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### Adoption of IFRS in Spain: Effect on the comparability and relevance of financial reporting

Susana Callao ... JosÃ© A. LaÃ±ez

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#### Abstract

EU Regulation 1606/2002 requires application of International Financial Reporting Standards (IFRS) by groups listed on European stock markets. In Spain, listed groups are now obliged to prepare consolidated financial information under IFRS, and legislative changes to bring local rules into line with international standards have been tabled.

In this context, the potential impact of IFRS is fraught with uncertainty. Our study of IBEX-35 companies focuses on the effects of the new standards on comparability and the relevance of financial reporting in Spain. We address these objectives by seeking significant differences between accounting figures and financial ratios under the two sets of standards (i.e. Spanish accounting standards and IFRS).

The results obtained show that local comparability has worsened. The study reveals that local comparability is adversely affected if both IFRS and local accounting standards are applied in the same country at the same time. Reforms to bring local rules into line with international standards are therefore urgent. We also find that there has been no improvement in the relevance of financial reporting to local stock market operators because the gap between book and market values is wider when IFRS are applied. While there has been no gain in terms of the usefulness of financial reporting in the short-term, improved usefulness may be achieved in the medium to long-term.



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## Keywords

International Financial Reporting Standards (IFRS); Financial ratios; Financial reporting usefulness; Spanish stock market

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