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



#### What the authors look at:

 The impact of the adopting IFRS accounting standards in Saudi Arabia

### What do they do?

 Examine value relevance of accounting earnings and book values before, at the time of, and after the adoption of IFRS (adoption year = 2016)

### What do they find?

- Earnings and book values are value-relevant before and after the adoption of IFRS
- Increase in value-relevance of book values after adoption
- Large firms, profitable firms and Big 4 clients have more value-relevant accounting



#### Background

- IFRS accounting standards adopted widely throughout world from 2005
- Adoption provides a natural 'quasi-experimental' setting as the year of adoption financial statements include restated amounts for the prior year (ie both local GAAP and IFRS are reported)
- This allows measurement of performance for adoption year using both original local GAAP and new IFRS

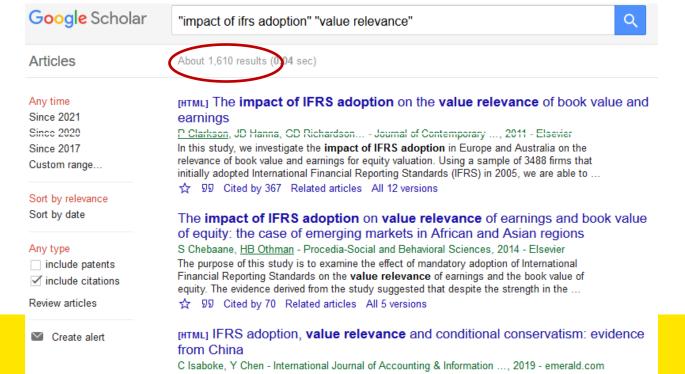
### Why look at value-relevance?

- Value-relevance of aggregate book value and earnings is a natural place to look for the impact of IFRS adoption given the paramount role of equity valuation in the IFRS conceptual framework
- Earnings and book value can be viewed as summary descriptors of value



#### Prior research

- IFRS adoption has been widely studied
- This is good! It's clearly considered important



#### Lots of prior research

- Challenge: how to contribute something to ensure interest beyond the 'country of focus'?
- Consider what makes Saudi Arabia different from other environments, and try to build that into your predictions / tests



## Potential differentiating items

- The financial reporting regime
- Local GAAP similarity to IFRS
- Socio-economic context
- Industry composition of market (especially combined with accounting rule differences) [it would be helpful to see the industry composition of your sample]
- Culture
- Did any of these change around the adoption of IFRS?

These factors will help inform us about the extent to which IFRS adoption might 'matter', and explain variation in the change in value-relevance around adoption



## Methodology

'Standard' linear functional form

$$P_{it} = a_0 + b_1 BVPS_{it} + b_2 EPS_{it} + e_{it}$$

• Coefficients  $b_1$  and  $b_2$  test V-R of book value and earnings,  $R^2$  shows combined V-R

$$\begin{split} P_{it} \\ &= b_0 + b_1 D V_{IFRS} + b_2 E P S_{it}^{IFRS\&Saudi~GAAP} + b_3 B V P S_{it}^{IFRS\&Saudi~GAAP} \\ &+ b_4 E P S_{it}^{IFRS\&Saudi~GAAP} * D V_{IFRS} + b_5 B V P S_{it}^{IFRS\&Saudi~GAAP} * D V_{IFRS} + e_{it} \end{split}$$

 Tests for changes in the the relative value relevance of accounting information in the pre & post periods



## Results

Table·3□

Regression results:

Coefficient on book value is low compared with other countries – worth examining?

Panel A: Pre-and post-IFRS value relevance of accounting information: H1 and H2:

$P_{it} = a_0 + b_1 BVPS_i$	$a_{it} + b_2 EPS_{it} + e_{it}$					
Accounting standards	Year≎	Nα	EPS□	BVPS≎	Adj.·R2·¤	Combined-AdjR²□
Saudi GAAP ∘ -	2015□	110□	5.493□	0.195¤	44.70%¤	41.5%□
			(25.756)**¤	(0.333)¤	45.071**¤	
	2016≎	110□	5.01□	0.323¤	37.10%¤	{78.540}**¤
			(15.448)**¤	(0.765)¤	33.116**□	
IFRS≎ —	2017¤	110□	5.423¤	0.78¤	49.20%¤	50.8%□
			(12.705)**¤	(4.582)*□	53.713**¤	
	2018□	110□	6.728□	0.849□	52.70%□	{114.265}**□
			(40.650)**¤	(13.871)**¤	61.748**¤	

#### Results

 $P_{it} = b_0 + b_1 DV_{IFRS} + b_2 EPS_{it}^{IFRS\&Saudi\;GAAP} + b_3 BVPS_{it}^{IFRS\&Saudi\;GAAP} + b_4 EPS_{it}^{IFRS\&Saudi\;GAAP} * DV_{IFRS}$  $+ b_5 BVPS_{it}^{IFRS\&Saudi\ GAAP} * DV_{IFRS} + e_{it}$ Accounting standards EPS\*DV IFRS BVPS\*DV IFRS Adj. R<sup>2</sup> Year Ν Max. VIF 0.692 0.551 45.70% IFRS and Saudi GAAP 440 2015-2018 1.466 {124.098}\*\* (0.39)(.013)\*

Wald Chi-Square test and F-test value are in (.) and {.} respectively \*and \*\* indicate a significance at the 0.05 and 0.01 level respectively

Change in coefficient on book value is statistically significant – again, worth investigating



#### Other considerations

- Early adopters?
- Descriptive statistics show extreme values for some accounting variables; what happens if you winsorize?
- Scaling is on a per share basis are results robust to alternative scaling methodologies?

# Good luck with the paper!

