

Does IFRS mandatory adoption influence IPO underpricing?

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ABSTRACT

This study examines the impact of mandatory IFRS adoption on IPO underpricing. The latter is usually associated with information asymmetry among investors. We expected that IPO firms' use of IFRS rather than domestic GAAP may affect IPO underpricing through two mechanisms: (1) the quality, and (2) the comparability of financial reports. We find that, mandatory IFRS adoption is not associated with a decrease in IPO underpricing and the only factor that is associated with IPO underpricing is the trend of the financial market. This analysis investigates the effects of the mandatory adoption of IAS/IFRS in an original way. It is the first Italian research that studies the effects of IAS/IFRS on the financial statements by analyzing their effects on the underpricing of IPOs. It shows that IFRS mandatory adoption does not reduce the asymmetry information among investors thus decreasing the underpricing.

1. Introduction

From 2005 almost all publicly listed companies in Europe are required to prepare their financial statements according to International Financial Reporting Standards (IFRS).

The mandatory adoption of IFRS, instead of local GAAP, in the European Union, has been the most significant challenge regarding the financial reporting. Mandatory has been the adoption of a new set of principles for the preparation of the consolidated financial statements of publicly listed companies; while discretionary has been the adoption for the individual financial statements of publicly listed companies and for those companies not publicly listed.

In Italy, in 2005, the government issued the Legislative Decree No. 38/2005. It prescribes that all listed companies and companies operating in the financial sector such as banks, supervised financial companies and companies issuing financial instruments widely distributed among the public, have to apply IFRS in their consolidated financial statements from 2005 onwards and in their individual financial statements from 2006 or, optionally, from 2005. Furthermore, the application of the new standards is also allowed to other non-listed companies; they can voluntarily adopt IFRS for both individual and consolidated financial statements. Only companies presenting abbreviated financial statements are excluded. As for the individual account, IFRS have been authorized to give homogeneity to the financial statements (OIC, 2005)

Proponents of mandatory IFRS adoption state that IFRS “will enable investors to compare the financial results of companies operating in different jurisdictions more easily and provide more opportunity for investments and diversification” (Tweedie, 2006).

According to Ball (2006), IFRS could facilitate cross-border comparability and increase reporting transparency, enabling stakeholders to understand the financial results of firms in the whole world. Moreover, IFRS adoption could decrease information costs. Choi and Meek (2005), state that companies might also benefit by reducing information asymmetry, giving to all investors the chance to make more efficient investment decisions, and thus lowering the cost of capital. Investors may also benefit as it could lead to more-informed valuation of equity markets reducing the risk of adverse selection for the less-informed investors.

All the above benefits rely on the presumption that mandatory IFRS adoption provides superior information to market participants compared to local GAAP.

So in the past years empirical research has focused the attention on the transition process from local GAAP to IFRS and on the effects of IFRS adoption on the quality and on the comparability of the financial statements (Barth et al., 2008; Lang et al., 2012; De Fond et al., 2011).

The aim of this research is to verify if, referring to the IPOs case, it's possible to have information about the over and over stated higher quality and comparability of IFRS compliant financial statements¹.

As is known, with the term Initial Public Offering we mean the offer to subscribe and/or sell² securities of a company that for the first time gain admittance to the market negotiation. A critical step in the process of public placement is the fixing of the offer price of the single share and of particular interest it's the relationship between the latter and the economic value of the share itself.

Studies on IPOs in every country of the world underscore a recurring anomaly. Research, in fact, observes, for many IPOs, a phenomenon commonly called *underpricing*³. According to the most qualified definition of the underpricing, it is the positive spread between the first trading day closing price of the newly issued share and the offer price fixed by the underwriter⁴. The economic literature has tried to find a justification for this phenomena building models which explain why the offer price of the shares is set below the real value of the shares themselves. Furthermore, these studies have verified if this anomaly is found for IPOs in different countries.

Many scholars ascribe IPO underpricing to information asymmetry among the actors involved in the process of listing (Rock, 1986; Beatty e Ritter, 1986; Allen and Faulhaber, 1988). Rock (1986), Beatty and Ritter (1986) attribute the underpricing to asymmetry between informed and uninformed investor; the former having invested resources to acquire information about an IPO firm's value. Uninformed investors are at an information disadvantage and can therefore be exploited. The offer price must be fix low enough to leave "money on the table" in order to attract uninformed investor to participate in the IPO market and to compensate informed investor for the cost of acquiring information. Allen and Faulhaber (1988) assume that firms have information about the quality of their investment projects not available to external investors. Firms with the best economic perspectives try to signal their quality with a low offer price and with the number of shares they hold.

Among studies that have tried to find an explanation to underpricing, few of them focused their attention on the effects that the information contained in the financial statements could have on the evaluation of the shares which will be placed on the market.

Therefore, the aim of our study is to analyze the consequences that the mandatory adoption of IFRS could have had on the evaluation of those firms that decided to go public on the Italian stock market.

¹ For details see: Armstrong C., Barth M., Jagolinzer A., and Riedl E., 2010; Market reaction to the adoption of IFRS in Europe; *The Accounting Review* 85, 31-61.

² With the offer to sell, previously issued shares are offered; with the offer to subscribe, newly issued shares are offered; with the offer to sell and subscribe, both newly and previously issued shares are offered. When newly issued shares are offered, the operation allows to raise capitals and to increase investors.

³ Following prior studies, we measure the degree of IPO underpricing by the first trading day stock return relative to the offer price.

⁴ The underwriter is the investment bank, involved in the placement consortium, which handles, as supervisor, with the share placement. Usually the underwriter is, at the same time Bookrunner, sponsor and Global Coordinator of the IPO.

The interest of this analysis lies in the fact that, since the shares have never been listed before, the only information available to investors are those contained in the prospectus; thus it is possible to analyze the effects that IFRS adoption has on the evaluation on the IPO company.

Our study makes some important contributions. First, it complements the growing body of literature that examines economic consequences of mandatory IFRS adoption.

Most studies that analyze the effects of the mandatory adoption of IFRS, focus on setting such as analysts' information environment and foreign mutual fund investment (e.g. Yu, 2010; Byard et al., 2010; DeFond et al., 2011; Tan et al., 2011). These studies, however, are silent on whether mandatory IFRS adoption influences the equity issuance process. An exception is Wang and Welker (2011) who investigate the timing of equity issuances during the transition period to IFRS. Our study complements Wang and Welker (2011) by focusing on the impact of IFRS mandatory adoption on IPO underpricing.

Second, we extend the extent literature on underpricing by documenting the effect of changes in accounting standards on the initial return. Consistent with the information asymmetry explanation of underpricing, prior study find lower underpricing with greater disclosure (Leone et al., 2007; Bulton et al., 2011).

We expect IFRS to affect IPO underpricing through two mechanisms: reporting quality and the comparability of financial reports. First, as global set of accounting standards, supposedly provide improved reporting quality compared to local GAAPs on average, which in turn may reduce IPO underpricing⁵. Second, IFRS adoption may reduce IPO underpricing by increasing the comparability of financial reports among industry peers that use the same accounting standards. Comparability of financial reports is defined as "the quality of information that enables users to identify similarities and differences between two sets of economic phenomena" (FASB, 2008). Enhanced comparability may facilitate investors and underwriters in making comparative assessments of firms' accounting performance and share prices. That is, enhanced comparability may allow investors to clarify similarities and differences among industry peers and help investors to extract useful information, which would decrease information asymmetry. As a result, enhanced comparability may mitigate IPO underpricing. The sample used in our study is composed by all the companies that went public from 2000 to 2012 excluding companies whose data were not available. The results of our study show that the adoption of IFRS does not decrease IPO underpricing. Therefore, it seems that the introduction of a new set of principles, such as IFRS, does not improve the quality and comparability of the financial statements. This conclusion is in line with previous research that underscored how the mere introduction of a new set of standards is not sufficient to change the quality of accounting.

The rest of the paper is organized as follows. Section 2 reviews previous literature and develops hypothesis. Section 3 discusses the research design and empirical results. Section 4 concludes.

2. Prior studies

⁵ While many countries have adopted IFRS with the expectation that IFRS would benefit financial statement users (Barth, Landsman, and Lang, 2008), it is unclear whether the use of IFRS actually provides improved reporting quality compared with domestic GAAPs (Ahmed, Neel, and Wang, 2010; Capkun, Collins, and Jeanjean, 2011).

2.1 IPO underpricing

The Initial Public Offerings have been widely studied by the literature. By far the most relevant finding has been the phenomenon of underpricing. Not only does the literature document underpricing since 1970, it also provides evidence of underpricing in countries around the globe (Ibbotson, 1975; Loughran et al., 1994). A lot of scholars wonder why a company decides to “leave money on the table” going public at a price fixed below the real value of the company itself.

Theoretical studies attribute IPO underpricing to information asymmetry among the actors of the process of listing about the value of the IPO firm⁶.

Rock (1986) shows that when some investors are better informed than others, underpricing becomes necessary to convince uninformed investors to buy shares of the IPO firm. In particular, when shares are overpriced, uninformed investors receive a full allocation of shares because informed investors withdraw from the market. In contrast, when the offering is underpriced, uninformed investors receive only an allocation of rationed shares because informed investors stay in the market. Since uninformed investors do not participate in the offering until the price falls enough to compensate for this adverse selection cost, firms have to issue their share at a discount underpricing their offering.

Ritter (1984) refers to Rock’s model (1982). He states that firms, underwriters and investors are not sure about the true value of the firm. Investors, incurring costs, can know the true value of the shares; such investors are called informed investors. Ritter affirms that underpricing is the remuneration, for informed investors, for incurring costs to become informed; therefore higher is the uncertainty about the value of the firm, higher is the remuneration necessary to compensate uninformed investors for the costs incurred.

Betty and Ritter (1986), using Rock’s model (1982), show the existence of a relationship between underpricing and ex-ante uncertainty about the true value of the firm. They state that higher is the uncertainty about the true value of the firm, higher is the risk born by uninformed investors for investing in the firm. In order to maintain uninformed investors in the market, it’s necessary compensating them with a high expected return by fixing for shares an offer price below their real value.

Allen and Faulhaber (1988), assume that firms are better informed than external investors because they know the quality of their investment project. Firms with good future prospects

⁶ There are other theories that explain underpricing referring to the relationship between issuer and underwriter. Baron and Holmstrom (1980) underline the conflict of interest between issuer and underwriter. They state that the underwriter is motivated to fix a low offer price to limit his commitment and the costs in the marketing phase, while the issuer wants the price to be high as much as possible to maximize the profit. Boron (1982), in his model, describes the underwriter as he who has information about the potential demand and about market condition that are not available to the issuer. Furthermore, he, such as Baron and Holmstrom (1980) characterizes the relationship between issuer and underwriter as an agency relationship where the issuer cannot directly control the underwriter in the marketing and distribution phase. Finally, Shiller (1990) affirms that IPO underpricing is generated by the bank that takes care of the placement to create the pretense of an over demand.

signal their higher quality with a lower offer price and with the quantity of shares that they hold. Fixing an offer price below the real value, can be a believable signal of the quality of the firm because only “good” firms can recover the cost of underpricing with further placement.

2.2 IFRS and IPO underpricing

IPO firms’ use of IFRS rather than domestic GAAP may affect IPO underpricing through two mechanisms: reporting quality, and the comparability of financial reports. First, IFRS may reduce IPO underpricing if IFRS provide higher reporting quality than domestic GAAP. Barth et al. define accounting quality as less earnings management, more timely loss recognition and a higher association of accounting amounts with share prices. The literature gives different definition of accounting quality (for an analysis, see Prencipe, 2006).

However, academic research comparing reporting quality under IFRS with that under domestic GAAPs provides mixed results (Barth et al., 2008; Ahmed et al., 2010). Barth et al. (2008) find that firms applying IFRS from 21 countries generally financial reports of higher quality.

Daske and Gebhardt (2006), analyzing a sample of Austrian, German and Swiss firms, find an improvement of the disclosure after IFRS adoption.

Tsalavoutas and Evans (2010) observe that in Greece, the transition to IFRS has limited occasion for creative accounting.

Differently from the studies above mentioned, there are others that find no relationship or a negative relationship between the adoption of IFRS and the quality of the financial statements.

Barth et al. (2008) although find that IFRS adoption was associated with higher accounting quality, states that this may not be always true. First IFRS could be of lower quality than domestic GAAP and the flexibility of principle-based standards, such as IFRS, could provide greater opportunity for manager to manipulate earnings. Second, there are other factors that could influence the effect of IFRS adoption.

Burgstahler, Hail and Leuz (2006), Ball, Robin and Wu (2003) suggest that lax enforcement can result in limited compliance with the standards, thus influencing their effectiveness.

Ahmed et al. (2010) find that accounting quality deteriorates following mandatory IFRS adoption in 2005. They argue that principles-based IFRS increase opportunities for managers to exercise discretion rather than faithfully report underlying firm value. They show that firms mandated to adopt IFRS increase income smoothing and aggressive accruals and decrease timely loss recognition.

Vantendeloo and Vanstralen (2005), studying a sample of German firms that voluntary adopted IFRS, do not find significant difference between their financial statements and those of firms that used domestic GAAP in terms of accounting quality.

Cameran and Campa (2012) analyze 301 Italian not listed companies that adopt IFRS. They analyze the effect of IFRS mandatory adoption on the earnings quality. Their results do not show any improvement in earnings quality following the introduction of IFRS.

The second mechanism through which IFRS adoption could decrease IPO underpricing is by enhancing the comparability of the financial statements. Thanks to an increased comparability, investors can compare firms located all over the world. The chance to compare similarities and differences between firms operating in the same industry all over the world should reduce asymmetric information among investors. However, there are some reasons why this may not happen. First, if the reporting quality of firms using IFRS is lower than that of firms using domestic GAAP (Ahmed et al., 2010), then comparability under IFRS could be lower than that under domestic GAAP. Second, it might be difficult for investors to compare IFRS-reporting firms domiciled in different jurisdictions. Different jurisdictions provide heterogeneous levels of investor protection and reporting incentives for firms (Leuz, Nanda, and Wysocki, 2003). In contrast, firms using a set of domestic GAAP by definition consist of relatively homogeneous firms in the same jurisdiction. Third, comparability among firms using IFRS will be further limited if there are variations in country-level and firm-level interpretations of IFRS.

Results of analysis about the effects on the financial statements' comparability of the IFRS mandatory adoption are mixed too.

De Fond et al. (2011), find an improvement of the comparability after IFRS mandatory adoption. The improvement of the comparability is measured by the increase of international investments.

Lang et al. (2011), on the other hand, underscore an unchanged level of comparability after IFRS mandatory adoption.

The effects on the quality and the comparability of IFRS mandatory adoption are influenced by the quality of the enforcement that is the emanation and the application of laws that guide IFRS application. The latter have to limit managers' discretionary and opportunism (Leuz, Nanda and Wysocki, 2003).

According with what stated above, several studies show that IFRS adoption increases the quality and the comparability of the financial statements only in countries where the enforcement is of high quality (Daske et al., 2008; Byard et al., 2011).

Although IFRS may improve firms' reporting quality compared with domestic GAAP, this will happen only if firms actually comply with the requirement of IFRS.

About the comparability, the enforcement environments in which comparable firms are listed are also critical to the comparability between an IPO firms and its comparable firms. Comparability under IFRS is likely to be realized if the comparable firms listed in other jurisdiction are faithfully following IFRS.

3. Hypothesis development and study design

Our hypothesis is about the validity for the market of the information provided by the financial statements in order to evaluate the shares. If the information is characterized by high quality, the evaluation of the shares given by the market should not differ from the fixed price arising from information of the financial statements. So, referring to Rock's model (1986), investors should

not incur costs to obtain information about the firm, thus becoming “informed” investors, given that information are public and available to all investors.

Based on the above reasoning, we hypothesize the following:

Underpricing of shares of IPO firms adopting IFRS prior to the listing is lower than IPO underpricing of IPO firms adopting Italian GAAP prior to the listing.

The database used in this study is composed by all the firms that decided to go public on the Italian market from 2000 to 2012. In this period most firms used book-building to go public; this mechanism allows the price to be “adjusted” on the base of the demand. From 1994 Italian firms use this mechanism to fix the offer price (Paleari, Cassia and Redondi, 2004)⁷. With the book-building the offer price varies in a fixed range indicated in the prospectus, but cases in which the price is fixed outside this range are not rare. During bookbuilding, underwriters collect orders in terms quantity and price or without price limit in an electronic book. In this way they create a demand curve composed by all the orders and the prices. According to the curve a price will be negotiated between the IPO firm and the underwriter.

Sometimes, IPOs consist of the offer of shares already owned by existing shareholders while, in other cases, shares are issued in conjunction with the IPO: in the latter case with the IPO new capital is collected.

We excluded from the sample those firms whose data were not available. The sample is composed by 141 firms: 71 adopting Italian GAAP to prepare their financial statements prior to the listing and 70 adopting IFRS to prepare their financial statements prior to the listing.

The period length arise from the necessity to make the sample as numerous as possible. Firms that went public before 2000 have not been considering due to the unavailability of the data.

The database has been built using information available in the prospectus prepared for the IPO and on the Borsa Italiana website.

Tab. 1 Main characteristics of the Italian IPO from 2000 to 2012

COMPANIES	FIRST DAY OF TRADING	OFFER PRICE	CLOSING PRICE	INITIAL RETURN	MARKET RETURN	AGE	OFFER SIZE
Brunello Cucinelli	27/04/2012	7,75	11,6	0,496774194	0,028441	33	158100000
Ferragamo	29/06/2011	9	9,95	0,105555556	0,014767	87	344475000
Ivs Group	27/01/2011	8,993	8,975	-0,002001557	0,013560	0	134895000

⁷ Three mechanisms can be used to place shares: the auction, the fixed price offer and the book-building. In fixed price offers, the price and allocation rules are set before demand is received, and shares are allocated according to the rules announced earlier.

With book building, the underwriter typically arranges for investors to attend a road show and then collects indications of interest, which are used to build the order book. The offering price is set only after the order book is full, giving the underwriter some idea of demand.

Auctions for IPOs have taken several forms. Uniform price auctions are multi-unit sealed bid auctions in which all winning bidders pay the same price. The price paid may be the market-clearing price (the highest price that allows all shares to be sold), or it may be below the clearing price. A “dirty” IPO auction is a uniform price auction where they “leave something on the table” by pricing below market-clearing. In a discriminatory or pay-what-you-bid auction, each winning bidder pays his or her own bid.

Enel green power	04/11/2010	1,6	1,6	0	0,002506	3	2264000000
Yoox	03/12/2009	4,3	4,66	0,08372093	-0,008327	9	104622022,9
Ternienergia	28/07/2008	1,3	1,7	0,307692308	-0,006843	4	7800000
Enervit	24/07/2008	2	2,451	0,2255	-0,013100	54	3600000
Best Union co	20/05/2008	3,4	3,4	0	-0,011167	9	13260000
Rosss	09/04/2008	2,1	2,015	-0,04047619	0,002671	27	6888000
Ergy Capital	20/03/2008	0,674	0,578	-0,142433234	-0,282107	1	12781796,66
Molmed	05/03/2008	1,48	1,436	-0,02972973	0,016521	12	38653088,96
Meridie	31/01/2008	1	1,095	0,095	-0,000654	1	100000
Piquadro	25/10/2007	2,2	2,297	0,044090909	0,006189	2	33484000,00
Bouty Healthcare	09/10/2007	1,3	1,362	0,047692308	0,008880	5	15525467,10
Rcf Group	27/07/2007	2,8	2,775	-0,008928571	0,004516	1	28000000,00
Bialetti Industrie	27/07/2007	2,5	2,592	0,0368	0,004516	5	46875000,00
SAT	26/07/2007	12,35	13,31	0,077732794	-0,025094	29	22971000,00
Aeffe	24/07/2007	4,1	3,899	-0,04902439	-0,016124	19	142680000,00
B&C Speakers	20/07/2007	5	5,27	0,054	-0,013223	30	18000000,00
DiaSorin	19/07/2007	12,25	12,547	0,024244898	0,003880	7	232750000,00
Cape Live	19/07/2007	1,05	1,023	-0,025714286	0,003880	1	24150000,00
Enia	10/07/2007	10,1	10,776	0,066930693	-0,011046	2	368283228,60
Pramac	03/07/2007	4,2	4,25	0,011904762	0,002933	7	45921821,40
Landi Renzo	26/06/2007	4	4,324	0,081	-0,005641	29	160000000
Rdb	19/06/2007	5,1	5,259	0,031176471	0,001796	73	67320000
Screen Service B. T.	11/06/2007	1,6	1,630	0,01875	-0,002680	16	110800000
Zignago Vetro	06/06/2007	4,5	4,784	0,063111111	-0,014778	28	114750000
Mutuonline	06/06/2007	5,6	6,105	0,090178571	-0,014778	2	77443268
IW Bank	23/05/2007	4,6	4,903	0,065869565	0,006298	16	61571000
Mid Industry Capital	11/05/2007	26	24,620	-0,053076923	0,007716	1	98799454
Prysmian	03/05/2007	15	15,888	0,0592	-0,008403	2	1080000000
D'Amico International Shipping	03/05/2007	3,5	3,467	-0,009428571	-0,008403	0	209929870,50
Conafi Prestitò	12/04/2007	5	5,520	0,104	-0,000721	19	
Servizi Italia	04/04/2007	8,5	8,2	-0,035294118	-0,001691	21	61540000,00
Aicon	04/04/2007	4,1	4,659	0,136341463	-0,001691	3	143500000,00
Toscana Finanza	21/03/2007	3	3,506	0,168666667	0,005094	20	25500000,00
Biancamano	07/03/2007	2,8	2,977	0,063214286	-0,002163	3	39200000,00
Omnia Network	28/02/2007	5	4,725	-0,055	0,007429	7	45000000,00
Cogeme	15/12/2006	3,65	3,8	0,04109589	0,003724	15	21717500,00
Ascopiave	12/12/2006	1,8	1,908	0,06	-0,000446	2	146088000,00
Cobra	12/12/2006	6,9	7,779	0,127391304	-0,000446	31	46747500,00
Gas Plus	06/12/2006	8,5	9,227	0,085529412	0,000964	20	95625000,00
Banca Generali	15/11/2006	8	9,022	0,12775	0,002881	9	248976000,00
Poltrona Frau	15/11/2006	2,1	2,907	0,384285714	0,002881	30	103143600,00
Elica	10/11/2006	5	5,657	0,1314	0,005845	36	112500000,00
Polynt	30/10/2006	1,8	1,897	0,053888889	0,005252	51	111456000,00
Arkimedica	01/08/2006	1,2	1,26	0,05	-0,007577	10	26880000,00
Valsoia	14/07/2006	4,4	4,615	0,048863636	-0,002638	16	5512570,80
Piaggio	11/07/2006	2,3	2,506	0,089565217	-0,007555	21	274275678,50
Bolzoni	08/06/2006	3,2	3,204	0,00125	-0,009300	34	27302870,00
Antichi Pellettieri	07/06/2006	7,7	8,02	0,041558442	0,000544	2	113118166,70

Pierrel	23/05/2006	6	5,934	-0,011	0,014345	1	24000000,00
Nice	19/05/2006	5,7	6,203	0,088245614	0,004153	13	210387000,00
Saras	18/05/2006	6	5,29	-0,118333333	-0,007868	44	2070000000,00
Noemalife	10/05/2006	9	12,30	0,366666667	-0,000800	20	8100000,00
Eems	27/04/2006	8,2	9,638	0,175365854	-0,008164	62	137071200,00
Ansaldo STS	29/03/2006	7,8	9,039	0,158846154	0,005836	11	406957200,00
Marazzi	15/02/2006	10,25	9,893	-0,034829268	-0,000709	60	295743250,00
Kerself	18/01/2006	2,2	3	0,363636364	0,000404	8	9536172,80
Eurofly	21/12/2005	6,4	6,282	-0,0184375	0,005494	16	40320000,00
Safilo	09/12/2005	4,9	4,912	0,00244898	-0,001509	3	686000000,00
Apulia Prontoprestito	07/12/2005	1,28	1,48	0,15625	-0,002186	5	30720000,00
Eurotech	30/11/2005	3,4	4,304	0,265882353	-0,003078	13	29416800,00
Guala Closures	22/11/2005	4,2	4,208	0,001904762	0,000308	5	153631800,00
Caleffi	09/11/2005	2,8	2,732	-0,024285714	0,000509	38	12261200,00
Tamburi Investment Partners	09/11/2005	1,8	2,025	0,125	0,000509	12	90000000,00
Anima	26/10/2005	3,3	3,641	0,103333333	-0,000636	22	90420000,00
Bioera	27/07/2005	7	9,6	0,371428571	0,001361	16	16161250,00
Monti Ascensori	27/07/2005	2	2,4	0,2	0,001361	17	7875000,00
Marr	21/06/2005	6,65	6,574	-0,011428571	0,003324	17	175560000,00
Banca Italease	14/06/2005	9,3	10,88	0,169892473	0,000886	37	172431300,00
Toro	01/06/2005	11,25	12,01	0,067555556	0,008600	172	613710000,00
Save	25/05/2005	21	21,32	0,015238095	0,001368	13	140070000,00
Igd	11/02/2005	1,45	1,721	0,186896552	0,003190	28	138402500,00
Geox	01/12/2004	4,6	5,482	0,19173913	0,011051	6	299000000
Rgi	25/11/2004	13	13,718	0,055230769	0,003346	11	3380000
Panariagroup	19/11/2004	5,6	5,681	0,014464286	-0,006509	16	80640000
Trevisan	05/11/2003	3,1	3,095	0,00	-0,003067	3	34410000
Isagro	05/11/2003	4	3,85	-0,04	-0,003067	15	32811900
Hera	26/06/2003	1,225	1,25	0,02	0,003067	8	373625000
Meta	28/03/2003	1,95	1,851	0	0,000606	6	85242300
Fiera Milano	12/12/2002	7,5	7,517	0,002266667	-0,010124	2	97500000
Socotherm	11/12/2002	3,5	3,49	-0,002857143	0,002217	143	45500000
Cit	27/11/2002		2,003	0,054210526	0,035499	75	18430000
Asm	12/07/2002	1,85	1,85	0	-0,023684	94	333000000
Pirelli Real Estate	25/06/2002	26	23,47	-0,097307692	-0,001699	41	367900000
Astaldi	06/06/2002	3,1	3,08	-0,006451613	-0,011414	76	110980000
Juventus	20/12/2001	3,7	3,485	-0,058108108	-0,008467	104	143190000
Snam Rete Gas	06/12/2001	2,8	2,971	0,061071429	0,000300	1	1915200000
Negri Bossi	06/11/2001	2,85	2,748	-0,035789474	-0,019474	54	31920000
Esprinet	25/07/2001	14	14,18	0,012857143	-0,006106	1	15345428
De'Longhi	24/07/2001	3,4	3,4	0	0,000952	99	163200000
Campari	06/07/2001	31	29,88	-0,036129032	-0,013073	55	393855000
Giacomelli	04/07/2001	2,25	2,246	-0,001777778	-0,005193	9	45675000
It Way	04/07/2001	12,25	15,15	0,236734694	-0,005193	5	20357552,25
Amplifon	27/06/2001	20	24,05	0,2025	0,003900	51	96740000
Biesse	22/06/2001	9	9,01	0,001111111	0,003238	31	86292000
Algol	15/06/2001	10,5	9,178	-0,125904762	-0,002637	22	8925000
Air Dolomiti	13/06/2001	12	11,954	-0,003833333	0,000295	14	25200000

Granitifiandre	13/06/2001	8	7,96	-0,005	0,000295	21	113600000
I Viaggi del Ventaglio	30/05/2001	4,5	4,063	-0,097111111	-0,011304	25	41175000
Lottomatica	17/05/2001	4,75	4,698	-0,010947368	-0,008098	11	200925000
Dmail	22/12/2000	17,5	16,79	-0,040571429	0,004521	1	25375000
Eginning	12/12/2000	40	41,16	0,029	0,001777	20	100000000
El.En	11/12/2000	26	25,142	-0,033	-0,000885	19	35204000
Reply	06/12/2000	18	15,99	-0,111666667	-0,016182	5	35460000
Saeco	04/12/2000	3,36	4	0,19047619	-0,018035	19	186852456
Luxottica	04/12/2000	16,8	17,27	0,02797619	-0,018035	19	174468000
Aem Torino	01/12/2000	2,7	3,203	0,186296296	-0,007974	93	243810000
Fidia	27/11/2000	14	14,049	0,0035	-0,006775	26	16800000
Novuspharma	09/11/2000	80	79,32	-0,0085	0,006731	17	200000000
Tod's	06/11/2000	40	47,86	0,1965	0,004268	14	302500000
Centrale del latte di torino	03/11/2000	6,8	6,93	0,019117647	0,003164	50	23456600
Cad it	26/10/2000	32	36,94	0,154375	0,003079	13	69376000
Digital Bros	20/10/2000	16	21,36	0,335	0,000479	11	40000000
Bb Biotech	19/10/2000	1,185	1,25	0,054852321	0,012416	7	296250
Data Service	18/10/2000	40	49,85	0,24625	0,005711	13	44560000
Datamat	12/10/2000	23	20,94	-0,089565217	-0,011128	29	185014806
Vitaminic	12/10/2000	26	24,3	-0,065384615	-0,011128	1	31200000
Acotel	09/08/2000	54	86	0,592592593	0,006270	0	44982000
Tc Sistema	04/08/2000	40,7	38,51	-0,053808354	0,000160	18	41514000
Cto	04/08/2000	23	22,59	-0,017826087	0,000160	17	47794000
Eplanet	03/08/2000	80	79,45	-0,006875	-0,012869	1	120000000
Aisoftware	01/08/2000	26	24,77	-0,047307692	-0,001827	17	22100000
Inferentia	01/08/2000	46	52,81	0,148043478	-0,001827	12	41400000
Biosearch Italia	31/07/2000	42,5	56,77	0,335764706	0,009361	4	160650000
Mariella Burani Fashion Group	21/07/2000	7	6,585	-0,059285714	-0,008995	41	70000000
Cairo Communication	18/07/2000	65	60,47	-0,069692308	-0,002070	5	113750000
Lavorwash	12/07/2000	6,2	5,67	-0,085483871	-0,001617	25	33384520
Txt	12/07/2000	75	75	0	-0,001617	11	39765000
Aeroporto di Firenze	11/07/2000	8,1	10,22	0,261728395	0,008181	16	24641820
Caltagirone Editore	07/07/2000	18	15,77	-0,123888889	0,014235	1	630000000
Cdc Point	06/07/2000	34	30,9	-0,091176471	0,010862	14	83300000
Euphon	04/07/2000	58	53,97	-0,069482759	0,000911	17	87580000
Dada	29/06/2000	33,5	34,32	0,024477612	-0,018389	5	111957000
Mondo tv	28/06/2000	64	72,24	0,12875	0,011102	36	51200000
Ferretti	23/06/2000	2,4657	2,513	0,019183193	0,015187	32	133764225
Meliorbanca	13/06/2000	6,4	6,91	0,0796875	0,013799	73	118400000
Art'è	31/05/2000	45	67,19	0,493111111	-0,014469	8	46170000
Tas	26/05/2000	35	57,17	0,633428571	0,016151	18	17500000
As Roma	23/05/2000	5,5	5,67	0,030909091	0,010229	73	71500000
E.biscom	30/03/2000	160	222,38	0,389875	0,000960	1	1520000000

The name of the companies and the distribution of the information per years are contained in the Tab. 1. Furthermore, in this table are contained the main characteristics of the firms that decided to go public from 2000 to 2012.

From the distribution we can observe that the most fruitful year has been 2000 with 42 IPOs. From 2008 we find a decline in the number of IPOs probably due to the financial crisis that from 2008 has affected the whole world as a consequence of the crisis of 2007 in the United States.

Based on the data released by the European Observatory on IPO, the first nine months have been characterized a drop in the number and the value of IPOs. In particular, 271 IPOs have been realized. 53% less compared to the first nine month of 2007. This drop represents the most significant since Observatory's launch in 2002 and confirm the strong relationship between the trend of the financial market and the decision to go public.

The difference between the offer price and the closing price on the first day of trading (initial return) and the variation of the market index on the same day (market return) are expressed in percentage.

The firms that went public adopting Italian GAAP show an underpricing on average of 5,9%, while firms that decided to go public adopting IFRS show an underpricing on average of 7,9%. These levels of underpricing are lower than those observed by Paleari, Cassa Redondi (2004) that find an underpricing of 15,46% on average from 1991 to 2001.

The underpricing in Italy is, on average, lower than US underpricing based on the date provided by Ritter (2008) that find an underpricing of 22,3% on average from 1990 to 2008.

Firms that decided to go public from adopting Italian GAAP show an average age of 27 years. However, there is and high variability with extreme values (143 and 0) that could alter the mean. The firms that decide to go public adopting IFRS show an average age of 20 years. In this case too there is a high variability with maximum of 172 and minimum of 0 for firms that went public just after the constitution.

2.3 Descriptive statistic

The Underpricing, the main variable of interest, is represented by the difference between the offer price and the closing price on the first day of trading, on the secondary market, expressed in percentage (Bulton ae al., 2011). The market return is the variation of the market index on the same day. The age has been determined as the years between the constitution and the listing. With offer price we intend the product between the number of shares and their offer price.

Tab. 2 Decriptive statistic

Initial Return				

	Percentiles	Smallest		
1%	-.1259048	-.1424332		
5%	-.0911765	-.1259048		
10%	-.0581081	-.1238889	Obs	142

25%	-.011	-.1183333	Sum of Wgt.	142
50%	.0299545		Mean	.0692942
		Largest	Std. Dev.	.1403142
75%	.1273913	.4931111		
90%	.24625	.4967742	Variance	.0196881
95%	.3666667	.5925926	Skewness	1.58729
99%	.5925926	.6334286	Kurtosis	5.941288

Market Return

	Percentiles	Smallest		
1%	-.0250944	-.282107		
5%	-.0161822	-.0250944		
10%	-.0130731	-.0236842	Obs	142
25%	-.0068428	-.0194738	Sum of Wgt.	142
50%	.0002971		Mean	-.0024976
		Largest	Std. Dev.	.0253553
75%	.0041534	.0161509		
90%	.0102292	.016521	Variance	.0006429
95%	.014235	.0284405	Skewness	-9.501597
99%	.0284405	.0354987	Kurtosis	105.7156

Age

	Percentiles	Smallest		
1%	0	0		
5%	1	0		
10%	1	0	Obs	142
25%	5	1	Sum of Wgt.	142
50%	16		Mean	23.23239
		Largest	Std. Dev.	27.78889
75%	29	99		
90%	55	104	Variance	772.2222
95%	76	143	Skewness	2.46967
99%	143	172	Kurtosis	10.62947

Offer Size

	Percentiles	Smallest		
1%	296250	100000		
5%	7875000	296250		
10%	1.53e+07	3380000	Obs	141
25%	2.94e+07	3600000	Sum of Wgt.	141
50%	7.74e+07		Mean	1.69e+08

	Largest	Std. Dev.	3.41e+08	
75%	1.54e+08	1.52e+09		
90%	3.33e+08	1.92e+09	Variance	1.16e+17
95%	6.14e+08	2.07e+09	Skewness	4.496036
99%	2.07e+09	2.26e+09	Kurtosis	24.47814

The Tab. 2 shows the descriptive statistics of the variables used in the regression model. The Tab. 3 shows the T-Test to compare the average underpricing for IFRS adopters and the average underpricing for Italian GAAP adopters.

Tab. 3 Two sample T-Test with unequal variances

Group	Obs	Mean	Std. Err.	Std. Dev	[95% Conf. Interval]	
0	71	.0593802	.0188512	.158843	.0217827	.0969778
1	70	.0823744	.0139954	.117094	.0544543	.1102945
combined	141	.0707958	.0117619	.1396647	.0475419	.0940497
diff		-.0229942	.0235281	-.0695135	.0235252	

$$\text{diff} = \text{mean}(0) - \text{mean}(1) \quad t = -0.9773$$

$$\text{Ha: diff} < 0 \quad \text{Ha: diff} \neq 0 \quad \text{Ha: diff} > 0$$

$$\text{Pr}(T < t) = 0.1651 \quad \text{Pr}(|T| > |t|) = 0.3301 \quad \text{Pr}(T > t) = 0.8349$$

The T-Test shows that the difference between the means is not significant. This suggests that the IFRS mandatory adoption could not have improved the quality and the comparability of the financial statements.

2.4 Regression model

We use a multiple regression model to verify if IFRS mandatory adoption decreases underpricing. We use underpricing as dependent variable and age, initial return, offer size, IFRS adoption as independent variable. For IFRS we use a dummy variable equal to 0 for Italian GAAP adopters and 1 otherwise. Results show that the only variable that influence underpricing is the market return.

Tab. 4 Multiple regression model

Source	SS	df	MS
Model	.131195733	4	.032798933
Residual	259.967.733	136	.019115274
Total	273.087.306	140	.019506236

$$\begin{aligned} \text{Number of obs} &= 141 \\ \text{Prob} > F &= 0.1500 \\ \text{R-squared} &= 0.0480 \\ \text{Root MSE} &= .13826 \end{aligned}$$

INITIALRET~N	Coef.	Std.	Err.	t	P> t	[95% Conf. Interval]
marketreturn	2.813.962	1.270.094	2.22	0.028	.3022736	5.325.651
et	-.0003299	.000423	-0.78	0.437	.0011664	.0005066
offersizeM	-.0035709	.005741	-0.62	0.535	-.014924	.0077822
IFRS	.0186533	.0235438	0.79	0.430	-.027906	.0652126
_cons	.0743046	.0205055	3.62	0.000	.0337537	.1148555

We verified the normality hypothesis through the normal probability plot, observing that the observations don't move away from the straight line.

We observe that the only variable that seems influence the underpricing is the variation of the market index on the first day of trading. This suggests that the IFRS adoption does not improve the quality and the comparability of the financial statements, decreasing asymmetry information.

We used a logistic regression to repeat the analysis considering just the variables of main interest: IFRS and the underpricing.

Table 5 exposes the results.

Tab. 5 Logistic regression model

Log likelihood = -21.509759

Number of obs = 141

LR chi2(1) = 0.19

Prob > chi2 = 0.6594

Pseudo R2 = 0.0045

INITIALRETURN	Coef.	Std.	Err.	z	P> z	[95% Conf. Interval]
IFRS	.4054651	.9288407	0.44	0.662	-1415029	2225959
_cons	3120895	.5899485	5.29	0.000	1964618	4277173

Even the latter result shows that the initial return is not influenced by the accounting standards adopted. This confirms our results that the IFRS adoption does not influence IPO underpricing reducing the information asymmetries among the actors involved in the process of listing.

3 Conclusion

With IFRS mandatory adoption, the European Union starts off the most significant change regarding accounting standards.

This analysis investigates the effects of the mandatory adoption of IAS/IFRS in an original way. First of all this is the first Italian research that studies the effects of IAS/IFRS on the financial statements by analyzing their effects on the underpricing of IPOs and secondly it considers Italian firms only so that the results are not influenced by the differences in enforcement among different countries.

The result of the analysis shows that IFRS adoption seems not linked to IPO underpricing. Given that the literature finds the cause of the underpricing in information asymmetry among investors, our results suggests that IFRS mandatory adoption does

not improve the quality and the comparability of the financial statements thus decreasing underpricing. Our findings complement previous research that about the effects on the quality and the comparability of the financial statements find mixed results.

The mandatory adoption of IAS/IFRS could not improve the quality and the comparability of the financial statements because of other variables that could neutralizes positive effects of the adoption (Barth, Landsman and Lang, 2008). These variables could be the effectiveness of the legal system, the accounting history of the country and implementation credibility (Street e Gray, 2001; Cairns, 1999; Ball, Robin e Wu, 2003;Burgstahler, Hail e Leus, 2006).

If we consider the Rule of Law Index from Table C5 in Kaufmann et al. (2007), Italy shows a rule of Law Index of 0.53.

Suh (2012) considers Italy as characterized by a weak enforcement environment. He analyzes the effect of IFRS mandatory adoption on IPO underpricing, considering firms located in different countries. He finds that IPO underpricing is lower for IFRS-using IPOs listed in strong enforcement jurisdictions and that it decreases only when comparable firms are listed themselves in strong enforcement jurisdictions.

This research suggests to standard setters that the adoption of the new set of standards seems not to have significant effects on the quality and comparability of the financial statements. The change needs to go with the re thinking of the factors that influence the effective application of a set of standards introduced with the aim of increase the quality and the comparability of the financial statements.