The impact of IFRS adoption on value relevance of accounting information in Saudi Arabia

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4 November 2021
Overview

• Value relevance (VR) of book value of equity (BVE) and earnings
  – Saudi Arabia
  – 2015-2016; 2016 adoption IFRS Standards; 2017-2018

• Research questions
  – Joint and relative VR of BVE and earnings
  – Did this change around adoption
  – Impact firm specific characteristics

• Findings - accounting information is value relevant overall but
  – No change in VR pre-post adoption
  – Positive change in VR of BVE
  – Higher VR for firms that are larger, more profitable, audited by Big 4 auditor.
Contributions

• The authors contribute to literature by examining VR in Saudi Arabia

• Agree single-country studies contribute to knowledge due to distinctive country features which impact on adoption (p.4)
  – Investors have limited access to financial information – accounting information is the main source of information for equity investors
  – Strength of enforcement
  – National Standards used UK GAAP, US GAAP and IFRS Standards
  – Finance sector firms using IFRS Standards (give the date)
  – Transition to IFRS Standards over five years (from 2012)
Suggestions re interpreting the results (1)

• Reasons why no change observed in VR
  – Transition was gradual – there is no hard pre/post
  – Prior standards are based on IFRS Standards (and standards with similarities to IFRS Standards)
  – Accountants and auditors have experience of principle-based standards and IFRS Standards (finance sector)

• Recognise that the study is not about quality of IFRS Standards *per se* but rather about effects of implementation in a specific setting
Suggestions re interpreting the results (2)

• More consideration of your claims by looking at the company data (financial data from databases)

• VR BVE: a fair value orientation in IFRS?
  – Examine where FV is used by companies; limits have been imposed

• VR Earnings: absent due to volatility
  – Examine whether there is change in volatility of earnings in the study period.