The International Convergence of Accounting Standards and Stock Price Informativeness: A Study on the Effects of the Convergence of Consolidated Financial Statement Accounting Standards in the A-Share Market

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Abstract. In February 2014, China's Ministry of Finance revised and issued the Accounting Standards for Business Enterprises No. 33—Consolidated Financial Statements (CAS 33), which aligns substantially with IFRS 10. The implementation of this new accounting standard and its role in regulating consolidated financial reporting practices, improving accounting information quality, and influencing capital markets remain to be explored. This study examines how the adoption of the new accounting standard affects stock price informativeness by employing a generalized difference-in-differences (DID) method, using a sample of A-share listed companies in China from 2009 to 2019. The results indicate that the implementation of the revised consolidated financial statements standard enhances stock price informativeness in the A-share market. These findings remain robust after passing parallel trend tests and controlling for potential confounding policies. This study not only enriches the literature on accounting standard revisions and stock price informativeness but also provides practical insights for enhancing accounting standard reforms and information supervision in China's capital markets.

Keywords: Accounting Standards for Business Enterprises No. 33—Consolidated Financial Statements; stock price informativeness.

1 Introduction

Accounting information quality plays a critical role in capital market efficiency [1] and stock price formation [2]. To improve information quality and strengthen investor protection, China has continuously promoted accounting standards reform. In 2014, China revised CAS 33—Consolidated Financial Statements, substantially converging with IFRS 10 and introducing a control-based consolidation approach. By emphasizing the principle of "substance over form," the new standard aims to provide a more faithful representation of firms' economic activities and improve the usefulness of accounting information for decision-making.

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Existing studies have extensively examined the determinants of stock price informativeness. Prior literature generally follows two research streams: external institutional factors and internal governance factors. The first stream emphasizes the role of the external information environment. Studies suggest that institutional arrangements such as investor protection, capital market openness, accounting information quality, media monitoring, institutional investor participation, and analyst information production can significantly improve the incorporation of firm-specific information into stock prices. For example, Morck et al. (2000) document the importance of investor protection [3], while Zhong et al. (2018) show that capital market liberalization enhances stock price informativeness [4]. Other studies find that ESG information disclosure [5], media coverage [6], analyst reports [7], and program trading [8] can also have an influence on the amount of firm-specific information reflected in stock prices. The second stream focuses on internal governance mechanisms. Existing evidence indicates that executive stock selling [9], institutional shareholders [10], State-owned enterprise (SOE) minority equity participation [11] and investor–firm communication [12] all affect the information environment within firms and consequently influence stock price informativeness. Stronger governance mechanisms can reduce information asymmetry and facilitate the transmission of firm-specific information to capital markets. Despite these advances, most existing studies examine external institutional reforms and internal governance mechanisms separately. Limited attention has been paid to how accounting standards convergence affects stock price informativeness and whether the effectiveness of such reforms depends on corporate governance conditions. As a major accounting standards reform that substantially converges with IFRS, the revision of CAS 33 provides a valuable setting to explore the interaction between external regulatory changes and internal governance mechanisms.

The revision of CAS 33 provides a suitable setting to address this question. On the one hand, the revised standard may improve accounting information quality by expanding consolidation scope based on economic substance and increasing the transparency of financial reporting. Improved information quality can facilitate the incorporation of firm-specific information into stock prices and thus enhance stock price informativeness. On the other hand, the substance-over-form principle requires greater managerial judgment, potentially expanding managerial discretion and creating opportunities for earnings management. Consequently, the overall effect of the revised standard on stock price informativeness remains an empirical issue.

Using a sample of Chinese A-share listed firms from 2009 to 2019, this study investigates the impact of the revised consolidated financial statements standard on stock price informativeness. Following a generalized difference-in-differences (DID) framework, firms with relatively complex group structures are identified as the treatment group, while firms with simpler organizational structures serve as the control group. Stock price non-synchronicity is employed to measure stock price informativeness. The empirical results indicate that the implementation of the revised CAS 33 significantly enhances stock price informativeness. These findings remain robust after a series of robustness tests.

This study contributes to the literature in three respects. First, it provides new evidence on the capital market consequences of accounting standards convergence by examining the economic effects of the 2014 revision of CAS 33. Second, it integrates external institutional reform and internal governance perspectives to explain how accounting standards influence stock price informativeness. Third, it offers practical implications for regulators, investors, and standard setters seeking to improve accounting information quality and capital market efficiency.

2 Hypothesis Development

The revision of CAS 33 represents an important step in the convergence of Chinese accounting standards with International Financial Reporting Standards (IFRS). The revised standard introduces a control-based approach to determining consolidation scope and emphasizes the principle of "substance over form." By changing the criteria used to identify controlled entities, the reform may affect the quality of accounting information and, consequently, the amount of firm-specific information reflected in stock prices. However, the direction of this effect is theoretically ambiguous.

2.1 Information Quality Channel

According to information economics, information asymmetry between corporate insiders and outside investors reduces market efficiency and impedes the incorporation of firm-specific information into stock prices. [13] High-quality accounting information serves as an important mechanism for reducing information asymmetry and facilitating investors' assessment of firm value.

The revised CAS 33 adopts a unified control-based framework for determining consolidation scope. Compared with the previous standard, it places greater emphasis on the economic substance of control relationships rather than solely on legal ownership structures. As a result, firms are required to include a broader range of controlled entities in consolidated financial statements, thereby providing a more comprehensive representation of their economic activities and financial positions [14].

By improving the completeness, comparability, and decision usefulness of financial reporting, the revised standard may enhance accounting information quality. Higher-quality accounting information enables investors to obtain more firm-specific information and improves the efficiency of price discovery. Consequently, a larger amount of firm-specific information is incorporated into stock prices, resulting in higher stock price informativeness.

Consistent with this argument [15], prior studies suggest that improvements in accounting information quality can enhance the information content of stock prices and promote market efficiency. Therefore, we propose the following hypothesis:

Hypothesis 1. The revision of the consolidated financial statements standard increases stock price informativeness.

2.2 Managerial Discretion Channel

Despite its potential benefits, the revised standard may also generate unintended consequences.

Agency theory suggests that conflicts of interest between managers and shareholders may lead managers to exploit informational advantages for personal benefit. Compared with rule-based accounting requirements, principles-based standards often require greater professional judgment and provide managers with more discretion in financial reporting decisions.

Under the revised CAS 33, determining whether an investee should be consolidated depends on the assessment of three elements of control: power over the investee, exposure to variable returns, and the ability to use power to affect those returns. Because these assessments rely heavily on managerial judgment, the application of the substance-over-form principle may increase flexibility in financial reporting.

In firms with weak governance mechanisms, managers may use such discretion opportunistically to engage in earnings management or obscure unfavorable information. If managerial discretion outweighs the informational benefits of the revised standard, accounting information quality may decline. Lower-quality information would hinder investors' ability to assess firm value and reduce the incorporation of firm-specific information into stock prices.

Accordingly, the revision of the consolidated financial statements standard may have a negative effect on stock price informativeness. Therefore, we propose the following competing hypothesis:

Hypothesis 2. The revision of the consolidated financial statements standard decreases stock price informativeness.

3 Research Design

3.1 Sample Selection

All data used in this paper are sourced from the CSMAR database. We select A-share listed firms in China over the period 2009–2019 as our research sample. To ensure data validity, we follow conventional research practices by excluding financial industry firms, ST and PT firms, observations with no available data on either side of the implementation of the new accounting standard, and observations with missing values for relevant variables. To mitigate the potential influence of outliers on regression results, all firm-level continuous variables are winsorized at the 1st and 99th percentiles.

3.2 Measuring Stock Price Informativeness

This paper employs stock price non-synchronicity to measure stock price informativeness. Following the research design of Morck et al. (2000) [3], we obtain R^2 from the following regression model:

$$\gamma_{it}=\alpha_i+\beta_i\times\gamma_{mt}+e_{it} \tag{1}$$

where r_{it} and r_{mt} denote the weekly returns of stock i and the market, respectively. The coefficient of determination R^2 from the above regression captures the proportion of firm-level stock return variation that can be explained by market-wide movements. Correspondingly, the unexplained portion represents firm-specific risk ($1-R^2$). Since R^2 is bounded between 0 and 1, which poses challenges for empirical estimation, we follow prior literature (Morck et al., 2000[3]) and apply the following logarithmic transformation:

$$P_i=\ln\left(\frac{1-R_i^2}{R_i^2}\right) \tag{2}$$

A higher value of P indicates lower stock price synchronicity, implying that stock prices contain greater information content.

3.3 Empirical Model

We use a generalized DID approach. Since the new standard applies universally but its impact varies with the number of subsidiaries, we define the treatment group as firms with above-median subsidiaries in 2013 and the control group as those at or below the median. The model is:

$$P_{it}=\alpha+\beta_1\, Treat_i\times Post_{it}+\beta_2\, Controls+FIRM_{it}+YEAR_{it}+\varepsilon_{it} \tag{3}$$

where P is stock price informativeness, Post marks the post-implementation period, and Treat equals 1 for the treatment group. A positive β1 would indicate that the standard increases stock price informativeness. Controls follow Zhong et al. (2018) [4]; firm and year fixed effects are included. Variable definitions are in Table 1.

Table 1. Variable Definitions

Variable Symbol	Variable Name	Definition
P	Stock price informativeness	See calculation method described above
Treat	Treatment group dummy	Equals 1 if the firm's number of subsidiaries in the year before policy implementation is above the median, and 0 otherwise
Post	New accounting standard implementation time dummy	Equals 1 for the period after the new accounting standard is implemented, and 0 otherwise
SIZE	Firm size	ln (Market Capitalization)
AGE	Listing age	Natural logarithm of the number of years since listing
LEV	Leverage	Total liabilities / Total assets
ROA	Return on assets	Net income / Total assets
TobinQ	Tobin's Q	Market value of equity / Market value of assets
TURNOVER	Share turnover	Annual trading volume / Number of outstanding shares
BLCK	Ownership concentration	Shareholding percentage of the largest shareholder relative to total shares outstanding
INS	Institutional investor shareholding	Total shareholding percentage of all institutional investors

DUAL	CEO duality	Equals 1 if the chairman and the general manager are the same person, and 0 otherwise
BIG4	Audit quality	Equals 1 if the auditor is a Big Four accounting firm, and 0 otherwise

4 Empirical Results Analysis

4.1 Descriptive Statistics

Table 2 reports descriptive statistics. The average stock price informativeness is 0.908, with substantial cross-sectional variation, suggesting heterogeneity across firms.

Table 2. Descriptive Statistics

Variable	N	Mean	Std.Dev	Min	Max
P	22166	0.908	1.156	-1.054	5.215
SIZE	22166	22.21	1.321	19.37	26.15
LEV	22166	0.445	0.212	0.0486	0.906
ROA	22166	0.0343	0.0601	-0.259	0.193
BLCK	22166	34.76	15.06	8.790	74.57
TURNOVER	22166	565.2	419.6	54.09	2038
INS	22166	9.694	11.56	0	58.35
DUAL	22166	0.235	0.424	0	1
TobinQ	22166	2.093	1.415	0.875	9.237
AGE	22166	2.287	0.752	0	3.258
BIG4	22166	0.0604	0.238	0	1

4.2 Baseline Regression Results

Table 3 presents the baseline regression results of Model (3). Column (2) reports the two-way fixed effects regression results for the full sample. The coefficient on our variable of interest, Treat × Post, is 0.203 with a t-value of 7.095, statistically significant at the 1% level. This indicates that the implementation of the new accounting standard significantly increases the amount of firm-specific information impounded in stock prices, thereby enhancing stock price informativeness, which is consistent with the prediction of Hypothesis 1.

Table 3. Baseline Regression Results

	(1) P	(2) P
Treat×Post	0.197***	0.203***
	(6.619)	(7.095)
SIZE		-0.087***
		(-4.330)

AGE		-0.173***
		(-4.861)
LEV		0.416***
		(5.428)
ROA		0.282*
		(1.793)
TobinQ		0.136***
		(12.962)
TURNOVER		0.000***
		(16.265)
BLCK		0.001
		(0.749)
INS		0.015***
		(14.190)
DUAL		0.004
		(0.181)
BIG4		-0.087
		(-1.120)
Constant	0.305***	1.283***
	(14.584)	(3.013)
Observations	22166	22166
R-squared	0.295	0.338
Firm FE	YES	YES
Year FE	YES	YES

Notes: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The same applies to the tables below.

5 Robustness Tests

5.1 Parallel Trends Test

Figure 1 reports the event-study results. Pre-treatment coefficients are insignificant, supporting the parallel trends assumption. The post-treatment coefficients become positive after policy implementation.

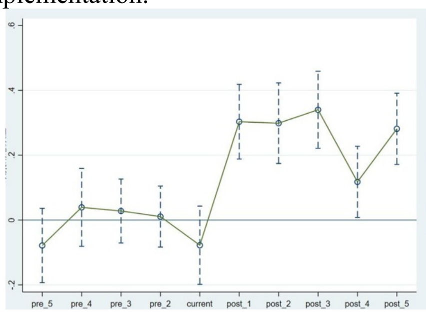

Fig. 1. Parallel Trends Test

5.2 Ruling Out the Influence of Other Policies

To rule out the influence of concurrent reforms, we control for the new internal control standard, government grants standard, and auditing report standard. Table 4 shows that the coefficient on Treat×Post remains significantly positive, confirming the robustness of our findings.

$$P_{it} = \alpha + \beta_1 \, Treat_i \times Post_{it} + \alpha_k DID_{it} + \beta_2 \, Controls + FIRM_{it} + YEAR_{it} + \varepsilon_{it} \tag{4}$$

Table 4. Estimation Results Controlling for Other Policy Effects

Variable	Model 1	Model 2	Model 3	Model 4
	P	P	P	P
β1	0.202***	0.215***	0.201***	0.212***
New fair value measurement standard	YES	NO	NO	YES
New government grants standard	NO	YES	NO	YES
New auditing report standard	NO	NO	YES	YES
Control variables	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Constant	1.272***	3.820***	1.271***	1.107**
	(2.984)	(16.013)	(2.984)	(2.498)
Observations	22166	21735	22166	21735
R-squared	0.338	0.338	0.338	0.338

6 Conclusion and Implications

Using a sample of Chinese A-share listed firms from 2009 to 2019, this study examines the impact of the 2014 revision of the Accounting Standards for Business Enterprises No. 33—Consolidated Financial Statements (CAS 33) on stock price informativeness. Exploiting the implementation of the revised standard as an exogenous institutional shock and employing a generalized difference-in-differences framework, we find that the revised standard significantly enhances stock price informativeness. The findings suggest that the convergence of accounting standards with IFRS can improve the information environment of capital markets. By adopting a control-based consolidation framework and emphasizing the principle of substance over form, the revised standard improves the quality and usefulness of accounting information, thereby facilitating the incorporation of firm-specific information into stock prices.

This study contributes to the literature by providing new evidence on the capital market consequences of accounting standards convergence and by linking accounting standards reform to stock price informativeness through the information quality channel. The findings also have practical implications for policymakers and market participants. For regulators, the results underscore the importance of continuously improving accounting standards and strengthening supervisory mechanisms to ensure the effective implementation of accounting reforms. For firms, the findings suggest that improvements in corporate governance can help maximize the benefits of accounting standards reforms by enhancing the credibility and transparency of financial reporting.

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