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Meta Synthesis of the International Financial Reporting Standards (IFRS) Adoption Effects on Capital Market Variables [1]

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Research Paper

INTRODUCTION

Over the last years, several streams of accounting research, using a variety of research metrics to measure the economic consequences of IFRS adoption (or convergence), provide evidence regarding the positive impacts of IFRS adoption such as enhanced accounting quality. The impact of IFRS adoption on financial statements and financial ratios has received considerable research interest in recent years. However, these studies reached mixed results. In light of these mixed results, this study aims to examine the impact of IFRS adoption on the financial performance measures of listed companies in the Stock Exchange. More specifically, the study aims to examine the impact of IFRS adoption on capital market variables through a meta-synthesis study, which leads to the creation of a consensus via the qualitative analysis of previous research outcomes. This qualitative research, while examining the literature on IFRS adoption and the variables of the capital market affected by it, presents a comprehensive framework of its dimensions and elements, which were not examined in previous studies. Hence, it is considered a research contribution.

MATERIALS AND METHODS

In this meta-synthesis research, a qualitative systematic review inspired by the approach introduced by Sandelowski and Barroso (2007) was followed:

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First step: In the most basic step, the main research question should be identified. Thus, the researchers articulated their question as follows: which of the capital market variables are affected by IFRS adoption?

Second step: At the beginning of this step, important keywords related to the field of study were identified. Then, a systematic review of the search results was carried out to select relevant and suitable research. The statistical population of this research includes Persian and English scientific studies published from 2007 to 2023 (September) in the field of the effects of IFRS adoption on the capital market. The largest databases and relevant top publications were searched using keywords. At the end of this process, 1187 resulting studies were screened to match the content.

The third step: In this step, among the research of the previous step, finally, 109 selected studies were subjected to more precise and more detailed analyses after going through several stages of the selection and evaluation process based on the title, abstract, and content, to enter the analysis and content extraction stage.

Fourth step: After the final selection of the research, in this stage, it was time to carefully study the internal content of the 109 selected articles.

Fifth step: After implementing the previous step, during this step, to create a link between open codes, similar codes that had the same meaning were classified as central codes. Eventually, at the end of this step, 81 concepts were extracted through the classification of codes, 18 sub-categories by grouping concepts, and 6 main dimensions from the organization of sub-categories, to answer the research question.

To maintain quality in this study, research papers were evaluated based on indices such as objectivity, methodology logic, research design, ethical considerations, clear expression of findings, and research value, and only papers that scored high were selected for the next steps in the process.

The sixth step: The studied papers were reviewed and re-encoded by another expert as a second coder.

RESULTS AND DISCUSSION

Open-source codes were juxtaposed, resulting in several concepts. To determine each axial code, the open codes extracted in the first step were examined and those that resembled each other were grouped under the axial code that represented their meaning, i.e., sub-category. Afterward, homogeneous sub-categories were categorized to form dimensions.

In summary, most studies examine the effect of IFRS adoption on information quality and the capital markets, with a predominance of samples that include a large number of countries. The results indicate that, as a general rule, IFRS adoption has a positive effect, but it particularly depends on countries' characteristics (notably enforcement level) and companies' characteristics. Factors different from accounting regulation play a key role in determining financial reporting quality and have led to the application of IFRS, which is not uniform across the world, with consequences on accounting quality both in absolute and relative terms. Empirical findings suggest that cross-country differences in accounting are also likely to remain after IFRS adoption. So, sharing rules is not, by itself, enough to create a common business language. Further, the study observes that the adoption of IFRS results in the following capital market effects:

1. The stock market reacts positively to news that increases the probability of IFRS adoption.
2. The adoption of the IFRS results in the revelation of new information about a firm, therefore reducing the surprise element of the disclosed information in the future.
3. The content of information on earnings announcements improved after the adoption of IFRS, through the reduction of reporting time lags, increase in investments by foreigners, and increased accuracy of analysts' predictions, therefore, improving the quality of accounting.
4. Liquidity of capital markets increased with the adoption of the IFRS, and also the cost of capital reduced with the adoption of IFRS.
5. Mandatory adoption of IFRS leads to improved knowledge of investors and the companies' ability to utilize IFRS, which improves the potential positive effects of IFRS adoption.
6. The relation between IFRS adoption and financial integration is obvious where there is a significant difference in quality between IFRS. liquidity of capital markets increases with the adoption of IFRS, and the cost of capital decreases with the adoption of IFRS and local accounting standards and stronger legal enforcement.
7. IFRS adoption brings macroeconomic benefits to the capital market.
8. The voluntary adoption of IFRS by firms leads to improved transparency through enhanced communication with the investors. This in turn gets appreciated through reductions in the cost of capital and increased following by foreign analysts.
9. The adoption of IFRS reduces accounting practices diversity which helps to facilitate efficient movement of capital.
10. Firms from code law countries experience more significant benefits from implementing IFRS than firms from common law countries.
11. Adopting IFRS increases their value-relevance to investors in countries where local standards deviate more from IFRS.
12. IFRS has a limited effect on financial reporting, due to substantial non-compliance, persistence of national accounting standards of choice, and absence of improvement regarding transparency of outcomes and comparability measurements.

13. The economic consequences of IFRS adoptions depend on the extent to which firms make material changes to their reporting policies or have strong reporting incentives.
14. The capital-market benefits from implementing IFRS exist only in countries with strict enforcement regimes and institutional environments that provide strong reporting incentives.
15. There is a strong influence of the institutional context in the accounting information quality and that's why it's impossible to generalize outcomes regarding voluntary IFRS adoption for its mandatory adoption.
16. One limitation is related to the importance of training staff directly involved in the production of financial information.

Some studies also provide evidence of a null effect of IFRS adoption on information quality and the capital market which may be explained by a greater similarity between local standards and IFRS, when compared to local standards used in many countries.

CONCLUSION

This qualitative research, while examining the literature on IFRS adoption and the variables of the capital market affected by it, presents a comprehensive framework of its dimensions and elements, which did not exist in previous studies, and in this sense, it is considered an innovation. By using the meta-synthesis method, the concepts in the background of the research and 109 studies were examined until reaching theoretical adequacy. Qualitative evidence derived from the review and exploration of the research conducted during the years 2007 to 2023 (September) in the field of IFRS regarding the dimensions and components of the influential capital market under 6 main dimensions, including corporate governance, transparency, decision-making by market participants, quality of financial reporting, international integration of markets, and the stock market, and 18 sub-categories, 81 concepts, and 163 codes were classified. The present review provides comprehensive information regarding the adoption of IFRS to support all capital market players, considering its most important consequences in this field. Researchers, legislators, and decision-makers can benefit from the effects of IFRS adoption in the capital market by referring to the obtained framework.

Keywords: IFRS Adoption, Capital Market, Financial Variables, Economic Implications, Meta-Synthesis.
JEL Classification: M40, M41, M48.