

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND THE QUALITY OF BANKS FINANCIAL STATEMENT INFORMATION: EVIDENCE FROM AN EMERGING MARKET-NIGERIA

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ABSTRACT

Giving the paucity of studies on IFRS adoption and quality of banks accounting quality, particularly in emerging economies, this study is motivated to investigate whether the Nigeria adoption of IFRS is associated with high quality accounting measures. This study measures quality of financial statement information using earnings management, timeliness of loss recognition and value relevance. A total of twenty Nigeria banks covering a period of six years were investigated. Results suggest that IFRS adoption is associated with minimal earnings management and timely recognition of losses. Results marginally support IFRS adoption association with high value relevance of accounting information. Value relevance results were induced by capital market fraud. This study concludes that IFRS adoption engenders higher quality of banks financial statement information compared to local GAAP. This study recommends the global adoption of IFRS and that Nigeria banks should embrace best corporate governance practices.

Originality: This study is one of very few studies which have investigated the impact of IFRS adoption on the quality of Nigeria banks financial statement information

Key words: IFRS, GAAP, accounting quality, earnings measurement, discretionary accruals, credit quality, total accruals, , value relevance

Introduction

Globalisation and trade liberalisation have made the whole world to become a global village. Business organisations (financial institutions inclusive) now operate beyond their national boundaries. In other words, they have become multinationals. However, with the globalisation of business and capital markets, there has been an ever growing need for global comparability of financial statements (Shaun & Malley1992). Accordingly, with increasing globalization of the marketplace, international investors need access to financial information based on harmonized accounting standards and procedures (Beke, 2011). Hence, the need to harmonise and consolidate corporate accounting practices that ensures high quality of financial statement information. This led to the development of International Financial Reporting Standards (hereafter referred to as IFRS) by the International Accounting Standards Board (hereafter referred to as IASB) to be adopted in the world's global and international capital markets in the preparation of financial statements. Consequently, various countries around the world have moved and are moving towards IFRS adoption (Baker, 2008). In the words of Smith and Bergen (2009) the continued globalisation of the world's economy has resulted in the adoption of IFRS by over 100 countries inclusive of five G-8 countries.

Therefore keeping pace with developments and to ensure that Nigeria is not left out from the globalisation wave, on 28 July 2010, the Nigerian Federal Executive Council approved 1 January 2012 as the effective date for convergence of accounting standards in Nigeria with IFRS. The Council subsequently directed the Nigerian Accounting Standards Board (hereafter referred to as NASB) now Financial Reporting Council of Nigeria (hereafter referred to as FRCN), under the supervision of the Nigerian Federal Ministry of Commerce and Industry, to take further necessary actions to give effect to Councils' approval by replacing the Nigeria local GAAP with IFRS.

A fundamental question market participants generally asked is “what are the effects of the change from domestic GAAP to IFRS on accounting quality”? Answer to this question depends empirically on whether IFRS can improve the quality and comparability of financial reporting, that is, are accounting number less susceptible to earnings management and more value relevant when IFRS are used? This study expect that IFRS accounting information provided by firms to market participants may differ significantly from financial statement information based on prior national GAAP due to differences between requirements of national GAAP and IFRS. Hence the Nigeria change from local GAAP to IFRS presents a unique empirical setting to investigate the extent to which the change to IFRS impacts on accounting quality.

2.0 Research Issues

Although it became mandatory for firms listed on capital markets of European and other developed countries to implement IFRS beginning from 2005 (Beke, 2011), only few emerging countries have recently converged with or adopted IFRS as their reporting standards. Hence most prior extant studies on the change from local GAAP to IFRS or better state IFRS adoption/convergence focus majorly on European and other developed countries with paucity of such studies on emerging economies. For instance, Chen, Tang, Jiang and Lin (2010), Ahmed, Neel and Wang (2013), Paglietti (2009), Zeghal, Chtourou, and Fourati (2012), Palea (2013) among others investigated the mandatory IFRS adoption on accounting quality of European Union firms. Similarly, Chua, Cheong and Gould (2012) and Nabil (2012) to mention but a few, used Australian firms to explore the impact of mandatory IFRS adoption on accounting quality.

Hence, the scarcity of studies that examined association between IFRS adoption and the quality of financial statement information in emerging countries and the recent ensuing adoption of or convergence with IFRS by some

developing economies calls for an investigation into the impact of IFRS adoption on accounting quality of firms in emerging countries to provide additional evidences in the literature.

Extant studies on the impact of IFRS adoption or changes from local GAAP to IFRS on accounting quality commonly investigate earnings management, timely loss recognition and value relevance as accounting quality proxies. However, most of these empirical works that investigates the association between IFRS implementation and accounting quality provides conflicting predictions and reveal mixed results. For example, Zeghal, Chtourou, and Fourati (2012), Arum (2013), Ismail, Kamarudin, Zijl and Dunstan (2013), Liu, Yao, Hu and Liu (2011), George (2010), Lin, Hua, Lin and Lee (2012) among others established that IFRS adoption is associated with high accounting quality. Nevertheless, Ames (2013), Lin, Riccardi and Wang (2012), Paglietti (2009), Paananen and Lin (2009) to mention but a few discard the assertion that IFRS adoption is associated with high accounting quality. Considering the inconsistencies regarding the impact of the adoption of IFRS on accounting quality, there is a need to further investigate the relationship between the adoption of IFRS and accounting quality.

It is important to equally establish that prior studies on accounting quality with earnings management-accruals as a proxy, including studies in the context of changes in accounting standards generally exclude financial institutions from their sample (George, 2010). The exemption of financial institutions from sample frame according to extant studies is commonly due to the fact that financial institutions including banks have peculiar but specific accounting requirements, a high degree of complexity and a different accrual generating process compared to their manufacturing/sales based counterparts (Pope, Young & Peasnell, 2000).

Therefore, this study argue that the continuous exclusion of financial institutions including banks from samples of studies on accounting standards

including IFRS convergence and accounting quality on the premise of incomparability of accounting measures has created a wide but fundamental research gap in the literature. This is because empirically, findings suggest that there exist paucity of research results on the impact of accounting standards on accounting quality in terms of earnings management, timeliness of loss recognition and value relevance of financial statement information of financial institutions like banks.

Lack of empirical studies on the association between changes in accounting standards or IFRS adoption/convergence and accounting quality of financial institutions such as banks in terms of earnings management and value relevance is theoretically and practically precarious giving the functional status of financial institutions particularly banks on economic scenes local or international. Furthermore, financial institutions particularly banks is one sector that is expected to be most affected by changes in accounting standards specifically IFRS adoption or convergence. According to IASB (2014) moving to IFRS has had a major impact on the reporting requirements of financial institutions.

Hence, the dearth of empirical studies on the association between changes in accounting standards specifically IFRS convergence/adoption on the quality of financial statement information of financial institutions such as banks calls for and motivated this study to empirically investigate the effects of Nigeria IFRS adoption on the financial statement information of Nigeria banks using four basic proxies-earnings management, timeliness of loss recognition, credit quality and value relevance.

3.0 Methodology

3.1 Sample and Investigation Period

Judgementally this study used a sample of 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.

3.2 Data Source and Instrument of Analyses

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

3.3 Model Development

3.3.1 Earnings Management Models

3.3.1.1 Aggregate Discretionary Accruals

Following Jones (1991), Onalo, Mohd and Ahmad (2014) among others, this study used the model below to investigate aggregate discretionary accruals. Discretionary accrual is estimated based on the computation of standardized prediction error similar to that used by Patell (1976).

$$TA_{i,t}/A_{i,t-1} = \alpha_{1i,t} + \alpha_{2i}[\Delta GE_{i,t} - \Delta NL_{i,t}/A_{i,t-1}] + \alpha_{3i}[PPE_{i,t}/A_{i,t-1}] + \epsilon_{i,t} \dots \dots \dots (1)$$

Where:

TA_{it} = total accruals in year t for bank i; that is
 $TA_{jt} = PBTE_{jt} - OCF_{jt}$

ΔGE_{it} = GE in year t less GE in year t-1 for firm i; that is, GE = Interest Income (IINC) + Fee Commissions (FCOM) + Foreign Exchange Income (FOREXINC) + Trusteeship Income (TINC) + Investments Income (INVINC) + Sharia Income (SHINC) + Other Income (OINC)

ΔNL_{it} = net loans in year t less net loans in year t-1 for bank i. That is, Total Loans (TL) – Non-performing Loans (NPL) = Net Loans (NL)

PPE_{it} = gross property, plant and equipment in year t for bank i;

$A_{i,t-1}$ = total assets in year t-1 for bank i;

ϵ_{it} = error term in year t for bank i;

$i = 1, \dots, N$ bank index;

$t = 1, \dots, T_i$, year index for the years included in the estimation period for bank i.

3.3.1.2 Discretionary Loan Loss Provisions

This study also used similar methodology regarding aggregate DA to investigate DLLP. Following Kanagaretnam, Lobo and Mathieu (2003) the regression model required to compute the standardized prediction error as proxy for DLLP is given as:

$$LLPBL = \alpha_1 + \alpha_2 BNPLBL + \alpha_3 CHNPLBL + \alpha_4 CHLOANBL + \epsilon_{it} \quad (2)$$

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_{jt} is error term

3.3.1.3 Earnings Smoothing

Consistent with George (2010), Barth, Landsman and Lang (2008), Leuz, Nanda and Wysocki (2003) among others, this study test for of income-smoothing behaviour based on the correlation between accruals and cash flows. With regard to the spearman correlation given below, earnings smoothing should induce a more negative correlation between cash flows and accruals.

$$SMOOTH_{j,t} = \rho (Acc_{j,t}, CFO_{j,t}) \dots \dots \dots (3)$$

Where:

$SMOOTH_{j,t}$ = Bank j's Spearman correlation between accruals and cash flow from operation (both scaled by lagged total assets) in year t.

3.3.1.4 LLP Earnings Management Pattern Regression Model

Following Diantimala and Baridwan (2012) this study also investigates LLP earnings management patter using regression model given as:

$$LLP_{j,t} = \alpha_1 + \alpha_2 PBTE_{j,t} + \alpha_3 LOAN_{j,t} + \alpha_4 NPL_{j,t} + \alpha_5 SIZE_{j,t} + \alpha_6 GLOAN_{j,t} + \varepsilon_{j,t} \quad ..(4)$$

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

$\varepsilon_{j,t}$ is error term.

3.3.1.5 NPL Regression Model

The regression model given below is used to assess the relationship between gross loan and non-performing loans as measures of credit quality.

$$NPL_{j,t} = \alpha_1 + \alpha_2 LLP + \alpha_3 PBTE_{j,t} + \alpha_4 LOAN_{j,t} + \alpha_5 SIZE_{j,t} + \alpha_6 GLOAN_{j,t} + \varepsilon_{j,t} \quad ..(5)$$

Variables definition as per above

3.3.1.6 Credit Quality

Additionally, credit quality is computed by:

$$\text{Loan Quality} = 1 - \text{Average NPL/Average GLOAN} \quad \dots\dots (6)$$

3.3.1.7 Additional Earnings Management Tests

Consistent with studies such as George (2010), Erick (2011), Paglietti (2009) this study additionally investigate pre and post IFRS adoption earnings management goals of influencing accounting numbers in order to report small positive profits rather than losses and the speed at which losses are recognised by managers.

The metric for earnings management towards reporting small positive income in this study is measured as the coefficient on the dummy variable indicative of small positive profits (SPP_{jt}) as expressed in the logit model given

below:

$$RR_{j,t} = a_0 + a_1 \text{Profitability}_{j,t} + a_2 \text{Growth}_{j,t} + a_3 \text{Leverage}_{j,t} + a_4 \text{Liquidity}_{j,t} + a_5 \text{Size}_{j,t} + a_6 \text{Investment}_{j,t} + a_7 SPP_{j,t} + e_{j,t} \quad \dots (7)$$

$RR_{j,t}$ is a dummy variable representing the regulatory regime. $RR_{j,t} = 1$ for observations in the post adoption period and $RR_{j,t} = 0$ otherwise.

$\text{Profitability}_{j,t}$, $\text{Growth}_{j,t}$, $\text{Leverage}_{j,t}$, $\text{Liquidity}_{j,t}$, $\text{Size}_{j,t}$, $\text{Investment}_{j,t}$ are proxies used to control for firm profitability, growth, leverage, liquidity, size and investment respectively.

$SPP_{j,t}$ is a dummy variable indicating a measure of small positive profits. $SPP_{j,t} = 1$ if net income scaled by total assets is between 0 and 0.01 and $SPP_{j,t} = 0$ otherwise.

$e_{j,t}$ is the error term

A positive coefficient on $SPP_{j,t}$ indicates a higher likelihood of banks managing their profits figures more frequently in order to report small positive profits rather than negative amounts in the post-adoption period than in the pre-adoption period (the opposite holding true for a negative coefficient).

Similarly, timely recognition of large losses is measured by estimating the logit model below:

$$RR_{j,t} = a_0 + a_1 \text{Profitability}_{j,t} + a_2 \text{Growth}_{j,t} + a_3 \text{Leverage}_{j,t} + a_4 \text{Liquidity}_{j,t} + a_5 \text{Size}_{j,t} + a_6 \text{Investment}_{j,t} + a_7 LNL_{j,t} + e_{j,t} \quad \dots (8)$$

$RR_{j,t}$ is a dummy variable representing the regulatory regime. $RR_{j,t} = 1$ for observations in the post adoption period and $RR_{j,t} = 0$ otherwise.

$\text{Profitability}_{j,t}$, $\text{Growth}_{j,t}$, $\text{Leverage}_{j,t}$, $\text{Liquidity}_{j,t}$, $\text{Size}_{j,t}$, $\text{Investment}_{j,t}$ are proxies used to control for firm profitability, growth, leverage, liquidity, size and investment respectively.

$LNL_{j,t}$ is a dummy variable indicating a measure of timely loss recognition. $LNL_{j,t} = 1$ if net income scaled by total assets is less than -0.20 and $LNL_{j,t} = 0$ otherwise.

$e_{j,t}$ is the error term.

Overall, a positive coefficient on $LNL_{j,t}$ indicates a higher likelihood of banks to recognise large losses more readily in the post-adoption period than in the pre-adoption period (the opposite holding true for a negative coefficient).

3.4.2 Value Relevance Model

3.4.2.1 Price Model

Consistent with extant literature, particularly Ohlson (1995) this study first model to measure value relevance by regressing stock price per share (P_{it}) on earnings per share (EPS_{it}) and book value per share ($BVPS_{it}$) is as follows:

$$P_{it} = \beta_1 + \beta_2 EPS_{it} + \beta_3 BVPS_{it} + \varepsilon_{it} \dots\dots\dots (9)$$

where

P_{it} = stock price per share for bank i at time t

EPS_{it} = the earnings per share of bank i at time t

$BVPS_{it}$ = the book value per share of bank i at time t

t = pre adoption period - 2008, 2009, 2010, corresponding to the fiscal year 2008, 2009 and 2010 and post adoption period 2011, 2012, 2013 corresponding to the fiscal year 2011, 2012 and 2013.

ε_{it} = other value-relevant information.

3.4.2.2 Return Model

Following Easton and Harris (1991) and Kousenidis, Ladas and Negakis (2010) this study regresses stock returns as dependent variable on earnings levels and earnings changes as explanatory variables as measures of value relevance. It is given by the model:

$$AR_{it} = \alpha_1 + \alpha_2 PBTE_{i,t} + \alpha_3 CHPBTE_{i,t} + \varepsilon_{i,t} \dots\dots\dots (10)$$

AR_{it} is calculated as follows: $P_{it} - P_{it-1} / P_{it-1}$

where

P_{it} is the price of security i at the end of period t, and

P_{it-1} is the price of security i at the end of period t-1.

$PBTE_{i,t}$ = the profit before taxes and extraordinary items of bank i at time t, divided by the number of

common shares outstanding and deflated by the market price at the end of the previous year

$CHPBTE_{i,t}$ = the change in profit before taxes and extraordinary items of bank i at time t, divided by the number of common shares outstanding and deflated by the market price at the end of the previous year

$\varepsilon_{i,t}$ is an error term

Value relevance of accounting numbers is majorly dependent on the explanatory power R^2 and the coefficients on the respective independent variables as obtained from the two OLS regressions above.

4.0 Analyses and Interpretation of Data

4.1 Aggregate Discretionary Accruals

In order to decompose total accrual into its discretionary and non-discretionary components this study computes a standardized prediction error. NDA are predictions based on the estimated regression coefficients from the modified Jones model. DA however is the related prediction error. The regression equations are estimated over years when local GAAP was applicable and years when IFRS became operational. Hence, Nigeria local GAAP and IFRS reporting regimes were additional partitioned into two overlapping reporting periods. That is the local GAAP period of 2008-2010 was further divided into periods 2008-2009 and 2009-2010 with 2009 as the coinciding year. Similarly, the IFRS adoption period of 2011-2013 was split into 2011-2012 and 2012-2013 having 2012 as the overlying year. Yet the essence of this demarcation is to ensure coverage for all the accounting years and related data used across the study period. In addition this demarcation provides ample platform to identify period specific DA vis-à-vis aggregate accounting regime DA. Summary of DA giving consideration to the above subdivision are briefly presented in the table 1.

BANK	Local GAAP REPORTING ERA			IFRS TOTAL REPORTING ERA		
	2008-2009 DA	2009-2010 DA	AVERAGE Local GAAP DA	2011-2012 DA	2012-2013 DA	AVERAGE IFRS DA
1	0.391463	0.185573	0.288518	0.243423	0.216538	0.229981
2	0.39188	0.185088	0.288484	0.243141	0.231961	0.237551
3	0.378769	0.183331	0.28105	0.245929	0.193058	0.219494
4	0.383541	0.189904	0.286723	0.247382	0.195241	0.221312
5	0.381983	0.183259	0.282621	0.330413	0.202778	0.266596
6	0.372286	0.183133	0.27771	0.263767	0.194344	0.229056
7	0.381378	0.185762	0.28357	0.244526	0.201337	0.222932
8	0.379528	0.189679	0.284604	0.243681	0.19216	0.217921
9	0.369972	0.18374	0.276856	0.243953	0.194527	0.21924
10	0.377645	0.183217	0.280431	0.24304	0.195842	0.219441
11	0.401622	0.20925	0.305436	0.244011	0.194981	0.219496
12	0.374674	0.187369	0.281022	0.248758	0.195633	0.222196
13	0.370265	0.183108	0.276687	0.243805	0.192401	0.218103
14	0.375497	0.188255	0.281876	0.245431	0.191601	0.218516
15	0.376845	0.18415	0.280498	0.245022	0.192489	0.218756
16	0.436789	0.216346	0.326568	0.311311	0.202686	0.256999
17	0.40674	0.221129	0.313935	0.243898	0.211388	0.227643
18	0.393846	0.19302	0.293433	0.24555	0.197437	0.221494
19	0.382162	0.192534	0.287348	0.24378	0.200709	0.222245
20	0.395596	0.197088	0.296342	0.244937	0.19586	0.220399
Total Average	0.386124	0.191247	0.288685	0.253288	0.199649	0.226468

Overall, DA considerably declined following the adoption of IFRS. Average DA reduced by 21.6% from 0.288685 during the local GAAP reporting era to 0.226468 following the implementation of IFRS. Also, core local GAAP and IFRS reporting periods DA reduced by 48.3%. Average core local GAAP reporting era DA score is 0.386124 while the average core IFRS reporting era DA score is 0.199649. Transition effect however induced relatively high DA of 0.253288 for the 2011-2012 sub-partitioned period. Conclusively, IFRS implementation is linked with the significant reduction in the magnitude of DA and ultimately lower earnings management, higher accrual and earnings quality.

4.2 Discretionary Loan Loss Provisions

This study also employed the methodology described above to investigate discretionary loan loss provisions (hereafter referred to as DLLP) as evidencing the practice of earnings management. 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). This study employs a prediction model to estimate DLLP. DLLP are the related prediction error. Computed core and total DLLP for the local GAAP and IFRS reporting periods are given in table 2.

S/No/Year	Local GAAP Reporting Age			IFRS reporting age		
	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	0.042404	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	0.03868	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 general, DLLP significantly decreased following the adoption of IFRS. Average DLLP dipped by 71.4% from 0.108864 during the local GAAP reporting era to 0.031153 consequent upon the adoption of IFRS. Likewise, core local GAAP and IFRS reporting periods DLLP decreased by 83.8%. Average core local GAAP 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 IFRS implementation occasioned decline in average DLLP accord this study to conclude that IFRS adoption is linked with the reduction of Nigeria banks managers' leeway to manage earnings through LLP.

4.3 Earnings Smoothing

According to the correlation matrix TA exhibit a negative association of -0.976033 with OCFLAST for the local GAAP reporting regime. However, the negative link between TAAST and OCFLAST decreased to -0.956390 resulting from the adoption of IFRS. A higher negative correlation between accruals and operating cash flows would tend to be indicative of earnings smoothing. This study established that local GAAP reporting era induces a higher negative correlation between TAAST and OCFLAST. This study therefore concludes that earnings smoothing is more pervasive during the SAS reporting era compared to the IFRS reporting regime.

4.4 LLP Earnings Management Pattern(s)

This study also investigates the nature of the association that subsist between LLP and PBTE for both local GAAP and IFRS reporting regimes. This is with the objective to provide evidences of earnings management pattern(s) employed by banks through LLP for both reporting periods. 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 reporting regimes are given in table 3.

Variables	Local GAAP 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 local GAAP 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 local GAAP 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 local GAAP 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 local GAAP 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 local GAAP era compared to post IFRS adoption period
Adj. R ²	88.4%	44.4%	Stronger predictive power for local GAAP era compared to post IFRS adoption period

Earnings minimization through LLP brands both local GAAP 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 local GAAP 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 local GAAP era

compared to the IFRS adoption period. Conclusively the practice of earnings management pattern of income minimization via LLP is more prevalent during the pre (local GAAP) adoption period compared to the post (IFRS) period.

4.5 Non-Performing Loan (NPL) and Loan Quality

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 thought it fit to investigate different accounting standards problem loans in relation to other variables and overall credit quality. Extract of panel data regression are presented in table 4.

Table 4: Non-Performing Loan (NPL) and Loan Quality Nigeria Result

Variables	Local GAAP Reporting Age	IFRS reporting Age	Interpretation
GLOAN	0.197320	0.042510	While every N100 causes N0.20 increase in NPL for the local GAAP 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 local GAAP 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 local GAAP 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 local GAAP 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 local GAAP 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 local GAAP era than the IFRS reporting era.
Adj. R ²	91%	83.6%	Stronger predictive power for local GAAP era than the IFRS reporting era.

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

4.6 Earnings Management Targets tests

Essentially, SPP exhibit a positive coefficient of 0.041137 which is indicative that under local GAAP reporting era banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the IFRS reporting age. In order to authenticate the above outcomes in view of evidences that frequency of small positive earnings is used as a measure of earnings management (Burgstahler & Dichev, 1997) this study also estimate both local GAAP and IFRS frequency of small positive earnings as a measure of earnings management. For the local GAAP and IFRS reporting ages there are sixty respective observations made up of three years (2008, 2009 and 2010) against twenty banks for the local GAAP reporting age and three years (2011, 2012 and 2013) against twenty banks for the IFRS reporting era. Out of the sixty observations for the local GAAP reporting period, there are fifteen cases of managers reporting small positive profits while the corresponding figure for the MFRS reporting age is sixteen. This result is inconsistent with the prediction of this study. However, consistent with the prediction of this study, LNL exhibit a positive coefficient with SPP. The positive coefficient of 0.624992 on LNL is suggestive that under IFRS banks tend to recognize large losses readily than under SAS.

4.7 Value Relevance Outcomes

Ohlson (1995) price model and Easton and Harris (1991) models are used to investigate value relevance. Coefficient on explanatory variables and R^2 and Adjusted R^2 are the assessment parameters of these models. Accordingly outcomes from these models are presented in tables 5 and 6.

	Local GAAP Reporting Age	IFRS Reporting Age	Interpretations
EPSit	0.961460	0.088501	The adoption of IFRS is connected with decline of about 90.8% in the coefficient on EPSit
BVPSit	-0.673231	0.945007	The adoption of IFRS is associated with increment of about 240% in the coefficient on BVPSit
R^2	61.8%	80.4%	The implementation of IFRS is linked with growth in R^2 of about 30.1%
Adj. R^2	40.7%	69.5%	The implementation of IFRS is linked with growth in Adjusted R^2 of about 70.8%

According to table 5, price model suggest that while the coefficient on EPSit declined significantly by 90.8% following the adoption of IFRS, BVPSit coefficient remarkably increased by 240%. This implies that while EPSit is more value relevant during the local GAAP reporting age, BVPSit is more value relevant after the adoption of IFRS. The growth in R^2 and Adjusted R^2 however confirm that explanatory variables are more value relevant post IFRS adoption.

	Local GAAP Reporting Age	IFRS Reporting Age	Interpretations
PBTEIT	1.581234	-0.014143	Healthier association between ARIT and PBTEIT for the local GAAP reporting age
CHPBTEIT	-0.434772	0.435589	Improved association between ARIT and CHPBTEIT consequent upon IFRS adoption
R ²	9%	7.4%	Higher predictive power during the local GAAP reporting age
Adjusted R ²	5.8%	4.2%	Higher predictive power during the local GAAP reporting age

According to table 6, return model put forward that while the coefficient on PBTEit declined significantly by 100.9% after the adoption of IFRS, CHPBTEit coefficient remarkably increased by 200%. This implies that while earnings level is more value relevant during the local GAAP reporting age, change in earnings is more value relevant after the adoption of IFRS. The decline in R² and Adjusted R² however confirm that explanatory variables are more value relevant pre IFRS adoption.

This result is inconsistent with the prediction of this study. A further investigation of what could be responsible for this anomalous outcomes evidence that capital market fraud occasioned this abnormality. The local GAAP reporting age is characterised with stock market manipulation by bank managers. Ade (2014) evidences the existence of a long-run equilibrium relationship between bank fraud and stock market capitalization for the periods 2004-2010.

5. Conclusions and Recommendations

Changes in accounting standards are expected to result in changes in reporting habits and outcomes. This study investigated the impact of IFRS adoption on accounting quality of Nigeria banks. Particularly, this study used earnings management and value relevance to proxy for accounting quality. Results suggest that both DA and DLLP significantly reduced post adoption of IFRS. Results also evidenced that the pervasiveness of earnings management pattern via LLP identified as income minimization declined remarkably post adoption of IFRS. It is also clear from results that earnings smoothing is more pervasive during the SAS reporting era compared to the IFRS reporting regime. According to results also, credit quality is higher for the IFRS reporting era compared to the SAS reporting era.

However, value relevance outcomes evidence inconsistency on the association between IFRS adoption and high value relevance. Price and Return models respectively established that BVPSit and CHPBTEit are more value relevant post IFRS adoption; but EPSit and PBTEit are not. More so while the R² and Adjusted R² of the price model exhibit significant growth post IFRS adoption, the return model show significant decrease in R² and Adjusted R². Marginally these outcomes support the hypothesis that IFRS adoption is associated with high value relevance of accounting data. Overall, this study not only conclude that IFRS adoption is associated with high accounting quality but also evidenced that that there are factors beyond the fundamentals – capital market fraud- which determine stock market valuation. Therefore this study recommends the global adoption of IFRS, particularly for emerging economies. Also this study recommends that Nigeria banking sector should embrace best corporate governance practices.

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