

THE EFFECTS OF CHANGES IN ACCOUNTING STANDARDS ON LOAN LOSS PROVISIONS (LLP) AS EARNINGS MANAGEMENT DEVICE: EVIDENCE FROM MALAYSIA AND NIGERIA BANKS (PART I)

UGBEDE ONALO¹, MOHD LIZAM² AHMAD KASERI³ AND OTACHE INNOCENT⁴

^{1,2 & 3} FACULTY OF TECHNOLOGY MANAGEMENT, UNIVERSITI TUN HUSSEIN ONN MALAYSIA

⁴SCHOOL OF BUSINESS MANAGEMENT, UNIVERSITI UTARA MALAYSIA

CORRESPONDING AUTHOR DETAILS: ONALO UGBEDE

Accountancy Department, Federal Polytechnic Idah, P.M.B. 1037, Idah, Kogi State, Nigeria (+234)

ugbesonas@yahoo.com, ugbedeonalo@yahoo.com, +60102861259

ABSTRACT

In view of dearth of studies on changes in accounting standards and banks' earnings management particularly in the context of emerging economies, and the recent Malaysia and Nigeria change from their respective local GAAP to IFRS, this study deemed it overwhelming to investigate the effects of the switch on banks' earnings management focusing on LLP as the manipulative device. Particularly, this study investigates both discretionary LLP and LLP earnings management pattern for Malaysia and Nigeria banks. This study also investigates credit quality in the context of different accounting standards. Accordingly, this study employed judgmental sampling to select twenty eight banks- eight Malaysia and twenty Nigeria banks as sample covering period 2008-2013. Findings suggest that DLLP significantly reduce post IFRS adoption for Malaysia and Nigeria banks. Also, earnings management pattern of income minimization significantly declined and credit quality remarkably increased post IFRS adoption. Malaysia and Nigeria banks use LLP to manage reported earnings more prior to IFRS implementation. With results demonstrating that IFRS adoption is associated with lower earnings management via LLP, this study recommends the global adoption of IFRS as reporting framework.

Originality: This study is one of very few studies which have investigated Malaysia and Nigeria banks earnings management via LLP in the context of changes in accounting standards

Key words: Accounting standards, earnings management, discretionary LLP, loan quality, IFRS, GAAP, LLP,

1.0 Introduction

The broad objective of this study is to investigate discretionary loan loss provisions (hereafter referred to as DLLP), loan loss provisions (hereafter referred to as LLP) earnings management pattern and overall credit quality in the context of changes in accounting standards. Since 2005, when almost all publicly listed companies in Europe and many other countries are required to prepare financial statements in accordance with International Financial Reporting Standards (here after referred to as IFRS), academic research has focused on the various impacts of the change from domestic standards to IFRS on the quality of financial statement information. The common metrics of accounting quality according to these studies are earnings management, timely loss recognition and value relevance. Accordingly, these studies investigate the effects of the switch in accounting regimes either on earnings management as a single metric of accounting quality or a combination of the above list.

Specifically, a vast number of studies on earnings management in the context of changes in accounting standards particularly from local standards to IFRS-based standards have been proposed in the academic literature. However, these studies focus on European and other developed countries. For instance, Zeghal, Chtourou, and Fourati (2012), Chen, Tang, Jiang and Lin (2010) and Ahmed, Neel and Wang (2013) examine the effect of mandatory adoption of IFRS on accounting quality focusing on European Union (EU) countries. Perhaps, the reason for the dearth of research on the impact of accounting standards particularly IFRS on accounting quality in the context of emerging economies is the delay in the adoption of IFRS by emerging countries; Malaysia and Nigeria a case in time. Until, 2012, Malaysia accounting standards was FRS. However, beginning from January 1 2012, there was a change from FRS to MFRS. Likewise, Nigeria previous accounting

standards before 1 January 2012 was SAS, which was totally replaced by the IFRS with effect from 1 January, 2012.

In addition, extant studies remarkably focus on manufacturing firms to the detriment of financial institutions particularly banks. For example, Paananen and Lin (2009) used industrial German listed companies to investigate the development of accounting quality of IAS and IFRS over time. Similarly, Nabil (2012) and Chua, Cheong and Gould (2012) used manufacturing/industrialised Australian listed firm to examine the impact of mandatory IFRS adoption on accounting quality. The common reason for the exclusion of financial institutions from the sample of prior studies is because financial institutions exhibit different accrual transactions.

However, this reason is not cogent given evidences that banks also manage their earnings and is one sector that is expected to be mostly affected by the switch from local GAAP to IFRS. The last statement is tied to the fact that bank is one of the limited sectors that has core accounting standards including IFRS and the only sector with the highest number of industry specific IAS/IFRS. IFRS basically consists of fifteen (15) IFRS and forty one (41) IAS. Ten (10) of the IFRS applies to nearly all firms irrespective of industry differential. The remaining five (5) IFRS are industry specifics (applicable to insurance, mineral or oil firms and banks). Out of these five (5) industries specific standards three (3) are for banks. Similarly out of forty one (41) IAS, four (4) are industry specific standards consisting of one (1) for the agricultural sector and the remaining three – IAS 30, IAS 32 and IAS 39 primarily developed for banks. Summary is given in table 1.

	Total No.	Number of Firms' General Standards		Number of Industry Specific Standards		Number of Banks Standards/Industry Specific Standards	
		No.	%	No.	%	No.	%
IFRS	15	10	67	5	33	3	60
IAS	41	37	90	4	10	3	75

Accordingly, IASB (2014) gave a declaration that moving to IFRS has had a major impact on the reporting requirements of financial institutions particularly banks.

Albeit prior studies on changes in accounting standards and earnings management have commonly excluded banks from their samples, there exist studies that have generally investigated banks earnings management. These studies have largely investigated the relationship between banks LLP and earnings management. For instance Chen and Daley (1996) examine earnings management effects on loan loss accruals in the Canadian banking industry. Kwak, Lee and Eldridge (2009) investigate Japanese bank managers' use of the discretionary component of LLP to manage earnings during the recession of the late 1990s. Others are Kanagaretnam, Lobo and Yang (2004), Kanagaretnam, Lobo and Mathieu (2003), Kilic, Lobo, Ranasinghe and Sivaramakrishnan (2013) to mention but a few who test for income smoothing through bank LLP.

However, these studies that examine the association between LLP and earnings management also focus on developed markets with scarce studies such as Ghosh (2007)-India, Akinloye (2012)-Nigeria, Misman and Ahmad (2011)- Malaysia providing limited evidences from emerging countries. Yet these microscopic existing emerging markets related studies seldom investigate the association between LLP and EM within the context of changes in accounting standards.

The Malaysia and Nigeria respective but simultaneous change from domestic GAAP to IFRS calls for banks loan accounting to be in accordance with IAS 39, Financial Instruments: Recognition and Measurement, IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions, replaced by IFRS 7 Financial Instruments: Disclosures; IAS 32 Financial Instruments: Presentation; IFRS 13 Fair Value Measurement and subsequently beginning from January 1 2015, IFRS 9 Financial Instruments. Consequently, the application of

IFRS/IAS will majorly impact on the recognition, measurement and reporting requirements of loans and advances by banks and other financial institutions

The above assertion is founded on the fact that Malaysia and Nigeria previous GAAP and IFRS provide differently guidelines on the treatment of loans and advances as the largest transactions of banks. The recognition, subsequent measurement, classification of loans and advances into performing and non-performing facilities including general provisions on LLP are affected by these different accounting standards guidelines and provisions. For instance while the Nigeria previous accounting standards call for managers' estimation of LLP based on forward looking, IFRS solicits accurate real loss. Hence, the differing provisions and guidelines in relation to different accounting treatment of transactions by accounting standards will logically accord managers different leeway to manipulate earnings. Therefore, the need to investigate the impact of the switch from Malaysia and Nigeria domestic GAAP to IFRS on banks' earnings management via LLP becomes imperative.

2.0 Accounting Standards, Earning Management and LLP

According to Khanagha (2011) accounting standards are regulatory devices that most importantly affect the quality of accounting information. However, Lang, Raedy and Wilson (2006) present evidence that accounting standards indeed influence the level of earnings management. When an accounting standard leaves a manager with interpretation or application choices, earnings management can also occur (Verbruggen, Christaens & Milis, 2008). According to Nelson, Elliott and Tarpley (2002) 'managers are more likely to attempt earnings management with structured transactions when standards are precise and with unstructured transactions when standards are imprecise'.

Empirical extant studies demonstrate that LLP is a significant single largest accrual account or an

income-statement item (Kanagaretnam, Lobo & Mathieu, 2003) that has a material impact on banks reported earnings which can be manipulated within the boundaries of GAAP as it is based on estimates. According to Kanagaretnam, Krishnan, Lobo and Mathieu (2011) the ambiguity associated with estimating LLP and the manner in which it is defined under GAAP give management considerable discretion in reporting the allowance. Similarly, Kanagaretnam, Lobo and Mathieu, 2003 document that bank managers responsibility of estimating LLP to reflect changes in expected future loan losses allows them wide leeway for discretion in the estimation of LLP. Anandarajan, Hasan and McCarthy (2007) as well affirm that although LLP are expected to reflect anticipated losses by bank managers, its provisions cannot accurately match actual losses, calling for a margin for imprecision. According to Anandarajan, Hasan and McCarthy (2007) this margin for imprecision (referred to as the discretionary component of the allowance) has been exploited by banks.

Investigating the discretionary component of LLP is a major objective of this study. According to Kanagaretnam, Lobo and Mathieu (2003) LLP has two components, a non-discretionary component (the expected impairment of the loan portfolio) and a discretionary component (the portion subject to management discretion). Consistent with Wahlen (1994), Liu and Ryan (1995), Beaver and Angel (1996) and Ryan and Wahlen (1997) this study employs a prediction model to estimate discretionary (unexpected) loan loss provisions. This prediction model computes a standardized prediction error similar to that used by Jones (1991), Patell (1976) and Onalo, Mohd and Ahmad (2014). Consequently, while non-discretionary component of LLP are predictions based on the estimated regression coefficients, discretionary components are the related prediction error.

Furthermore, prior studies identified four types of earnings management patterns – BBA, income minimization, income maximization and income

smoothing. These can be further classified broadly into earnings minimization and maximization. Accordingly, extant studies established that managers use LLP for either earnings maximization or minimization. According to Kanagaretnam, Lobo and Mathieu (2003) banks with good (poor) current performance and expected poor (good) future performance, save income for (borrow income from) the future by reducing (increasing) current income through LLP. To manage income upward, banks decrease the level of LLP against profit before tax and extra ordinary items (hereafter referred to as PBTE) and to manage income downward banks increases the level of LLP against PBTE. Consequently, a positive coefficient on PBTE reflects upward income smoothing via LLP (Anandarajan, Hasan & McCarthy, 2007; Alali & Jaggi; 2011). On the other hand a negative coefficient on PBTE is generally associated with income minimization (Beaver & Engel, 1996; Wahlen, 1994; Griffin & Wallach, 1991). Therefore this study deemed it fit to investigate whether bank managers use LLP for earnings minimization or maximization. For the regression model, the revelation is dependent on the association between LLP as the dependent variable and PBTE as the independent variable.

Finally, several studies have been conducted on problem loans, the NPL and the similar default rate with results revealing valuable insights about the quality of loan portfolios and generally the fragility of banks (Makri, Tsagkanos & Bellas, 2014). Many researchers consider NPL as “financial pollution” with injurious effects for both economic development and social welfare (Makri, Tsagkanos & Bellas, 2014). Accordingly, a huge amount of non-performing loans serve as preface to financial fragility (Farhan, Sattar, Chaudhry & Khalil, 2012). Since extant studies established that different accounting standards provides differently in accounting for loan and that managers use leeway in estimating loan under different accounting standards to manage earnings, this study deemed it fit to investigate different accounting standards problem loans in relation to other variables and overall credit quality.

3.0 Methodology

3.1 Sample and Investigation Period

Judgementally this study used a sample of eight Malaysia banks and twenty Nigeria banks. The study period is six years made up of three years pre adoption period (2008, 2009, 2010) and three years (2011, 2012 2013) post adoption period.

3.2 Data Source and Instrument of Analyses

Data from banks audited financial statements are used for this study. Eviews special regression and forecasting capabilities are employed for these analyses.

3.3 Regression Models

Four basic regression models were used for this study.

3.3.1 Discretionary LLP Regression Model following Kanagaretnam, Lobo and Mathieu (2003) is given by:

$$LLPBL = \alpha_1 + \alpha_2 BNPLBL + \alpha_3 CHNPLBL + \alpha_4 CHLOANBL + \varepsilon_{it} \quad (1)$$

where,

LLPBL = provision for loan losses deflated by beginning loans;

BNPLBL = beginning of period nonperforming loans deflated by beginning loans;

CHNPLBL = change in the value of nonperforming loans deflated by beginning loans;

CHLOANBL = change in value of loans deflated by beginning loans.

α_1 is constant, and $\alpha_2 - \alpha_4$ is the coefficient of independent variables

ε_{it} is error term.

3.3.1 LLP Earnings Management Pattern Regression Model following Diantimala and Baridwan (2012) is given as:

$$LLP_{j,t} = \alpha_1 + \alpha_2 PBTE_{j,t} + \alpha_3 LOAN_{j,t} + \alpha_4 NPL_{j,t} + \alpha_5 SIZE_{j,t} + \alpha_6 GLOAN_{j,t} + \varepsilon_{j,t} \quad ..(2)$$

Where:

$LLP_{j,t}$ is the Loan Loss Provisions for the j^{th} bank in the t^{th} period

$PBTE_{j,t}$ is earnings before tax and extra ordinary items for the j^{th} bank in the t^{th} period

$LOAN_{j,t}$ is loan for the j^{th} bank in the t^{th} period

$NPL_{j,t}$ is non-performing loan for the j^{th} bank in the t^{th} period

$SIZE_{j,t}$ is bank size for the j^{th} bank in the t^{th} period

$GLOAN_{j,t}$ is gross loan for the j^{th} bank in the t^{th} period

α_1 is constant, and $\alpha_2 - \alpha_6$ is the coefficient of independent variables

ε_{jt} is error term.

3.3.3 NPL Regression Model is given as:

$$NPL_{j,t} = \alpha_1 + \alpha_2 LLP + \alpha_3 PBTE_{j,t} + \alpha_4 LOAN_{j,t} + \alpha_5 SIZE_{j,t} + \alpha_6 GLOAN_{j,t} + \varepsilon_{j,t} \quad ..(3)$$

Variables definition as per above

3.3.4 Credit Quality is computed by

$$\text{Loan Quality} = 1 - \frac{\text{Average NPL}}{\text{Average GLOAN}} \quad \dots\dots (4)$$

4.0 Analysis and Interpretations

4.1 Discretionary Loan Loss Provisions (DLLP)

In order to investigate DLLP for Malaysia and Nigeria sample banks, their respective pre (FRS/SAS) and post (MFRS/IFRS) adoption reporting periods are further partitioned into sub-periods. The FRS/SAS reporting age partitioned periods is 2008-2009 and 2009-2010. The overlapping year for these sub-periods is 2009 and it is to ensure that no gap exist for the FRS/SAS reporting age. In the same way, the MFRS/IFRS reporting era is further divided into 2011-2012 and 2012-2013 having 2012 as the intersecting year. Based on this partitioning, 2008-2009 is described as the core FRS/SAS reporting age while for the core MFRS/IFRS reporting age is 2012 and 2013. Computed core and total DLLP for Malaysia FRS and MFRS and Nigeria SAS and IFRS reporting periods are given in tables 2A and 2B respectively.

Table 2A	FRS and MFRS Partitioned, Core and Total DLLP Results					
	FRS Reporting Age			MFRS reporting age		
S/No/Year	2008-2009 DLLP	2009-2010 DLLP	Average DLLP	2011-2012 DLLP	2012-2013 DLLP	Average DLLP
1	0.008166	0.00242	0.005293	0.002556	0.002116	0.002336
2	0.007104	0.002669	0.004887	0.002487	0.002027	0.002257
3	0.007036	0.002653	0.004845	0.002848	0.00233	0.002589
4	0.007258	0.002753	0.005006	0.002928	0.002392	0.00266
5	0.007308	0.002789	0.005049	0.003221	0.002225	0.002723
6	0.00635	0.002329	0.00434	0.002742	0.002671	0.002707
7	0.007514	0.002962	0.005238	0.00299	0.002409	0.0027
8	0.006705	0.002586	0.004646	0.002572	0.002449	0.002511
Total	0.00718	0.002645	0.004913	0.002793	0.002327	0.00256

Table 2B	SAS and IFRS Partitioned, Core and Total DLLP Results					
	SAS Reporting Age			IFRS reporting age		
S/No/Year	2008-2009 DLLP	2009-2010 DLLP	Average DLLP	2011-2012 DLLP	2012-2013 DLLP	Average DLLP
1	0.136547	0.073674	0.105111	0.040425	0.023702	0.032064
2	0.136096	0.072713	0.104405	0.039081	0.025996	0.032539
3	0.136416	0.07196	0.104188	0.037765	0.021987	0.029876
4	0.136251	0.072855	0.104553	0.037848	0.023499	0.030674
5	0.142109	0.088395	0.115252	0.0424	0.024045	0.033223
6	0.144895	0.072808	0.108852	0.050986	0.022285	0.036636
7	0.136594	0.072402	0.104498	0.038118	0.022905	0.030512
8	0.136639	0.072547	0.104593	0.037608	0.02192	0.029764
9	0.136462	0.072256	0.104359	0.037634	0.022401	0.030018
10	0.180913	0.079063	0.129988	0.037316	0.024513	0.030915
11	0.167677	0.093086	0.130382	0.045178	0.023624	0.034401
12	0.146359	0.073126	0.109743	0.037311	0.02206	0.029686
13	0.136685	0.072143	0.104414	0.037455	0.021782	0.029619
14	0.135981	0.072703	0.104342	0.038337	0.021646	0.029992
15	0.136207	0.07295	0.104579	0.037151	0.021792	0.029472
16	0.136965	0.093042	0.115004	0.03722	0.021768	0.029494
17	0.13667	0.076443	0.106557	0.042243	0.025135	0.033689
18	0.136801	0.07397	0.105386	0.038668	0.02255	0.030609
19	0.136837	0.074258	0.105548	0.037246	0.021923	0.029585
20	0.136763	0.074286	0.105525	0.038298	0.022293	0.030296
Total	0.141493	0.076234	0.108864	0.039414	0.022891	0.031153

In the case of Malaysia sample banks, DLLP remarkably reduced consequent upon the implementation of MFRS. Averagely DLLP declined by 47.9% from 0.004913 during the FRS reporting age to 0.00256 following the adoption of MFRS. Similarly core reporting regimes DLLP decreased by 67.6%. The core FRS reporting age DLLP score is 0.00718 while the core MFRS reporting age DLLP score is 0.002327. However, year 2011-2012 is characterised with relatively high DLLP of 0.002793 occasioned by transition effects.

For Nigeria sample banks also, DLLP significantly decreased following the adoption of IFRS. Average DLLP dipped by 71.4% from 0.108864 during the SAS reporting era to 0.031153 consequent upon the adoption of IFRS. Likewise, core SAS and IFRS reporting periods DLLP decreased by 83.8%. Average core SAS reporting era DLLP score is 0.141493 while the average core IFRS reporting era DLLP score is 0.022891. Transition effect however induced relatively high DLLP of 0.039414 for the 2011-2012 sub-partitioned periods. Conclusively, the MFRS/IFRS implementation occasioned decline in average DLLP accord this study to conclude that MFRS/IFRS adoption is linked with the reduction of Malaysia and Nigeria banks managers' leeway to manage earnings through LLP.

4.2 *LLP Earnings Management Pattern Panel Data Regression Analysis*

Immediate tests results evidenced that both Malaysia and Nigeria pre (FRS/SAS) and post (MFRS/IFRS) reporting regimes are associated with DLLP; more with the pre (FRS/SAS) reporting age. This is indicative that the pre (FRS/SAS) reporting age for both samples is characterised with the highest pervasiveness of earnings management via LLP compared to the MFRS/IFRS reporting regimes. Therefore in agreement with extant literature, different accounting standards-FRS, SAS, MFRS and

IFRS- provide managers different leeway to use LLP to manage earnings as banks largest specific accruals. The use of LLP to manage earnings has a direct effect on PBTE. Normally LLP and PBTE exhibit negative association. This is because each dollar of LLP increased the allowance by a dollar and reduced retained earnings by a dollar minus the associated tax savings (Wahlen, 1994).

Hence it becomes imperative for this study to investigate respectively the nature of the association that subsist between LLP and PBTE for both FRS/SAS and MFRS/IFRS reporting regimes. This is with the objective to provide evidences of earnings management pattern(s) employed by banks through LLP for both Malaysia FRS and MFRS and Nigeria SAS and IFRS reporting regimes. A significant negative association between LLP and PBTE in terms of PBTE coefficient is indicative of earnings minimization but a significant positive association between these variables is suggestive of earnings maximization. Extracts of panel data regression outcomes for both Malaysia and Nigeria sample banks are given in tables 3A and 3B respectively:

Variables	FRS Reporting Age	FRS Reporting Age	Interpretations
PBTE	-0.218920	-0.160206	More pervasive income minimization earnings management pattern for the FRS reporting age than the MFRS reporting age
LOAN	-0.353672	-0.240892	LOAN generates more LLP during the FRS reporting era than it does post MFRS adoption
NPL	-0.235858	-0.101435	NPL produces higher LLP during the FRS reporting era than it does post MFRS adoption
SIZE	-0.007374	-0.008546	SIZE occasioned higher LLP during the MFRS reporting era than it does during the FRS adoption age
GLOAN	0.367964	0.257627	Every RM100 increase in annual GLOAN result in RM0.368 increase in LLP for the FRS reporting regime, but for the MFRS reporting regime, every RM100 increase in annual GLOAN just give rise to RM0.257 in LLP post MFRS adoption.
R ²	98.3%	82.7%	Stronger predictive power for FRS era compared to post MFRS adoption period
Adj. R ²	96.5%	77.9%	Stronger predictive power for FRS era compared to post MFRS adoption period

Variables	SAS Reporting Age	IFRS Reporting Age	Interpretations
PBTE	-0.658758	-0.123269	Practice BBA (SAS- a decrease of 65.9% in PBTE increases LLP by 1%) and income minimization (IFRS- a decrease of 12.3% in PBTE increases LLP by 1%) earnings management patterns
LOAN	0.040796	0.040443	N100 increase in annual LOAN result in N0.041 increase in LLP for the SAS period while N100 increase in LOAN cause N0.04 increase in LLP post IFRS adoption
NPL	0.165920	0.429921	N100 increase in annual NPL result in N0.166 increase in LLP for the SAS period while N100 increase in NPL cause N0.43 increase in LLP post IFRS adoption
SIZE	0.014038	-0.002029	N100 increase in annual SIZE result in N0.014 increase in LLP for the SAS period while a decrease of 0.2% in SIZE increases LLP by 1% during the IFRS regime.
GLOAN	-0.016114	-0.042480	a decrease of 1.6% in GLOAN increases LLP by 1% for the SAS reporting age while a decrease of 4.2% in GLOAN increases LLP by 1% for the IFRS reporting age.
R ²	89.4%	49.1%	Stronger predictive power for SAS era compared to post IFRS adoption period
Adj. R ²	88.4%	44.4%	Stronger predictive power for SAS era compared to post IFRS adoption period

In the case of Malaysia sample banks, income minimization through LLP provisions characterises both FRS and MFRS reporting regimes. However, the practice of income minimization as earnings management pattern significantly declined following the adoption of MFRS. This is indicated by the declined coefficient of about 26.8% on PBTE. The coefficient on PBTE for the FRS reporting age is -0.218920 but significantly reduced to -0.160206

following the adoption of MFRS. However, R² and Adjusted R² exhibit stronger predictive power for the FRS era compared to the MFRS adoption period.

For Nigeria sample banks, earnings minimization through LLP provisions also brands both SAS and IFRS reporting aeons. Nonetheless, the practice of income minimization as earnings management pattern considerably declined after the adoption of IFRS. This is shown by the declined coefficient of about 81.3% on PBTE. The coefficient on PBTE for the SAS reporting era is -0.658758 but after the adoption of IFRS, this figure significantly reduced to -0.123269. Still, R² and Adjusted R² exhibit stronger predictive power for the SAS era compared to the IFRS adoption period. Conclusively the practice of earnings management pattern of income minimization via LLP for both Malaysia and Nigeria sample banks is more prevalent during the pre (FRS/SAS) adoption periods compared to the post (MFRS/IFRS) periods.

4.3 Non-Performing Loan (NPL) and Loan Quality

Finally, with prior results confirming different degree of earnings management practice via LLP for both Malaysia and Nigeria sample banks different reporting regimes, this study deemed it fit to investigate their respective resultant credit quality. Hence, an investigation into the relationship that exist between NPL and bank specific variables and overall loan quality will undoubtedly offer additional insight into difference in accounting standards provisions and guidelines on credit quality. Extracts of panel data regression outcomes for both Malaysia and Nigeria sample banks are given in tables 4A and 4B respectively:

Variables	FRS Reporting Age	MFRS Reporting Age	Interpretations
GLOAN	1.618057	1.024381	While every RM100 GLOAN engenders RM1.62 increase in NPL for the FRS era, upon the adoption of MFRS it reduced to RM1.02. the percentage change in NPL resulting from MFRS adoption is about 37%
LLP	-2.656351	-1.832162	Decrease of 266% in LLP prompt NPL to rise by 1% for the FRS age while a decrease of 183% causes the same 1% increase in NPL post MFRS adoption
PBTE	-0.578429	-0.834337	Decrease of 57.8% in PBTE occasioned a rise of 1% in NPL for the FRS age while a decrease of 83.4% causes the same 1% increase in NPL post MFRS adoption
LOAN	-1.559287	-0.930814	Decrease of 156% in LOAN induced a rise of 1% in NPL for the FRS age while a decrease of 93% causes the same 1% increase in NPL post MFRS adoption
SIZE	-0.042237	-0.059047	Decrease of 4.2% in SIZE give rise to a rise of 1% in NPL for the FRS age while a decrease of 5.9% causes the same 1% increase in NPL post MFRS adoption
R ²	99.5%	99.4%	Insignificant change in both predictive power for FRS and MFRS reporting eras.
Adj. R ²	99%	98.8%	Insignificant change in both predictive power for FRS and MFRS reporting eras.

Variables	SAS Reporting Age	IFRS Reporting Age	Interpretations
GLOAN	0.197320	0.042510	While every N100 causes N0.20 increase in NPL for the SAS era, upon the adoption of IFRS it reduced to N0.043. the percentage change in NPL resulting from IFRS adoption is about 78.5%
LLP	0.276307	0.284326	Increase of 27.6% in the LLP increases NPL by 1% for the SAS reporting age while increase of 28.4% increases NPL for the IFRS reporting age.
PBTE	-0.498089	-0.017244	Decrease of 49.8% in PBTE increases NPL by 1% for the SAS period, while decrease of 1.72% in PBTE increases NPL by 1% for the IFRS era
LOAN	-0.087466	-0.097286	Decrease of 8.7% in LOAN increases NPL by 1% for the SAS era while decrease of 9.7% in LOAN increases NPL by 1% for the IFRS era
SIZE	-0.038428	0.022187	Decrease of 3.8% in SIZE increases NPL by 1% for the SAS era while increase of 2.2% in SIZE increases NPL by 1% for the IFRS era
R ²	94.6%	90.3%	Stronger predictive power for SAS era than the IFRS reporting era.
Adj. R ²	91%	83.6%	Stronger predictive power for SAS era than the IFRS reporting era.

In the case of Malaysia sample banks, credit quality is higher for the MFRS reporting age compared to the FRS reporting regime. Results demonstrate significant decrease in the amount of NPL generated by a particular amount of GLOAN following the adoption of MFRS. This is shown by the declined coefficient of about 36.7% on GLOAN. The coefficient on GLOAN for the FRS reporting age is 1.618057 but significantly reduced to 1.024381 following the adoption of MFRS. There is no significant change in the predictive power of R^2 and Adjusted R^2 post MFRS. Computations based on the ratio of NPL to GLOAN equally validate the fact that MFRS reporting age is associated with higher credit/loan quality compared to the FRS reporting age. Computational results demonstrate that while FRS reporting era, loan quality is $1-3045236/86023120 = 96.5\%$, MFRS reporting era, loan quality is $1-3088835/133000000 = 97.7\%$.

For Nigeria sample banks, credit quality is also higher for the IFRS reporting era compared to the SAS reporting era. Results reveal substantial decrease in the amount of NPL generated by a particular amount of GLOAN following the adoption of IFRS. This is made known by the declined coefficient of about 78.5% on GLOAN. The coefficient on GLOAN for the SAS reporting era is 0.197320 but significantly reduced to 0.042510 consequent upon the adoption of IFRS. The predictive power of R^2 and Adjusted R^2 for both SAS and IFRS reporting periods are also significant. Calculations based on the ratio of NPL to GLOAN similarly confirm the point that IFRS reporting era is connected with higher credit/loan

quality compared to the SAS reporting era. Computational outcomes reveal that while SAS reporting era, loan quality is $1-38606244/340000000 = 88.6\%$, IFRS reporting era, loan quality is $1-18739648/505000000 = 96.3\%$.

5.0 Conclusions and Possible Recommendations

Changes in accounting standards are expected to result in changes in reporting outcomes. This study investigated the impact of the simultaneous switch from Malaysia and Nigeria respective FRS and SAS to IFRS-based standards on LLP as earnings management device. Particularly, this study decomposes LLP into discretionary and non-discretionary components and also investigated earnings management pattern associated with LLP. Results suggest that DLLP for both Malaysia and Nigeria sample banks significantly reduced post adoption of IFRS-based standards. Results also evidenced that the pervasiveness of earnings management pattern via LLP identified as income minimization declined remarkably post adoption of IFRS-based standards.

This study did not only reveal that the adoption of IFRS based standard is associated with less earnings management via LLP, but equally demonstrate that high credit quality is most guaranteed with IFRS implementation. Therefore this study recommends the global adoption of IFRS, particularly for emerging economies.

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