

COMPREHENSIVE INCOME IN EUROPE: VALUATION, PREDICTION AND CONSERVATIVE ISSUES

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Abstract:

The IASB comprehensive income project extends the 'fair value' measurement concept from the balance sheet into the income statement. This article extends prior research, primarily based on Anglo-Saxon countries, by using a comprehensive data set of 56,700 European firm years over sixteen countries. We find that other comprehensive income provides incremental information to investors - due to unrealised available-for-sale securities component - and affects analysts' decision to revise price estimates. On the other hand, traditional operating net income dominates aggregated comprehensive income as a valuation metric and in predicting cash flows. Results are robust to pooled and country specific regressions, controls for non-linearities, impact of reporting incentives, and the underlying accounting framework (local GAAP, US GAAP, IFRS). We also find that aggregated comprehensive income switches the conservative attributes of income towards a more timely recognition of good news over bad news, reducing the conservative agency contracting role. One possible explanation is the mixing of different concepts of operating capital increments with unrealised gains and realised historic net income. An agenda item for the IASB is how income reporting should be disaggregated with a clear delineation on capital increments, conservative operating income, and unrealised financial gains. This is especially important in Continental Europe which relies to a greater extent on debt capital and has an under-developed corpus of equity financial analysts.

Keywords: *comprehensive income, value relevance, analyst forecast revisions, European IFRS, accounting conservatism*

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