

# **The Impact of IFRS Adoption on Earnings Quality for Firms Traded in KSA**

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## **Abstract**

In The Kingdom of Saudi Arabia (KSA), effective 2017, all listed entities are required to prepare their financial statement in accordance with the International Financial Reporting Standards (IFRS) that are endorsed in Saudi Arabia. The objective of the paper is to analyze the impact of adopting IFRS by Saudi firms on the value relevance of financial information. Using empirical data for firms listed in Saudi stock exchange “Tadawul” from 2014-2019, the paper uses a regression model that analyzes the association degree between quarterly earnings and market value of companies. The model allows measuring the value relevance of accounting information in terms of its ability of providing information useful in firms valuation. Tests have been conducted for two sub-periods of three years each, “Pre-IFRS” and “Post-IFRS” periods, to examine the impact of applying IFRS on the information content of earnings. Additional regressions were performed to test the hypothetical conditional impact of firm size and on the above-mentioned association.

Overall, results demonstrated an improvement in the information content of earnings after applying IFRS. The adoption of IFRS by Saudi firms allows investors accessing to relevant financial information that could help them in making optimal investment decisions. Furthermore, findings indicate that the information content of earnings prepared using IFRS is not sensitive to companies’ size.

**Keywords:** accounting standards, investors, stock market, relevance, firm-valuation