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The Impact of Adoption of IFRS 9 on the Value Relevance of Accounting Information for the Companies Listed in ISX

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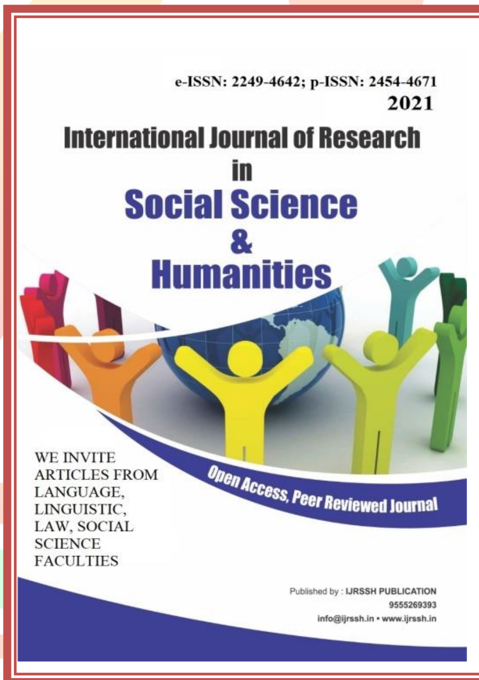

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ABSTRACT

This research aims to know the effect of adopting IFRS 9 on the relevance of the value of the accounting information of the companies in the Iraqi Stock Exchange. Researchers relied on analyzing the financial statements of 10 listed companies for years 2016 – 2019. Researchers used the Ohlson price model to test the relationship between accounting information and value relevance. The research indicated that there is a significant relationship between the adoption of IFRS 9 and the relevance of the value of the earnings and the book value, but the earnings information is more relevance than the book value information, it is due to the interest of investors in the income statement in making investment decisions.

INTRODUCTION

The trend has become towards the establishment of a single set of global standards universality that after the reflextion of the financial crisis that harmed the economies of some countries in 2008 and as a result of the criticism leveled at the International Accounting Standard (39). American & International Boards (FASB & IASB) developed a standard for financial instruments to replace the previous International Accounting Standard IAS (PWC,2014). US and International Boards issued a discussion paper in this regard after financial crisis in March 2008, and the new international standard was divided into three areas: (classification & measurement, expected credit loss, and hedge). A Financial Reporting Standard (9) was issued in its initial form in November 2009 (Holzmann & Munter, 2015; Knežević et al.,2015). It is a paradigm leap in calculating the impairment for financial companies by expected credit loss which is an indicator of retrogradation credit quality (Kund,2018). A standard was issued on July 24, 2014, after that the application of a standard became mandatory on January 1, 2018. Regarding the amendments made conducted according to the previous standard, which is measuring financial assets at fair value through comprehensive income for some debt instruments to eliminate the accounting mismatch (Brito & Júdice,2020). Accordingly, the search problem can be show as follows: does the adoption of IFRSs based on the asset-liability approach especially IFRS 9 impact on the value relevance of the accounting information to companies in Iraq?

Aim of Research

The research aims to research the benefits of applying International Financial Reporting Standards based on the asset-liability approach (standard 9) for the outputs of the accounting system, especially earnings and book value.

Hypothesis of the Research

Based on the foregoing the research hypotheses can be formulated as follows:

1. There are no statistically significant differences in the level of value relevance of the earnings information under adoption International Financial Reporting Standards (IFRS 9) in the Iraqi companies.
2. There are no statistically significant differences in the level of value relevance of the book value information under adoption International Financial Reporting Standards (IFRS 9) in the Iraqi companies.

LITERATURE REVIEW

Based on the International Financial Reporting Standards (IFRS) that depend on the asset-liability approach, financial instruments have been defined " as a contract under which a financial asset for an economic unit and an obligation on it at the same time, or an equity instrument of another entity"(Abu Nassar and Hemeidat, 2016). As defined by the International Accounting Standards Board " as a contract that leads to the rise of a financial asset for an entity and at the same time the occurrence of a financial obligation or an equity instrument of another economic entity" (KPMG,2018)**.** Whereas, the term financial instruments is not limited to off-balance sheet derivative instruments, but as a comprehensive term that covers the full range of financial instruments used, and financial instruments include both traditional instruments (such as deposits, loans, and securities) as well as innovative derivative financial instruments (Gupta,2008). As the new standard purposes to lay down principles for reporting financial assets and liabilities to provide relevant and faithful representation to the users of financial statements that help them in assessing the amounts, uncertainty and timing of future cash flows (Sichirollo,2015). Accordingly, the standard was divided into three stages:

First Stage: Classification and Measurement

The complexity of measurement methods and related rules that caused by previous standards, it must be reduced under IFRS 9 by means of a principles-based approach which defines two primary criteria for classifying financial assets (Huian,2012; Weygandt,2015; Bundesbank,2019):

1. Business model entity for managing financial assets.
2. The characteristics of the contractual cash flow of financial assets.

In other words, that the usefulness of the accounting information provided to the users of the financial statements varies according to the different ways in which the economic entity generates its revenues using its assets Acordingly, accounting standards must take into account the cases in which financial instruments are saved, for example, interest payments gathering that are determined at the conclusion of the contract. According to the above financial assets are measured as follows (PWC,2017; Volarević & Varović:2018):

- Amortised cost.
- Fair value through profit and loss.
- Fair value through other comprehensive income.

Second Stage: Expected Credit Loss Model (ECL)

IFRS 9 adopts a credit risk management model called the (Expected Credit Loss Model) to test whether there has been a substantial increase in the credit risk of a financial asset from the time when its initial recognition(BDO,2019), That is, the company must recognize the expected credit losses for the financial asset measured at amortized cost or at fair value through other comprehensive income (Tong,2014). Accordingly, one of the following approaches is followed to recognize the impairment of a financial asset (Al-Mashhadani and Muhammad:2018; Gaffney & McCann,2018):

- ECL Recognize 12-months: It is the part of the expected credit losses over the life of the financial assets resulting from the default events of the financial asset during a period of 12 months after the date of preparing the financial statements.
- ECL Recognize lifetime: They are the expected credit losses resulting from the possible default events of the financial asset.
- The purchased or originated credit-impaired: The approach of financial assets with low credit value upon purchase or creation differs from the previous approaches in that the financial assets are of low value upon initial recognition, and the credit of the financial asset is considered low when one or more adverse events occur that affect the estimate of the future cash flows of the financial asset.

Third Stage: Hedge Accounting

The IASB/FASB Boards introduced new requirements for hedge accounting within IFRS 9 that represent a major reform of hedge accounting and bring significant improvements. Primarily by harmonization of accounting more closely with risk management, and the purpose of this is to present in the financial statements the activities that affect the economic unit when using financial instruments and that can impact on the earnings. So, hedge accounting helps the unit manage its risks in order to show the impact of foreign exchange risks, interest rates, and the price of a commodity (IFRS,2014).

Value Relevance

The questions that arise in this regard are: whether the International Financial Reporting Standard (9) provides more useful information for the stock markets, and that the information disclosed in the financial statements summarizes the value of the economic unit, and this is called the relevance value. The findings of

Onali & Ginesti indicate that investors have reacted positively to the ongoing accounting reform and are confident in the ability of IFRS 9 to address the problems inherent in the implementation of IAS 39, but differences are expected between countries (Onali & Ginesti,2014).

Robu et al. show, the concept of value relevance (VR) refers to the way in which stock prices are affected based on the information contained in the financial statements, while the relevance of the value of accounting information focuses on modeling the relationship between the market value of the economic unit and accounting and, accordingly, the change in the share price is determined by the accounting information in the statements. Finance (Robu et al.,2016) Thus, value relevance is "the ability of information prepared in accordance with IFRS to represent events that affect the market value of a unit (share price or earnings per share)" (Păşcan, 2015).

Pervan & Bartulović explains that measuring the relevance of value is a synchronized test of both the relevant and the faithful representation of accounting information, since accounting information is the value relevance if it is reflected in the stock price or return. which means that there is no statistical relationship between accounting information and the market value of the unit. it can be concluded that the accounting information is not relevance for value, which means that the financial statements do not meet one of the fundamentals. The objectives of financial reporting, which is to provide investors with relevant and the faithful representation to assess the market value of the shares of an economic unit (Pervan & Bartulović,2014).

RSEEARCH METHODOLOGY

Sample and Data Collection

The research sample included banks that applied the International Financial Reporting Standard (9) as a sample for research, which amounted to (10) banks for the period from 2016 to 2019 after excluding banks that did not apply the standard and banks that did not publish financial statements during the research period, as well as banks that were not available it has trading prices for its shares during the research period, bearing in mind that the research period starts from the year in which the International Financial Reporting Standards were applied in Iraqi banks, meaning that the percentage of banks applying the standard (9) was (24%) of the total banks listed in the Iraq Stock Exchange.

Define variables and measure model

First: The Independent Variable: International Financial Reporting Standard (9) "Financial Instruments"

The researcher adopted in testing the hypotheses of the research in the extent of the application of the companies to the International Financial Reporting Standard (9) through the research survey conducted by the researcher for the financial statements of the banks published in the Iraqi Stock Exchange. The Financial Reporting Standard (9) has been adopted as a dummy variable by placing a value (1) for banks that have applied the International Reporting Standard (9), and a value (0) for banks that do not apply the standard (9).

Second: Dependent Variable: Value Relevance

In measuring the relevance of the value of accounting information for companies, the researcher relied on the research sample in the Iraqi environment and testing hypotheses using the Ohlson price measurement model as in the research (Kwon,2009):

$P_t = b_1+b_2BV_t/S_t + Ɛ_t$

$P_t = b_1+b_2E_t/S_t + Ɛ_t$

Price per share (P_t)

To measure the market value of the shares of banks, the research sample, which reflects the accounting information prepared in accordance with the International Financial Reporting Standard (9) that appears in the financial statements at the end of the financial year for the companies, the average share price (Pit) was calculated through the sum of the opening price at the beginning of the fiscal year and the price of Closing at the end of the year divided by 2.

Earnings per share (E_t)

The formula that earnings per share calculation was made (E_{it}) for banks sample by dividing the net profit after tax on the total number of shares issued.

Book value per share (BV_t)

The book value per share (BV_t) was calculated for the research sample banks based on the total equity of the shareholders divided by the number of issued shares.

Test of Hypotheses

H0: There are no statistically significant differences in the level of value relevance of the earnings information under adoption International Financial Reporting Standards (IFRS 9) in the Iraqi companies.

Table (1) shows the impact of operating earnings per share on the relevance of the value of accounting information

$$P_{it} = \beta_{0\ it} + \beta_1\ E_t/S_t\ + e_{it}$$

Correl.	R^2	Adjusted R^2	value) F(	Sig.
0.466	0.217	0.197	10.543	0.002
Variable	**Reg. coefficient (β)**		**T value**	**Sig.**
E_t/S_t	β_1	3.894	3.247	0.002

Table (1) The impact of earnings per share before IFRS9 on the relevance of the value of accounting information.

Table (2) shows the impact of operating earnings per share on the relevance of the value of accounting information.

$$P_{it} = \beta_{0\ it} + \beta_1\ E_t/S_t + \beta_2 IFRS9 + e_{it}$$

Correl.	R^2	Adjusted R^2	value) F(	Sig.
0.497	0.247	0.206	6.073	0.005
Variable	**Reg. coefficient (β)**		**T value**	**Sig.**
E_t/S_t	β_1	3.738	3.118	0.004
IFRS 9	β_2	-0.089	-1.213	0.233

Table (1) The impact of earnings per share under IFRS9 on the relevance of the value of accounting information.

Table (1) shows the regression test of earnings per share in the market value of the stock in light of the adoption of the International Financial Reporting Standards (IFRS 9) and through the analysis of variance (ANOVA) to test the significance of the regression. of the level of significance (5%), and therefore the relationship between the dependent and independent variable is a positive direct relationship, as it indicates that the independent variable (earnings per share) contributes to (0.247) of the change that occurs in the dependent variable, that is, there is an increase in the explanatory power in light of the adoption of International Financial Reporting Standards (IFRS 9) by (3%) as shown in Table (1). According to the statistical results that have been reached, which indicate the significance of the regression model, the first null hypothesis is rejected and the alternative hypothesis is accepted, that is, there are statistically significant differences in the level of value relevance of earnings information under adoption International Financial Reporting Standards (IFRS 9) in the Iraqi companies.

H0: There are no statistically significant differences in the level of value relevance of the book value information under adoption International Financial Reporting Standards (IFRS 9) in the Iraqi companies.

Table (2) appearances the impact of book value per share on the relevance of the value of accounting information.

$P_{it} = \beta_{0\,it} + \beta_1\, BV_t/S_t + e_{it}$				
Correl.	**R^2**	**Adjusted R^2**	**value) F(**	**Sig.**
0.345	0.119	0.096	5.149	0.029
Variable		**Reg. coefficient (β)**	**T value**	**Sig.**
BV_t/S_t	β_1	1.249	2.269	0.029

Table (2) The impact of the book value per share before IFRS9 on the relevance of the value of accounting information.

Table (2) appearances the impact of book value per share on the relevance of the value of accounting information.

$$P_{it}= \beta_{0\ it} + \beta_1\ BV_t/S_t + \beta_2 IFRS9 + e_{it}$$

Correl.	R^2	Adjusted R^2	value) F(	Sig.
0.375	0.140	0.094	3.024	0.0061

Variable		Reg. coefficient (β)	T value	Sig.
BV_t/S_t	β_1	1.123	1.982	0.055
IFRS 9	β_2	-0.076	-0.954	0.346

Table (2) The impact of the book value per share under IFRS9 on the relevance of the value of accounting information.

Table (2) shows the regression significance test of the book value of the share in the market value of the share in light of the adoption of International Financial Reporting Standards (IFRS 9) and through analysis of variance (ANOVA) to test the regression morale, the value of (F) was (3.024) at the level of significance (0.061), which is close to the level of the required morale (5%), meaning that the regression is significant, and therefore there is a relationship between the book value and the market value of the share, and the coefficient of determination (R^2) indicates that the independent variable (the book value of the share) contributes to (0.140) of the change in the dependent variable (the market value of the stock), We note that the explanatory power increased in light of the adoption of the International Financial Reporting Standards (IFRS 9) by (3%) as shown in Table (2). According to the statistical results that have been reached, which indicate the significance of the regression model, the second null hypothesis is rejected and the alternative hypothesis is accepted, that is, there are statistically significant differences in the level of value relevance of the book value information under adoption International Financial Reporting Standards (IFRS 9) in the Iraqi companies.

CONCLUSION

The adoption of international financial reporting standards is one of the challenges facing the accounting profession in Iraq. Therefore, the purpose of this research is to measure the impact of the application of IFRS 9 on the relevance of the value of accounting information for companies listed in the Iraq Stock Exchange. The research found that the profit and book value information is relevance to the value, but the profit information is more relevance than the book value information the significance of the relationship was less than 5%, which is confirmed by the coefficient of determination of (0.247) which means that any increase in earnings leads to an increase in the share price by an amount (3.738) and this means that investors focus on the income statement by making their investment decisions.

There are several determinants most important of which is the research sample, which was represented in the companies applying Standard 9 in the Iraqi Stock Exchange. The researchers used two accounting information: earnings and book value. In the future, researchers may find the impact of IFRS 9 in relation to value in other measures such as cash flow.

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