

# The Relevance of Financial Information to Investors since the Implementation of International Financial Reporting Standards: Evidence from the Financial Firms in Taiwan

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## Abstract

Following the trend of capital market globalization, many countries have begun to use unified accounting standards. The resulting, financial statements are consistent and can thus attract foreign investment, and reduce the costs of multinational companies with regard to preparing financial statements. After the implementation of the International Financial Reporting Standards (IFRS), the earnings and book value of the shareholders' equity are more relevant to stock prices, and this is also the case in Taiwan. Because the financial statements are different before and after incorporating IFRS, this has had a significant influence in the Taiwanese financial industry. This study analyzes and explains the impacts of the earnings and book value of equity on stock prices. We take a sample of financial firms in the years 2012 and 2013 for empirical research, and the results show that the earnings per share and book value of equity have a positive and significant impact on stock prices, with the earnings per share being most significant. The results also support the hypothesis proposed in this paper: There is a decline in the value relevance of earnings, but an increase in the value relevance of book value of shareholders' equity, after implementation of IFRS. This implies the implementation of IFRS has valuable relevant information for capital market investments.

**Keywords:** IFRS, Earnings, Book Value of Equity

## 1. Introduction

In response to the era of globalization, the Accounting Research and Development Foundation in Taiwan recently applied the International Financial Reporting Standards (IFRS) to related financial accounting standards bulletins. These international financial reporting guidelines have become the global capital market guidelines, and the use of IFRS is now a trend in international capital markets. The majority of countries around the world have this asked or plan to require local companies to use international financial reporting guidelines for the preparation of financial reports. Taiwan has thus also begun a series of projects to promote the IFRS in order to comply with international standards. Once the IFRS system is used, this not only changes in the accounting subjects, but also affects the related company processes and systems. IFRS is aimed at strengthening the comparability of financial reports between domestic and international enterprises, and enhancing the international competitiveness of capital markets. It is also intended to attract foreign countries to invest in domestic capital markets and reduce the cost of raising overseas capital, and thus Taiwanese firms need to use the IFRS as soon as possible to prepare their financial reports.

Researches into the quality of financial reports after the use of IFRS do not have consistent conclusions. Barth, Landsman, and Lang (2008) found that the use of IFRS improves the quality of accounting. Defond, Hu, Hung, and Li (2011) found an increase in the comparability of financial statements after the use of IFRS. Landsman, Maydew, and Thornock (2012) indicated that the postponement of earnings declarations is now declining, the numbers of analyst followers and foreign investments are increasing, and the information content of earnings declarations is also rising after the use of IFRS. In contrast, some studies have found that the quality of financial reports declines after the use of IFRS, such as Ahmed, Neel, and Wang (2013), Kaymaz and Karaibrahimoglu (2011) and so on. The findings of Ball (2006) suggested that the use of harmonized guidelines does not harmonize the quality of financial reports, and that the differences in institutional, technical, legal, cultural, and economic factors in different countries can have different effects with regard to IFRS.

The main spirit of IFRS reflects the market value. If we rush to use IFRS, it will directly affect the profit and loss changes of the firm, and result in serious fluctuations in performance in terms of profit, loss and earnings per share. The financial and insurance industry is considered to be the most influential industry, and IFRS is quite different from the current Generally Accepted Accounting Principles (GAAP). Because the banks and insurance industry hold huge amounts of financial assets, the financial industry has always been a high degree of concern in the wider economy. The effects of financial transactions in the financial industry are also very large, such as those involving bonds with conditional trading, securities trading, liquidation of debt, call or put options, and so on. We must thus consider how the IFRS impacts this industry.

This paper examines the impact of the earnings and book value of equity on stock prices before and after the implementation of IFRS. Most countries around the world have requested or plan to require local companies to directly prepare financial reports based on IFRS, and Taiwan has implemented IFRS since 2013, with the financial and insurance industry seeing the most significant impacts of this. In order to investigate the differences in this context, we use the financial, stock and event research database of Taiwan Economic News (TEJ) to find out the financial information of the financial industry before and after the implementation of IFRS in 2012 and 2013. We also apply statistical analysis software to analyze and discuss the related issues.

## 2. Literature

### 2.1 *The Information Content of Financial Statements after Adopting IFRS*

Barth, Landsman, and Lang (2008) examined whether application of International Accounting Standards (IAS) is associated with higher accounting quality. They found that firms applying IAS from 21 countries generally showed evidence of less earnings management, more timely loss recognition, and more value relevance of accounting amounts than a matched sample of firms applying non-U.S. domestic standards. Daske, Hail, Leuz, and Verdi (2008) examined the economic consequences of mandatory IFRS reporting around the world. They analyzed the effects on market liquidity, cost of capital, and Tobin's  $q$  in 26 countries using a large sample of firms that were mandated to adopt IFRS. They found that, on average, market liquidity increases around the time of the introduction of IFRS. They also found that the capital-market benefits occur only in countries where firms have incentives to be transparent and where legal enforcement is strong, underscoring the central importance of firms' reporting incentives and countries' enforcement regimes for the quality of financial reporting. Comparing mandatory and voluntary adopters, they found that the capital market effects are most pronounced for firms that voluntarily switch to IFRS, both in the year when they switch and again later, when IFRS became mandatory. While the former result is likely due to self-selection, the latter cautions us to attribute the capital-market effects for mandatory adopters solely or even primarily to the IFRS mandate. Li (2010) examined whether the mandatory adoption of IFRS in the European Union (EU) in 2005 reduced the cost of equity capital. Using a sample of 6,456 firm-year observations of 1,084 EU firms during the 1995 to 2006 period, he found evidence that, on average, the IFRS mandate significantly reduced the cost of equity for mandatory adopters. He also found that this reduction is present only in countries with strong legal enforcement, and that increased disclosure and enhanced information comparability are two mechanisms behind the cost of equity reduction. His findings suggested that while mandatory IFRS adoption significantly lowers firms' cost of equity, the effects depend on the strength of the countries' legal enforcement. Defond, Hu, Hung, and Li (2011) examined changes in foreign mutual fund investment in firms following mandatory IFRS adoption in the EU in 2005. They measured improved comparability as a credible increase in uniformity, defined as a large increase in the number of industry peers using the same accounting standards in countries with credible implementation. Consistent with this assertion, they found that foreign mutual fund ownership increases when mandatory IFRS adoption leads to improved comparability. Barth, Landsman, Lang, and Williams (2012) examined whether application of International Financial Reporting Standards (IFRS) by non-US firms results in accounting amounts comparable to those resulting from application of US GAAP by US firms. They found that IFRS firms have greater accounting system and value relevance comparability with US firms when IFRS firms applied IFRS than when they used domestic standards. Comparability is greater for firms that adopt IFRS mandatorily, firms in common law and high enforcement countries, and in more recent years. Earnings smoothing, accrual quality, and timeliness are potential sources of the greater comparability.

### 2.2 *The Quality of Financial Statements after Adopting IFRS*

Ball (2006) indicated that the pros and cons of IFRS are somewhat conjectural, the unbridled enthusiasm of allegedly altruistic proponents notwithstanding. On the pro side of the ledger, he concluded that extraordinary success has been achieved in developing a comprehensive set of high quality IFRS standards, in persuading almost 100 countries to adopt them, and in obtaining convergence in standards with important non-adopters (notably, the U.S.). On the con

side, he envisaged problems with the current fascination of the IASB (and the FASB) with fair value accounting. A deeper concern is that there will inevitably be substantial differences among countries in the implementation of IFRS, which now risk being concealed by a veneer of uniformity. Overall, the notion that uniform standards alone will produce uniform financial reporting seems naive.

Kaymaz and Karaibrahimoglu (2011) indicted that at the formulation of IFRS by IASB there were expectations of enhanced usefulness of accounting reports to capital markets. The actual attainment of this objective is, however, dependent on the legal and institutional framework related to financial disclosures which when weak, the achievement of this objective may not be guaranteed. As a result, the IASB should have in place measures to ensure nations with weak enforcement of laws can get help to improve IFRS enforcement, so as to reap the maximum benefits of adoption. Further, nations should include IFRS into their laws in order to make it mandatory for firms to adopt this system.

Landsman, Maydew, and Thornock (2012) examined whether the information content of earnings announcements – abnormal return volatility and abnormal trading volume – increases in countries following mandatory IFRS adoption, and the conditions and mechanisms through which such increases occur. Their findings suggested that information content increased in 16 countries that mandated adoption of IFRS relative to 11 that maintained domestic accounting standards, although the effects of mandatory IFRS adoption depend on the strength of legal enforcement in the adopting country. Utilizing a path analysis methodology, they also found evidence of three mechanisms through which IFRS adoption increases information content: reducing reporting lag, increasing analyst following, and increasing foreign investment.

Ahmed, Neel, and Wang (2013) provided evidence on the preliminary effects of mandatory adoption of IFRS on accounting quality for a relatively broad set of firms from 20 countries that adopted IFRS in 2005, relative to a benchmark group of firms from countries that did not adopt IFRS, matched on the strength of legal enforcement, industry, size, book-to-market, and accounting performance. Relative to these benchmark firms, they found that IFRS firms exhibit significant increases in income smoothing and aggressive reporting of accruals, and a significant decrease in the timeliness of loss recognition. However, they did not find significant differences across IFRS and benchmark firms in meeting or beating earnings targets. Their findings contrasted with those in earlier studies which suggest that IFRS adoption leads to increased accounting quality. Their findings primarily hold for firms in strong enforcement countries, which suggests that enforcement mechanisms in these were not able to counter the initial effects of greater flexibility in IFRS relative to domestic GAAP.

Summarizing the above results, it is found that there have been no consistent findings on the quality of financial statements after the implementation of IFRS. Therefore, this study attempts to compare the value relevance of the financial statements information before and after the implementation of IFRS.

### **3. Methodology**

#### *3.1 Research Hypothesis*

With regard to the stock market responses to the adoption of IFRS, many studies have shown that when a country implements strong enforcement of the law and a firm has a positive motive to use IFRS, it will generate greater economic benefits after adopting this system. Moreover, some studies have found that only in those countries where enforcement is strong is the cost of capital significantly reduced after IFRS is adopted.

In the first phase of complying with IFRS in Taiwan in 2012, there were significant differences between the existing accounting policies and those that would be used to prepare the consolidated financial statements in compliance with IFRS. These differences may have had an impact on key items in financial statements, including the statement of financial position and comprehensive income statement after IFRS is applied. These differences would also have an influence on the relative importance of earnings and the book value of equity information in shareholders' evaluation, as directly reflected in the amount of financial statements. If this impacts the market expectations of investors, then it will lead to changes in stock prices.

Horton and Serafeim (2010) tested the value relevance of the stock market complying with IFRS in the UK by examining 85 listed companies in the London Financial Times Stock Exchange 350 Index (FTSE 350 Index) in 2005. They found that there is value relevance between the earnings and stock prices after IFRS was adopted in the UK. Rises in stock prices were related to the surplus amount of earnings, and earnings were both more valuable and relevant after complying with IFRS. However, Olson (1995), Ou and Sepe (2002), Marquardt and Wiedman (2004), and Whelan and McNamara (2004) argued that investor dependence on the surplus amount of earnings information is become weaker in their stock evaluations, and the implementation of IFRS results in a decline in the value of

earnings information. Therefore, this study attempts to investigate the relationship between the book value of equity and the stock evaluations of investors, and examines if the implementation of IFRS will result in an increase in the value of equity book value in stock evaluations.

Francis and Schipper (1999) explored whether the financial statements of US-listed companies were losing their value relevance from 1952 to 1994. Their empirical results show that the ability of earnings to explain stock returns had declined year by year, but the value relevance of the accounting information provided by the balance sheet increased over the same period. Therefore, this study attempts to explore the earnings, book value of shareholders' equity, and the incremental explanatory power of stock prices through the differences in the adjusted information after implementation of IFRS in Taiwan.

This study uses the earnings, book value of shareholders' equity, and stock prices information for testing. The main reason is that the current earnings will affect the predictability of future earnings, and the difference in shareholders' equity adjustment can represent a more complete observation of the difference between GAAP and IFRS, and better reflect the true value of the company's equity. This study also analyzes the impact of the stock price after the adoption of IFRS and has the following research hypothesis:

There is a decline in the value relevance of earnings, but an increase in the value relevance of book value of shareholders' equity after implementation of IFRS.

### 3.2 Samples and Sources

This study intends to discuss the accounting policies used by the financial industry in accordance with the current accounting policies and the IFRS 9 financial standards, and the difference between the earnings, the shareholders' equity, and stock prices shown in the financial reports. The IFRS 9 was formally introduced in 2013 in Taiwan. In order to understand the impact of IFRS 9 on the earnings, the shareholders' equity, and the incremental explanatory power of share prices, this study thus takes 2013 as a sample year and the previous year as a comparison. Therefore, our empirical data was obtained in 2012 and 2013, with a total of 32 financial industry firms as the study, as shown in Table 1. The main sources of this research data are the following: (1) the financial reports of the public information database; and (2) the Taiwan Economic News (TEJ) financial, stock and event research database.

Table 1. The Sample Companies

Code	Financial Firm Name	Code	Financial Firm Name
2801	Chang Hwa Commercial Bank, Ltd.	2852	The First Insurance Co., Ltd.
2809	King's Town Bank	2867	Mercuries Life Insurance Co., Ltd.
2812	Taichung Commercial Bank, Ltd.	2880	Hua Nan Financial Holdings Co., Ltd.
2816	Union Insurance Co., Ltd.	2881	Fubon Financial Holding Co., Ltd.
2820	China Bills Finance Co.	2882	Cathay Financial Holding Co., Ltd.
2823	China Life Insurance Co., Ltd.	2883	China Development Financial Holding Co.
2832	Taiwan Fire and Marine Insurance Co., Ltd.	2884	E. Sun Financial Holding Co., Ltd.
2833	Taiwan Life Insurance Co., Ltd.	2885	Yuanta Financial Holdings Co., Ltd.
2834	Taiwan Business Bank	2886	Mega Financial Holding Co., Ltd.
2836	Bank of Kaohsiung, Ltd.	2887	Taishin Financial Holding Co., Ltd.
2838	Union Bank of Taiwan	2888	Shin Kong Financial Holding Co., Ltd.
2845	Far Eastern International Bank	2889	Waterland Financial Holdings Co., Ltd.
2847	Ta Chong Bank	2890	Sinopac Financial Holdings Co., Ltd.
2849	En Tie Commercial Bank, Ltd.	2891	CTBC Financial Holding Co., Ltd.
2850	Shinkong Insurance Co., Ltd.	2892	First Financial Holding Co., Ltd.
2851	Central Reinsurance Co.	5880	Taiwan Cooperative Financial Holding Co., Ltd.

### 3.3 Empirical Model and Variables

We divide the sample into before and after the implementation of IFRS 9. The pre-implementation sample is the data for 2012, and after-implementation sample is that for 2013. The following model (1) is the regression analysis.

$$\text{Model (1): } P_{jt} = \beta_0 + \beta_1 \text{EPS}_{jt} + \beta_2 \text{BV}_{jt} + \epsilon_{jt}$$

Where:

$P_{jt}$ : The price of the common stock per share in company  $j$  at the end of the fourth month after the end of the fiscal year  $t$ . Research often uses the stock price at the end of the third month after the end of the fiscal year as a measure of the stock price. However, Article 36 of the Taiwan Securities Exchange Act takes the end of the fourth month after the end of the fiscal year as the deadline for uploading the annual report information to the Taiwan Stock Exchange's public information database. Therefore, we take the common stock price per share at the end of the fourth month after the end of the fiscal year to carry out empirical tests.

$\text{EPS}_{jt}$ : The common stock earnings per share of company  $j$  in  $t$ -year. According to the Ohlson (1995) model, the expected symbol of this variable is positive.

$\text{BV}_{jt}$ : The book value of equity in company  $j$  at the end of  $t$ -year. According to the Ohlson (1995) model, the expected symbol of this variable is positive.

$\epsilon_{jt}$ : The residual items in the model of company  $j$  in  $t$ -year.

In order to detect the impact of IFRS 9 on the value relevance of the earnings and the book value of equity, the overall explanatory power of the module (1) is disassembled into the incremental explanatory power of the earnings and the incremental explanatory power of the book value of equity. The data for 2012 represents the sample before the implementation of IFRS 9, and that for 2013 represents the sample after the implementation. We compare the incremental explanatory power of the earnings and the book value of equity of this two sample groups to test the hypothesis of this study. In order to calculate the incremental explanatory power of the earnings and the book value of equity, the second and third models are as follows:

$$\text{Model (2): } P_{jt} = \beta_0 + \beta_1 \text{EPS}_{jt} + \epsilon_{jt}$$

$$\text{Model (3): } P_{jt} = \beta_0 + \beta_1 \text{BV}_{jt} + \epsilon_{jt}$$

## 4. Empirical Results

### 4.1 Descriptive Statistics

The descriptive statistics of this study are summarized in Table 2, where Panel A is the descriptive statistics for each variable of all samples, and Panel B is the sample mean test of before and after the implementation of IFRS 9. From Panel A of Table 2, the average stock price per share is 17.4791, and the average earnings per share is 1.5028. The average book value per share is 7.6507, the average debt ratio is 0.8855, the average firm size is 8.7083, and the average return on equity is 9.7473. From Panel B of Table 2, the average share price, the average earnings per share, the average book value per share, and the average firm size for the sample companies in 2013 is significantly higher than that in 2012, but the average debt ratio and the average return on equity are not significantly different in these two years. The results of the mean of samples before and after the implementation of IFRS 9 show that the major variables of these two samples have significant differences in the mean values.

Table 2. The Descriptive Statistics of Variables

Panel A: All Sample (N=64)				
	Mean	Standard Deviation	Minimum	Maximum
P	17.4791	8.0975	8.16	42.6
EPS	1.5028	0.752	0.39	3.53
BV	7.6507	0.5675	6.3343	8.5792
LEV	0.8855	0.0988	0.5779	0.9711
SIZE	8.7083	0.741	7.1239	9.7908
ROE	9.7473	3.8093	3.21	19.47

Panel B: The mean tests of the sample before and after the implementation of IFRS 9

	Sample in 2013	Sample in 2012	Difference of Mean	t-value
P	17.4831	17.4750	0.0081	0.027***
EPS	1.5481	1.4575	0.0906	1.007*
BV	7.6684	7.6330	0.0353	3.872**
LEV	0.8847	0.8862	-0.0015	-0.421
SIZE	8.7255	8.6912	0.0344	7.778**
ROE	9.7134	9.7813	-0.0678	-0.125

Notes:

- a. The definitions of variables: P is the closing price per share at the end of the fourth month after the end of the fiscal year; EPS is the earnings per share of the fiscal year; BV is the book value of equity per share at the end of the fiscal year; LEV: the debt ratio, which is the total liabilities divided by the total assets at the end of the fiscal year; LOSS: A dummy variable that takes on the value of one or zero. One means the earnings is negative, while zero means it is not.
- b. \*\*\*, \*\*, \* represent significance levels of 1%, 5% and 10%, respectively.

#### 4.2 Empirical Results of Models

This study focuses on the impact of earnings per share (EPS) and the book value of the shareholders' equity (BV) on the stock price (P) before and after the implementation of IFRS 9. At the beginning, we provide the model (1):  $P_{jt} = \beta_0 + \beta_1 EPS_{jt} + \beta_2 BV_{jt} + \epsilon_{jt}$  and list the empirical results of the sample in Table 3. In Panel A of Table 3, the data is from 2012, and the adjusted R-square is 0.632. The earnings per share are significantly positive at a 1% significance level, and thus there is evidence that the earnings per share and the stock price have a positive relationship. Shareholders' equity per share is significantly positive at the 1% significance level, showing evidence that the shareholders' equity per share and the stock price have a positive relationship. The data from 2013 is listed in Panel B of Table 3, and it can be seen that the adjusted R-square is 0.588, with the empirical results similar to those in Panel A of Table 3.

Table 3. The Empirical Results of Model 1

	Adjusted R-square	t-value	p-value
Panel A: Sample Year = 2012			
EPS	0.632	7.115	0.000
BV		3.096	0.004
Panel B: Sample Year = 2013			
EPS	0.588	6.576	0.000
BV		2.572	0.015

Notes:

- a. Model (1):  $P_{jt} = \beta_0 + \beta_1 EPS_{jt} + \beta_2 BV_{jt} + \epsilon_{jt}$
- b. The definitions of variables: P is the closing price per share at the end of the fourth month after the end of the fiscal year; EPS is the earnings per share of the fiscal year; BV is the book value of equity per share at the end of the fiscal year.

Table 4 shows the empirical results of model (2):  $P_{jt} = \beta_0 + \beta_1 EPS_{jt} + \epsilon_{jt}$ . In Panel A of Table 4, the data is from 2012, and the adjusted R-square is 0.526. The earnings per share are significantly positive at the 1% significance level; that is, there is evidence that the earnings per share and the stock price have a positive relationship. The data

from 2013 is listed in Panel B of Table 4. From Panel B of Table 4, and it can be seen that the adjusted R-square is 0.51, and thus empirical results are similar to those in Panel A of Table 4.

Table 4. The Empirical Results of Model 2

	Adjusted R-square	t-value	p-value
Panel A: Sample Year = 2012			
EPS	0.526	5.951	0.000
Panel B: Sample Year = 2013			
EPS	0.510	5.771	0.000

Notes:

- Model (2):  $P_{jt} = \beta_0 + \beta_1 \text{EPS}_{jt} + \epsilon_{jt}$
- The definitions of variables: P is the closing price per share at the end of the fourth month after the end of the fiscal year; EPS is the earnings per share of the fiscal year.

Table 5 shows the empirical results of Model (3):  $P_{jt} = \beta_0 + \beta_1 \text{BV}_{jt} + \epsilon_{jt}$ . In Panel A of Table 5, the data is from 2012, and the adjusted R-square is 0.022. Shareholders' equity per share is not significantly positive, that is, there is no evidence that the shareholders' equity per share and the stock price have a positive relationship. The data from 2013 is listed in Panel B of Table 5. From Panel B of Table 5, the adjusted R-square is 0.007, and the empirical results are similar to those in Panel A of Table 5.

Table 5. The Empirical Results of Model 3

	Adjusted R-square	t-value	p-value
Panel A: Sample Year = 2012			
BV	0.022	1.305	0.202
Panel B: Sample Year = 2013			
BV	0.007	1.100	0.280

Notes:

- Model (3):  $P_{jt} = \beta_0 + \beta_1 \text{BV}_{jt} + \epsilon_{jt}$
- The definitions of variables: P is the closing price per share at the end of the fourth month after the end of the fiscal year; BV is the book value of equity per share at the end of the fiscal year.

Summarizing the above information, the empirical results of Model 1 imply that the earnings per share and book value of shareholder's equity per share have significant and positive impacts on stock prices. The empirical results of Model 2 also imply that earnings per share have a significant and positive impact on stock prices. However, the empirical results of Model 3 imply the book value of shareholder's equity does not have a significant impact on stock prices. This means that the earnings per share and book value of equity per share are both significant only when they are present at the same time. The earnings per share on its own can affect stock prices significantly and positively. However, the book value of equity cannot alone affect stock prices on its own and without the earnings per share. That is, the earnings per share has value relevance for stock prices, but the book value of shareholder's equity does not unless it is used with earnings per share.

Panel A of Table 6 shows the incremental explanatory power of the earnings per share and the book value of shareholder's equity before and after implementation of IFRS 9 in 2012 and 2013. From Panel A of Table 6, the incremental explanatory power of EPS ( $R^2$ ) in 2013 increases 0.526, which is lower than that in 2012 ( $R^2=0.541$ ). The incremental explanatory power of BV ( $R^2$ ) in 2013 increases 0.054, which is higher than that in 2012 ( $R^2=0.039$ ). This supports the view that earnings declines in incremental value relevance, while also supporting the view that the book value of shareholder's equity has greater incremental value relevance after the implementation of IFRS 9.

Panel B of Table 6 shows the comparison of value relevance of EPS and BV in 2012 and 2013. The value relevance of EPS in 2013 is 4.876, which is lower than that in 2012 (9.018). However, the value relevance of BV in 2013 is 0.015, which is higher than that in 2012 (0.004). This supports the hypothesis that there is a decline in the value relevance of earnings after the implementation of IFRS, but an increase in the value relevance of the book value of shareholders' equity.

Table 6. The Incremental Explanatory Power of EPS and BV after the Implementation of IFRS 9

Panel A: The Decomposition of Incremental Adjusted R-square			
	R <sup>2</sup> in Model (1)	R <sup>2</sup> in Model (2)	R <sup>2</sup> in Model (3)
Year=2012	0.632	0.526	0.022
Year=2013	0.588	0.510	0.007
	Incremental R <sup>2</sup> in EPS	Incremental R <sup>2</sup> in BV	
Year=2012	0.541	0.039	
Year=2013	0.526	0.054	
Panel B: The Comparison of the Value Relevance of EPS and BV in Model (1)			
	$\beta_1$ (EPS)	$\beta_2$ (BV)	F
Year=2012	9.018*** (7.115)	0.004*** (3.096)	27.567***
Year=2013	4.876*** (6.576)	0.015** (2.572)	23.080***

Notes:

- The definitions of variables: P is the closing price per share at the end of the fourth month after the end of the fiscal year; EPS is the earnings per share of the fiscal year; BV is the book value of equity per share at the end of the fiscal year.
- In Panel B, the t-value is in parentheses and the intercept term of the Model (1) is omitted.
- \*\*\*, \*\*, \* represent significance levels of 1%, 5% and 10%, respectively.

## 5. Conclusions

Most countries have already formally adopted IFRS and thus require firms to prepare their financial statements according to these standards. Since 2013, the Taiwanese government has also required the financial statements of publicly listed companies on the stock exchange market, over-the-counter market, and emerging market, as well as those of financial institutions governed by Financial Supervisory Commission, to be prepared according to IFRS. As the financial statements are given to different users with varied interests, the earnings and book value of shareholders' equity have different value relevance on stock prices. After the implementation of IFRS, there is a significant change in the financial industry in Taiwan with regard to such issues.

The empirical hypothesis of this paper explores the changes in stock prices before and after the implementation of IFRS. After a series of empirical analysis, we found that the earnings and the book value of shareholders' equity have a considerable influence on the stock prices. After the implementation of IFRS, the average stock price, average earnings per share, and average book value of equity per share are higher than before. The results show that the main variables of the sample before and after the implementation of IFRS have a significant difference. The hypothesis of this study is that there is a decline in the value relevance of earnings, but an increase in the value relevance of book value of shareholders' equity, after implementation of IFRS, and this is supported by the empirical evidence.

This study is rigorous in its research process, but there are still some limitations. First, this study is based on Taiwan, but each country or region has its own economic differences. The results of this study can thus only apply to the majority of the financial industry in Taiwan, and their application to other regions should be investigated in future

works. Second, this study is limited by time and cost factors, and applies a cross-sectional approach which used only one point in time for data collection. Therefore, the proposed model can only explain the variables at a particular time, and cannot observe the variables over time. We thus recommend that future researchers conduct long-term observations of the same sample to better understand the process from initial adoption to the influence of the succeeding financial statements. Finally, this study focused on the key items of the earnings and book value of the shareholders' equity, but did not discuss any other financial variables. We recommend that future researchers can also look at the influence of the other financial variables, and thus achieve a more comprehensive understanding of the influence of adopting IFRS.

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