The impact of accounting harmonisation on stock market convergence among G20 economies

Abstract

The global evolution of accounting standards has significantly influenced the integration of international financial markets. Among numerous efforts, the adoption of International Financial Reporting Standards (IFRS) stands out as one of the most prominent initiatives for accounting harmonisation practices across countries, which influences stock market integration. This research examines the relationship between the accounting harmonisation and the stock markets' convergence in the G20 nations. Specifically, it explores how the adoption of IFRS affects the co-movement of stock returns and the impact of accounting standards on stock market integration in these large and diverse economies. Meanwhile, our analysis considers how institutional frameworks, enforcement mechanisms, and economic development levels influence harmonisation of IFRS and convergence of stock markets. Employing a combination of econometric methods, including correlation analysis and panel regression models. Furthermore, a correlation index is constructed for each market to quantify its dynamic correlation with other G20 stock markets. Prior IFRS studies focus on developed economies or regional blocs such as the European Union, overlooking global integration dynamics among diverse G20 economies. To address this gap, the present work empirically validates the relationship between IFRS adoption and stock market convergence through the analysis of co-movements in stock market index pairs. We anticipate finding a positive correlation, whereby G20 countries with stronger IFRS implementation illustrate higher levels of stock market co-movement, indicating greater convergence. We expect to provide valuable insights for policymakers, investors, and academics concerned with global financial stability, economic coordination, and accounting harmonisation in enhancing market efficiency.

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