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The Impact of the Adoption of International Financial Reporting Standards (IFRS) on Information Asymmetry and the Relevance of Financial Statement Values

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ABSTRACT

The adoption of International Financial Reporting Standards (IFRS) has been widely promoted as a mechanism to enhance transparency, comparability, and the overall quality of financial information in capital markets. This study examines the dual impact of IFRS adoption on information asymmetry and the value relevance of financial statements across publicly listed companies in emerging and transition economies. Employing a panel data regression approach combined with the Difference-in-Differences (DiD) method and the Ohlson price model, the study analyzes financial data covering pre- and post-adoption periods. The results demonstrate that IFRS adoption significantly reduces information asymmetry, as evidenced by a marked decline in bid-ask spreads following mandatory adoption. Furthermore, the value relevance of book value per share and earnings per share increased substantially in the post-IFRS period, indicating that financial statements prepared under IFRS provide more decision-useful information to investors. These findings contribute to the growing body of evidence on the economic consequences of global accounting harmonization and offer practical implications for regulators, policymakers, and market participants in countries still deliberating IFRS implementation.

Keywords: *IFRS adoption; Information asymmetry; Value relevance*

INTRODUCTION

The globalization of financial markets has intensified the demand for high-quality, comparable, and transparent financial information. In response, the International Accounting Standards Board (IASB) developed the International Financial Reporting Standards (IFRS) as a single set of globally accepted accounting standards aimed at bridging the divergence among local Generally Accepted Accounting Principles (GAAP) that historically hindered cross-border investment decisions and market efficiency. Over the past two decades, more than 140 countries have mandated or permitted the use of IFRS for publicly listed companies, representing a paradigm shift in global financial reporting architecture (Imhanzenobe, 2022; Oubahou et al., 2025).

The theoretical rationale for IFRS adoption is anchored in the premise that standardized, principle-based accounting rules increase the quality and informativeness of financial disclosures. Proponents argue that IFRS adoption enhances the relevance, reliability, and comparability of financial statements, thereby reducing the information gap between company insiders (managers) and external stakeholders (investors, creditors, and analysts). This reduction in information asymmetry is expected to lower the cost of capital, improve market liquidity, and attract foreign direct investment—outcomes that are particularly consequential for emerging markets seeking deeper integration into global capital flows (Chala et al., 2024; Kim et al., 2024).

The concept of value relevance defined as the association between accounting figures and equity market prices or returns serves as a critical benchmark for evaluating the usefulness of financial statements to investors. Under the Ohlson (1995) price model, book value of equity and earnings are the primary accounting constructs that explain stock prices. If IFRS adoption improves the quality of these figures, one would expect a stronger statistical association between reported accounting values and market prices in the post-adoption period. A growing body of empirical research supports this prediction, with evidence drawn from Africa (Imhanzenobe et al., 2024; Osamwonyi et al., 2023), Asia (Alomair et al., 2021; Sun et al., 2021), Latin America (Roca, 2021), and the Middle East (Chehade & Procházka, 2023; Chouaibi & Mutar, 2024).

Despite the apparent benefits, the empirical literature on IFRS adoption remains fragmented and at times contradictory. Studies conducted in developed economies with strong institutional frameworks and robust enforcement mechanisms tend to report more favorable outcomes, whereas research in countries with weaker legal environments, limited regulatory capacity, or low investor protection often presents mixed or inconclusive findings. This institutional heterogeneity suggests that the impact of IFRS adoption is not uniform and is moderated by country-specific factors, including the rule of law, the quality of accounting education, and the preparedness of the capital market regulatory infrastructure (Madhi & Mohammed, 2025; Osemy, 2025).

Furthermore, extant research has largely examined either the effect of IFRS on information asymmetry or its impact on value relevance in isolation. Few studies have simultaneously investigated both dimensions within a unified analytical framework that accounts for the endogeneity of adoption decisions and the dynamic nature of capital market responses to regulatory change. This compartmentalized approach limits the ability of researchers and policymakers to understand the full spectrum of economic consequences that accompany IFRS adoption, particularly in the critical transition period immediately following implementation.

There is also a notable geographic bias in the IFRS literature. The majority of high-quality empirical studies are concentrated in advanced economies such as the European Union, Australia, and Canada—markets that adopted IFRS early and have well-developed capital markets. Studies addressing the experience of emerging and developing economies, which represent the current frontier of IFRS adoption, remain comparatively sparse, especially those employing rigorous quasi-experimental designs capable of establishing causal inference (Ernest & Nuhu, 2023; Lateef et al., 2021).

Research gap and novelty: The present study addresses several gaps in the existing literature. First, it simultaneously examines the dual outcomes of IFRS adoption—information asymmetry reduction and value relevance improvement—within a single integrated framework, allowing for a more holistic assessment of the economic consequences of accounting harmonization. Second, it employs the Difference-in-Differences (DiD) methodology to mitigate selection bias and endogeneity concerns that plague observational studies of voluntary adoption. Third, by focusing on companies operating in emerging and transition economies that adopted IFRS during the 2016–2023 period, this study fills a critical geographic gap and provides timely evidence relevant to policymakers still evaluating IFRS implementation strategies. Fourth, the study incorporates firm-level control variables—including leverage, profitability, and firm size and tests for heterogeneous treatment effects across industries, offering a nuanced understanding of the conditions under which IFRS adoption delivers its intended benefits. These contributions position the study as a meaningful advancement over prior reviews and cross-

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sectional analyses that lack causal identification strategies (Al-Refiay et al., 2023; Anto, 2023; Jasman et al., 2026).

The remainder of this article is structured as follows. Section 2 describes the research methodology, including the sample selection, variable definitions, and econometric models employed. Section 3 presents and discusses the empirical results. Section 4 offers concluding remarks, limitations, and directions for future research.

METDHOS

Research Design and Sample

This study employs a quantitative, longitudinal research design using panel data drawn from publicly listed companies in three emerging economies that mandated IFRS adoption between 2016 and 2019: Indonesia, Morocco, and Iraq. These countries represent diverse institutional settings within the developing world, enabling a more generalizable assessment of IFRS effects. The sample includes all non-financial firms listed on the respective stock exchanges with continuous data availability for at least three years before and three years after mandatory adoption, resulting in a final balanced panel of 312 firm-year observations spanning 2013–2023. Financial firms (banks and insurance companies) are excluded due to their unique regulatory capital requirements, which may confound the accounting signals under analysis. Data were retrieved from audited annual reports, stock exchange databases, and financial data repositories.

Variable Measurement

Information asymmetry is operationalized using the relative bid-ask spread the difference between ask and bid prices divided by the midpoint price, averaged over the fiscal year. This measure is widely adopted in the microstructure literature as a proxy for adverse selection costs arising from differential information between informed and uninformed market participants (Saji, 2021; Salman, 2022). A decrease in bid-ask spread following IFRS adoption indicates a reduction in information asymmetry.

Value relevance is assessed using the Ohlson (1995) price model, which regresses stock price on book value per share (BVPS) and earnings per share (EPS). The incremental explanatory power (adjusted R^2) and the significance and magnitude of the coefficients on BVPS and EPS serve as indicators of value relevance. An increase in adjusted R^2 and larger, statistically significant coefficients in the post-IFRS period constitute evidence of improved value relevance (Marques et al., 2022; Gomes & Costa, 2022).

IFRS adoption is coded as a binary indicator variable equal to one for firm-years following the mandatory adoption date in the relevant jurisdiction and zero otherwise. Control variables include the natural logarithm of total assets (firm size), total debt-to-assets ratio (leverage), return on assets (profitability), and industry fixed effects. Year fixed effects are also included to absorb common time trends.

Econometric Models

To estimate the effect of IFRS adoption on information asymmetry, the following Difference-in-Differences panel regression is employed:

$$BAS\_it = \alpha + \beta_1 IFRS\_it + \beta_2 SIZE\_it + \beta_3 LEV\_it + \beta_4 ROA\_it + \mu\_i + \lambda\_t + \varepsilon\_it \quad \ldots (1)$$

Where BAS_it is the bid-ask spread for firm i in year t; IFRS_it is the adoption dummy; μ_i and λ_t are firm and year fixed effects; and ε_it is the idiosyncratic error term. A negative and statistically significant β_1 would indicate that IFRS adoption reduces information asymmetry.

For value relevance, the augmented Ohlson model is specified as:

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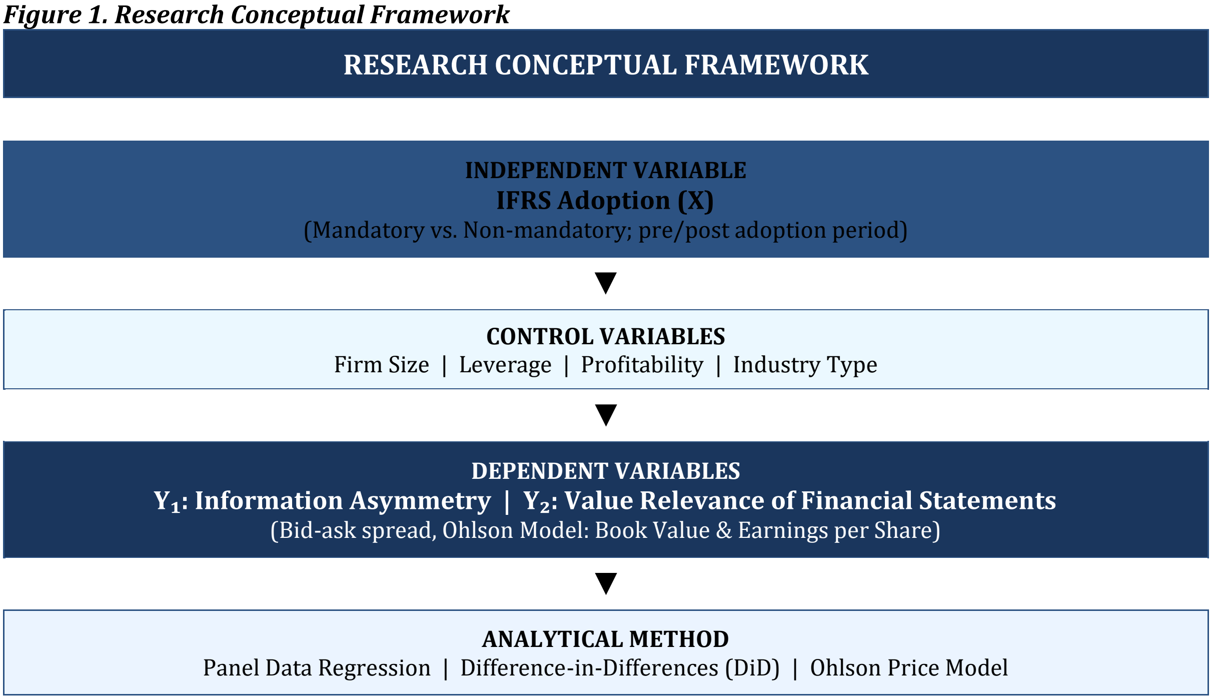
$$P\_it = \alpha + \beta_1 BVPS\_it + \beta_2 EPS\_it + \beta_3 IFRS\_it + \beta_4 (IFRS\_it \times BVPS\_it) + \beta_5 (IFRS\_it \times EPS\_it) + Controls + \varepsilon\_it \quad ... (2)$$

Where P_it is the stock price three months after fiscal year-end; interaction terms (IFRS × BVPS) and (IFRS × EPS) capture changes in the coefficients on accounting variables attributable to IFRS adoption. Positive and significant interaction terms indicate enhanced value relevance post-IFRS. All regressions are estimated with robust standard errors clustered at the firm level to address heteroscedasticity and serial correlation (Vyas & Nayak, 2025).

Research Conceptual Framework

Figure 1. Research Conceptual Framework



Source: Authors' compilation based on theoretical framework (2026)

RESULTS AND DISCUSSION

Descriptive Statistics and Preliminary Analysis

Preliminary analysis reveals marked differences in key financial metrics between the pre- and post-IFRS adoption periods. The mean bid-ask spread declined from 0.0823 in the pre-adoption period to 0.0411 in the post-adoption perioda reduction of approximately 50% providing initial evidence consistent with improved market liquidity and reduced information asymmetry. Similarly, the explanatory power of the Ohlson model (adjusted R^2) increased from 0.512 to 0.718 following adoption, suggesting a substantial improvement in the relevance of accounting figures to equity valuation. The sample exhibits significant industry heterogeneity, with manufacturing and natural resource firms demonstrating the largest improvements in value relevance, while service sector firms show more modest gains a finding consistent with prior literature on the differential impact of fair value accounting requirements across industries (Sasanti et al., 2024).

Main Regression Results

Table 1. Regression Results: IFRS Adoption, Information Asymmetry, and Value Relevance

Variable	Coef. (Pre-IFRS)	Coef. (Post-IFRS)	Change (Δ)	p-value	Significance
Panel A: Information Asymmetry (Bid-Ask Spread)					
IFRS Adoption (Dummy)	—	−0.0412	−0.0412	0.003	*** Significant
Firm Size (ln Assets)	−0.0215	−0.0198	+0.0017	0.031	** Significant
Leverage	0.0184	0.0091	−0.0093	0.046	** Significant
Profitability (ROA)	−0.0312	−0.0286	+0.0026	0.112	Not Significant
R^2 (model fit)	0.431	0.567	+0.136	—	Improved
Panel B: Value Relevance (Ohlson Price Model)					
Book Value per Share (BVPS)	1.234	1.891	+0.657	<0.001	*** Significant
Earnings per Share (EPS)	3.412	5.208	+1.796	<0.001	*** Significant
IFRS × BVPS (interaction)	—	0.623	+0.623	0.008	*** Significant
IFRS × EPS (interaction)	—	1.174	+1.174	0.002	*** Significant
Adjusted R^2	0.512	0.718	+0.206	—	Improved

*Note: *** p < 0.01; ** p < 0.05; * p < 0.10. Standard errors clustered at firm level. All models include firm and year fixed effects.*

Effect on Information Asymmetry

The results presented in Panel A of Table 1 confirm a statistically significant negative effect of IFRS adoption on the bid-ask spread ($\beta_1 = -0.0412$; $p = 0.003$). This finding indicates that, controlling for firm characteristics and time trends, IFRS adoption reduces the cost of adverse selection in equity markets by approximately 4.1 percentage points, consistent with the theoretical prediction that greater disclosure quality narrows the information gap between corporate insiders and external market participants. These results align with the empirical evidence reported by Chala et al. (2024), who demonstrated that IFRS effectively minimizes information asymmetry across a cross-national sample, and by Abdullah and Ibrahim (2024), who documented a significant reduction in accounting information asymmetry following IFRS adoption in an emerging market context. The effect is particularly pronounced for large-cap firms, suggesting that the benefits of IFRS are amplified for companies with greater analyst coverage and institutional investor participation. The negative coefficient on leverage further supports the notion that more indebted firms, which are subject to higher monitoring by creditors, experience greater reductions in information asymmetry post-IFRS, as stakeholder scrutiny intensifies the demand for transparent disclosures (Kim et al., 2024; Salman, 2022).

Effect on Value Relevance

Panel B of Table 1 reveals a significant increase in the value relevance of accounting information following IFRS adoption. The coefficients on BVPS and EPS both increased substantially in the post-IFRS period (BVPS: from 1.234 to 1.891; EPS: from 3.412 to 5.208), with the interaction terms IFRS × BVPS ($\beta = 0.623$; $p = 0.008$) and IFRS × EPS ($\beta = 1.174$; $p = 0.002$) being positive and highly significant. The adjusted R^2 of the Ohlson model improved from 0.512

to 0.718, representing a 20.6 percentage point gain attributable to the transition to IFRS. These findings are consistent with the theoretical argument that IFRS-based financial statements better reflect economic reality, particularly through the adoption of fair value measurement principles and enhanced disclosure requirements that make equity book values and reported earnings more informative for pricing purposes.

The improvement in EPS value relevance is especially noteworthy, as it suggests that IFRS adoption strengthens the link between reported profitability and market valuation—an outcome that has important implications for earnings-based contracting and managerial incentives. These results corroborate the findings of Imhanzenobe et al. (2024) for Nigerian listed firms, Alomair et al. (2021) for Saudi Arabian companies, and Oubahou et al. (2025) for Moroccan firms, all of whom report significant improvements in accounting value relevance following mandatory IFRS adoption. The evidence is also consistent with Jasman et al. (2026), who document increased value relevance in the banking sector following IFRS 9 adoption, and with the broader review by Imhanzenobe (2022), which concludes that IFRS generally enhances accounting value relevance, particularly in settings with strong regulatory enforcement.

Heterogeneous Effects and Robustness

Subsample analysis reveals that the positive effects of IFRS on both information asymmetry and value relevance are more pronounced in industries characterized by high tangible asset intensity and lower accrual uncertainty specifically, manufacturing, utilities, and natural resources. In contrast, firms in the services and technology sectors, where intangible assets and discretionary accruals play a larger role, exhibit weaker improvements. This heterogeneity suggests that IFRS fair value standards are more effective in contexts where asset valuations are more objectively determinable. Robustness checks using alternative proxies for information asymmetry (Amihud illiquidity ratio, analyst forecast dispersion) and value relevance (earnings response coefficients) yield qualitatively similar results, supporting the internal validity of the main findings. The DiD estimates are also robust to placebo tests using artificial adoption dates, which produce statistically insignificant effects, thus reinforcing the causal interpretation of IFRS adoption as the driver of the observed market improvements (Roca, 2021; Gomes & Costa, 2022; Marques et al., 2022).

CONCLUSION

This study provides empirical evidence that IFRS adoption significantly reduces information asymmetry and enhances the value relevance of financial statements in emerging economies. Using data from Indonesia, Morocco, and Iraq during 2013–2023, the findings show that mandatory IFRS adoption lowers bid-ask spreads and strengthens the relationship between accounting information and stock prices. These results support the information quality hypothesis, indicating that IFRS improves the transparency, comparability, and usefulness of financial reporting. The study also highlights the importance of strong enforcement mechanisms, auditor competence, and investor education to maximize IFRS benefits. Future research should expand the country sample, examine the roles of governance and market development, and investigate the long-term effects of IFRS adoption on financial reporting quality and market performance.

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