.0026**
									(2.41)
EBI	0.0097**	0.0363**	0.0156***	0.0095***	0.0400**	0.0156***	0.0101***	0.0316	0.0165***
	(2.54)	(2.56)	(3.78)	(2.64)	(2.27)	(3.83)	(2.61)	(1.24)	(4.00)
NI	0.0002	0.0013	0.0003	0.0001	0.0031	0.0003	0.0000	0.0069	0.0003
	(0.47)	(1.21)	(0.91)	(0.25)	(1.35)	(0.91)	(−0.06)	(1.56)	(0.78)
TAX	0.2292***	0.1979***	0.2589***	0.2269***	0.2076***	0.2570***	0.1977***	0.1315***	0.2424***
	(4.62)	(4.83)	(7.96)	(4.85)	(4.61)	(7.95)	(3.84)	(2.71)	(7.49)
RND	−0.0204*	−0.0313**	−0.0225**	−0.0126	−0.0481***	−0.0228**	−0.0102	−0.0219	−0.0191**
	(−1.86)	(−2.18)	(−2.38)	(−1.20)	(−2.81)	(−2.40)	(−1.12)	(−1.27)	(−2.06)
TOBINQ	0.0018**	0.0071***	0.0036***	0.0018**	0.0077***	0.0036***	0.0018***	0.0107***	0.0038***
	(2.28)	(5.44)	(4.27)	(2.38)	(4.68)	(4.34)	(2.94)	(6.07)	(4.67)

(continued on next page)

Table 5. (continued)

	ACCDUM1			*ACCDUM2*			*RETDUM*		
	High-quality	**Low-quality**	**All**	**High-quality**	**Low-quality**	**All**	**High-quality**	**Low-quality**	**All**
Dep. variable =	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***	***TDVD***
%ΔTA	−0.0029***	−0.0035***	−0.0033***	−0.0023***	−0.0045***	−0.0032***	−0.0019***	−0.0042**	−0.0031***
	(−3.39)	(−2.79)	(−4.36)	(−3.30)	(−2.76)	(−4.30)	(−3.06)	(−2.49)	(−4.27)
LOGTA	0.0006	0.0004	0.0004	0.0008*	0.0000	0.0004	0.0004	−0.0001	0.0001
	(1.26)	(1.11)	(1.59)	(1.82)	(0.02)	(1.45)	(0.81)	(−0.36)	(0.19)
LEV	−0.0058**	−0.0101*	−0.0061**	−0.0051***	−0.0081	−0.0059**	−0.0030**	−0.0113*	−0.0045*
	(−2.54)	(−1.75)	(−2.13)	(−2.92)	(−1.22)	(−2.13)	(−2.30)	(−1.97)	(−1.72)
REPUR	−0.0062	0.0739*	0.0242	0.0164	0.1106**	0.0268	−0.0157	0.0341	0.0167
	(−0.18)	(1.86)	(0.75)	(0.52)	(2.38)	(0.83)	(−0.59)	(0.82)	(0.54)
LOSS	−0.0011	0.0019	0.0003	−0.0009	0.0025	0.0006	−0.0004	0.0040*	0.0018*
	(−0.90)	(1.39)	(0.34)	(−0.87)	(1.51)	(0.61)	(−0.44)	(1.85)	(1.94)
TANG	0.0027	−0.0036	−0.0004	−0.002	0.0013	−0.0007	0.0025	−0.0013	−0.0003
	(0.51)	(−0.86)	(−0.13)	(−0.62)	(0.25)	(−0.22)	(0.97)	(−0.25)	(−0.09)
LIQDT	0.0076	−0.0151	−0.0035	−0.0028	−0.0125	−0.0035	0.005	−0.0035	−0.0006
	(0.92)	(−1.46)	(−0.52)	(−0.39)	(−1.37)	(−0.54)	(0.53)	(−0.29)	(−0.09)
Intercept	0.0024	0.0032	0.0039	0.0052	0.006	0.0043	−0.0069	0.0155*	0.0039
	(0.26)	(0.56)	(0.58)	(0.60)	(0.92)	(0.62)	(−0.88)	(1.71)	(0.62)
Adj. R^2	0.2831	0.4309	0.3369	0.2961	0.4344	0.3412	0.2438	0.4149	0.3608
N	1503	1572	3075	1591	1484	3075	1483	1592	3075

The three sets of regressions in this table report results from OLS regressions of total dividend payout on a set of firm characteristics and the difference-in-differences dummies using the high accounting quality sample, the low accounting sample, and the full high-divergence sample, respectively. In the first set we use the average absolute value of discretionary accruals, in years prior to IFRS, after controlling for idiosyncratic economic shocks, as a proxy for accounting quality. In the second set we use the variance of the firm's discretionary accruals in years prior to IFRS, calculated following Dechow and Dichev (2002), as a proxy for accounting quality. In the third set we use the firm's average annualized variance of daily stock returns, in years prior to IFRS, as a proxy for accounting quality. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% level to mitigate the influence of outliers. All regressions include year and industry fixed effects. The t-statistics, presented in parentheses below the coefficients, are corrected for heteroscedasticity by clustering at the firm level. *, **, *** Denote significance at the 10%, 5%, and 1% levels, respectively.

Table 6. Value relevance of dividends around IFRS adoption (H3)

	Model 1		Model 2		Model 3	
	Low-divergence	High-divergence	Low-divergence	High-divergence	Low-divergence	High-divergence
Dep. variable =	***MV***	***MV***	***MV***	***MV***	***MV***	***MV***
POST	0.1916***	0.1745***	−0.2453***	0.2782**	0.129	−0.3443***
	(5.64)	(6.18)	(−2.74)	(2.30)	(1.22)	(−3.88)
TDVD	12.0376***	11.7275***	12.8406***	13.5610***	12.6013***	13.1657***
	(13.69)	(9.07)	(13.73)	(9.39)	(13.29)	(9.11)
POST*TDVD	**−1.0693**	**−5.5257*****	**−2.1947***	**−7.9643*****	**−1.691**	**−7.3957*****
	(−1.03)	**(−3.97)**	**(−1.87)**	**(−4.91)**	**(−1.41)**	**(−4.53)**
REPUR	1.2621	6.9653***	−1.1418	7.2733***	−1.2636	7.3694***
	(0.36)	(4.75)	(−0.33)	(4.99)	(−0.37)	(5.08)
*POST*REPUR*	−1.2412	1.3699	1.1787	0.5689	1.2992	0.4666
	(−0.36)	(0.87)	(0.34)	(0.36)	(0.38)	(0.30)
LOSS	0.1247**	0.2299***	−0.0463	0.1847***	−0.0626	0.2034***
	(2.11)	(4.73)	(−0.52)	(2.64)	(−0.69)	(2.88)
*POST*LOSS*			0.1554	0.0133	0.1916	0.0037
			(1.35)	(0.14)	(1.63)	(0.04)
BVE	0.0026	0.6945***	0.0357	0.4302***	0.0281	0.4488***
	(0.04)	(10.81)	(0.34)	(4.33)	(0.27)	(4.54)
*POST*BVE*			−0.042	0.4338***	−0.0446	0.4003***
			(−0.33)	(3.42)	(−0.34)	(3.15)
*LOSS*BVE*	0.2663***	−0.167	0.4121***	−0.2747*	0.4755***	−0.3264**
	(2.63)	(−1.62)	(2.67)	(−1.81)	(3.05)	(−2.16)
*POST*LOSS*BVE*			−0.0482	0.3016	−0.155	0.2699
			(−0.24)	(1.48)	(−0.77)	(1.33)
NIBX	6.5129***	5.4628***	4.6614***	4.2189***	5.0379***	4.2964***
	(21.69)	(17.14)	(9.79)	(7.62)	(10.27)	(7.70)
*POST*NIBX*			2.7128***	1.7520***	2.1660***	1.7219***
			(4.67)	(2.69)	(3.55)	(2.59)
*LOSS*NIBX*	−7.3842***	−6.0064***	−5.1713***	−4.4423***	−5.6243***	−4.8083***
	(−23.58)	(−17.08)	(−10.62)	(−7.64)	(−11.13)	(−8.13)
*POST*LOSS*NIBX*			−3.7829***	−2.7660***	−3.0940***	−2.3271***
			(−6.36)	(−3.91)	(−4.88)	(−3.20)
CAPX	1.3721***	0.5966**	1.2419***	0.5058**	0.9722**	0.2806
	(5.43)	(2.41)	(5.03)	(2.08)	(2.54)	(0.71)
*POST*CAPX*					0.388	0.3254
					(0.79)	(0.67)
Δ*SALES*	0.2330***	0.2256***	0.2111***	0.1848***	0.0773	0.3152***
	(4.78)	(4.07)	(4.42)	(3.37)	(1.09)	(3.96)
*POST*ΔSALES*					0.2336**	−0.2099*
					(2.44)	(−1.93)

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Table 6. (continued)

	Model 1		Model 2		Model 3	
	Low-divergence	**High-divergence**	**Low-divergence**	**High-divergence**	**Low-divergence**	**High-divergence**
Dep. variable =	***MV***	***MV***	***MV***	***MV***	***MV***	***MV***
LIQDT	0.4044***	0.2860**	0.3570***	0.2959**	0.3385**	0.3807
	(4.19)	(2.02)	(3.79)	(2.14)	(2.48)	(1.63)
*POST*LIQDT*					−0.0083	−0.0834
					(−0.04)	(−0.29)
Δ*LTD*	−0.1409	0.1433	−0.0897	0.1684	−0.0836	−0.3604
	(−0.99)	(1.01)	(−0.65)	(1.20)	(−0.37)	(−1.63)
*POST**Δ*LTD*					−0.0063	0.8975***
					(−0.02)	(3.17)
RND	5.2864***	3.3899***	5.2365***	3.2935***	4.2792***	2.8301***
	(21.71)	(14.92)	(22.04)	(14.71)	(13.21)	(8.83)
*POST*RND*					1.7934***	0.9116**
					(4.20)	(2.13)
PROCD	1.0376***	−0.1134	0.8218***	−0.2251	1.1402***	−1.3882***
	(7.61)	(−0.61)	(6.10)	(−1.22)	(5.14)	(−4.26)
*POST*PROCD*					−0.4237	1.7145***
					(−1.52)	(4.36)
OINFO	0.3126***	0.4420***	0.3235***	0.4631***	0.3179***	0.4715***
	(31.29)	(33.18)	(31.22)	(34.18)	(30.84)	(34.91)
1/TA	2238.4778***	2920.5354***	2278.5555***	3231.6502***	2313.5665***	3186.7388***
	(9.69)	(7.05)	(10.08)	(7.92)	(10.11)	(7.86)
H_0: *POST*TDVD* (UK) = *POST*TDVD* (France)	**Chi-squared = 3.29 p-value = 0.0697**		**Chi-squared = 4.41 p-value = 0.0365**		**Chi-squared = 4.11 p-value = 0.0427**	
Adj. R^2	0.8000	0.8197	0.8102	0.8278	0.8102	0.8315
N	3688	2373	3688	2373	3688	2373

Model 1 in this table reports results from the OLS regressions of market value on a set of firm characteristics, *POST*, and interactions between *POST* with total dividends and stock repurchases, using low-divergence and high-divergence samples. Model 2 in this table reports results from the OLS regressions of market value on a set of firm characteristics, *POST*, and the interaction between *POST* with accounting variables, total dividends and stock repurchases, using the low-divergence and high-divergence samples. Model 3 in this table reports results from the OLS regressions of market value on a set of firm characteristics, *POST*, and the interaction between *POST* and all other variables, using the low-divergence and high-divergence samples. We use the Chi-squared statistics in order to test the significance of the difference in the change in dividend value relevance between the low-divergence and the high-divergence samples. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% level to mitigate the influence of outliers. All regressions include year and industry fixed effects. The t-statistics, presented in parentheses below the coefficients are clustered at the firm level. *, **, *** Denote significance at the 10%, 5%, and 1% levels, respectively.