

THE EFFECTS OF INTERNATIONAL FINANCIAL REPORTING STANDARD ADOPTION ON CONSERVATISM IN MALAYSIAN BANKS

Wan Rabia'tul A'dawiyah

Wan Abdullah^a

 Marziana Madah Marzuki^{b †}

^{a,b} Faculty of Accountancy, Universiti Teknologi Mara Kelantan, Malaysia.

 marzianamadah@uitm.edu.my (Corresponding author)

Article History

Received: 5 August 2021

Revised: 8 September 2021

Accepted: 24 September 2021

Published: 22 October 2021

Keywords

Conservatism
IFRS
Convergence
Financial reporting quality
Banks
Malaysia.

ABSTRACT

The purpose of this study is to investigate the effect of IFRS full convergence in 2012 on conservatism of banks in Malaysia. Based on 66 firm-year observations of Malaysian banks listed in the main market of Bursa Malaysia, the results of this study reveal an overall increase in conservatism during the study period and a higher increase of conservatism following IFRS adoption. The results also provide evidence of significant differences in the level of conservatism in pre- and post-adoption of IFRS. The findings of this study highlight the benefit of IFRS full convergence among the banks in Malaysia in enhancing financial reporting quality proxied by conservatism. Thus, this study provide implication to the regulators and banks to continually support IFRS adoption as the standard continually change over the time. Our result also provides new evidence on the effect of IFRS on conservatism for financial sector which have different regulatory framework from other sectors.

Contribution/Originality: This study is one of very few studies which have investigated the effect of IFRS on conservatism among banks in Malaysia. The findings of this study provide new evidence on the effect of IFRS on conservatism among financial sector which have different regulatory approach as compared to other industries.

DOI: 10.18488/journal.1007.2021.115.41.49

ISSN(P): 2306-983X/ ISSN(E): 2224-4425

How to cite: Wan Rabia'tul A'dawiyah Wan Abdullah --- Marziana Madah Marzuki (2021) The Effects of International Financial Reporting Standard Adoption on Conservatism in Malaysian Banks. *Asian Journal of Empirical Research*, 11(5), 41-49. 10.18488/journal.1007.2021.115.41.49

© 2021 Asian Economic and Social Society. All rights reserved.

1. INTRODUCTION

The surfacing of multinational companies and globalisation of the world's capital markets has created the need for a single set of accounting standards that can be applied around the world. The standard should improve transparency and comparability of financial information for investors that would lead to better quality and more consistent financial reports. To comply with the need of such standard, in 2002 International Accounting Standards Board (IASB) had introduced the IFRS globally and recommended that countries around the world to adopt this accounting standard (Wong, 2018). Kunle, Omoruyi, and Hamed (2011) had stated that IFRS is a standard with a systematic outlook that aids understandability, reliability, relevance and comparability. The introduction of IFRS in many countries around the world is one of the most significant regulatory changes in accounting history. Tendeloo and Vanstraelen (2005) implies that IFRS is a collection of global prescriptive rules and guidelines that provide guidance on how companies in a globalized world should achieve the goal of proper record keeping, accountability, continuity, comparability and improving public confidence in financial reporting.

In Malaysia, the Malaysian accounting standard-setting body, the Malaysian Accounting Standards Board (MASB), announced the adoption of IFRS for Malaysian-listed companies, effective January 1, 2006. The standards are named as Malaysian Financial Reporting Standards (MFRS). A major change in accounting standards in Malaysia as a consequence of the adoption of IFRS is the use of fair value accounting. The movement towards fair

value accounting from historical-cost accounting is expected to result in financial statements that are more relevant, timely, credible and transparent (Wong, 2018). On the 1 January 2012, MASB had made mandatory for all public-listed companies in Malaysia to converge into IFRS, making studies of IFRS in Malaysia flourished.

Several studies have been conducted and have found that IFRS increase the quality of financial reporting and conservatism in Malaysia (Marzuki & Wahab, 2016; Sidik & Abd Rahim, 2012). Nevertheless, these studies conducted on data mostly from public-listed companies that excluded financial institutions. This gap provides evidence that studies with regards to IFRS among the financial sector in Malaysia are scarce and thus, it brings the question whether IFRS has the same impact on conservatism for companies in the financial sector in Malaysia due to its different regulatory approach.

Our findings show that there is a significant positive relationship between IFRS and conservatism which provide evidence that the banks have become more conservative indicating that IFRS promotes conservatism and thus improving the reporting quality of the firms. Our further analysis shows that there is a difference on the pre and post IFRS for the banks which indicates that Malaysian banks are more conservative for the post period of IFRS convergence.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Conservatism

Conservatism has long been regarded in accounting as one of the most important principals. A general agreement was reached between accounting regulators and accounting report writers that conservatism is an appealing aspect of accounting knowledge that is especially important to many decision-makers. Conservatism is the anticipation of no profits but anticipating all losses (Bliss, 1924). Financial Accounting Standards Board (FASB) (1975) defines conservatism as “[a] prudent reaction to uncertainty. If two estimates of amounts to be received or paid in the future are about equally likely, conservatism dictates using the less optimistic estimate”. Watts and Zimmerman (1986) state that conservatism is the use of the lowest value for possible alternative value for assets and the highest alternative value for liabilities. It means that the expenses should be recognised earlier than later and income should be recognised later than earlier. This definition accounts for financial reporting and suggests that conservatism is a feature of financial reporting. With conservatism, assets and income are to be undervalued as compared to liabilities and this will protect the creditors (Nobes & Parker, 2008). Thus, conservatism is an important aspect in concluding agreements between a company and different parties (Basu, 1997). It can be an effective tool in preparing accounting information (Watts, 2003) and making information more reliable as it is reported in a timely manner. Through its act in mitigating the impact of inflating profits practices, conservatism can heighten the credibility and quality of profits and reduce information asymmetry thus being able to cut down the asymmetry of information between managers and investors and other third parties, Basu (1997) and LaFond and Watts (2008). Lim, Lee, Kausar, and Walker (2014), their study shows that in the context of bank lending, bank managers could be tempted to continue lending and/or raise lending to borrowers with higher credit default risks at low spreads without identifying losses on a timely basis. The loan will give a negative net income in the long run meaning an impeccable rise in high loan losses. For the short run however, it will seem as if the loans will lead to a positive income which motivates the managers to behave unethically. The bank managers that practices conservative accounting will presumably show the expected loan losses by having a high provision as compared to the less conservative banks. This means that a more conservative bank will less likely to defer the disclose loan losses for future periods.

2.2. International Financial Reporting Standard (IFRS)

IFRS is authorised in 113 countries to enhance the quality standards of financial reporting (Ball, 2006; Heidi, 2009). With the adoption of IFRS, international bodies are encouraging the IASB's harmonisation process and also the adoption of IFRS (Zeghal & Lahmar, 2016). On 19 July 2002, the European Council adopted Regulation 1606/2002 which requires European companies to prepare their financial statements in accordance with IFRS. This decision relates to consolidated accounts effective 1 January 2005. Countries like Australia, Hong Kong and South Africa embraced IFRS during the same year. In the following years countries like Canada, New Zealand, Korea and Nigeria also adopted IFRS. IFRS will make the financial information become more standardised for companies that uses the said framework. Studies from Ashbaugh and Pincus (2001) found that the non-US companies that complies with IFRS is willing to disclose more of their financial information as they believe that it is more standardised compared to the financial information being prepared under US GAAP. IFRS is also more likely to be adopted by countries with weaker investor protection mechanisms and countries considered to have greater access to their domestic capital markets (Hope, Jin, & Kang, 2006)

Malaysia, in 2012, was the first country able to fully adopt or converge IFRS besides Indonesia, Singapore and Thailand (Wong, 2018). Malaysia's early adoption of the international accounting standard occurred from 1978 until 1997. At this time, the requirements of the MASB were compatible with those provided by the International Accounting Standards Board (IASB), and adapted to suit the local setting. The convergence of local standards with IFRS in Malaysia is seen as a step to enhance transparency and to raise awareness on the importance of fair and truthful reporting of financial statements by firms and various stakeholders (Marzuki & Wahab, 2016). Accounting practices in Malaysia have accepted these supposed advantages (Sidik & Abd Rahim, 2012). Based on 159 respondents, Sidik and Abd Rahim (2012) reported that most of these accounting practitioners agreed that IFRS adoption could improve financial reporting transparency and the comparability of financial statements between

companies. However, the benefits of converging to IFRS is still debatable. Barth, Armstrong, Jagolinzer, and Riedl (2008) show that despite the aforementioned benefits, they criticise the claims that the implementation of IFRS has no definitive proof that standards have led to changes in company reporting and accounting efficiency. Studies from Ahmed, Neel, and Wang (2013) also showed that IFRS implementation has not increased the consistency of financial statements nor do they increase the quality of financial reporting. The research benchmarked a group of firms in IFRS countries to non-IFRS countries and found an increase in revenue smoothing, an increase in excessive accrual reporting, a decline in the timeliness of loss detection, and no clear proof of achieving IFRS group earnings goals related to non-IFRS.

Zeghal, Chtourou, and Fourati (2012) have shown a reduction in timeliness, in the degree of conditional conservatism and the relevance of information since the compulsory implementation of IFRS. Ahmed et al. (2013) also discussed the problem of compulsory implementation of IFRS and its effect on the consistency of accounting. They used timeliness recognition of losses as a measure to disclose aggressiveness. The results of their study indicate a decline in the timeliness of recognition of losses after the move to IFRS. André, Filip, and Paugam (2012) reported a decrease in conditional conservatism in post mandatory adoption of IFRS.

Studies of IFRS and conservatism in Malaysia have started to sprout such as studies by Manawadu, Azmi, and Mohamed (2019) and Madah Marzuki and Abdul Wahab (2018) which focused on IFRS and conservatism within public-listed companies in Malaysia. These studies, however, had excluded the financial sector as financial institutions use different regulations as they are separately regulated under the Banking and Financial Institution Act of 1989. There have been scarce studies on conservatism and IFRS within financial institutions. In different institutional setting, studies of IFRS and conservatism has been conducted among the Nigerian Banks (Tanko, 2012) and in the context of banks in Egypt and the UAE over the period 2008-2013 (El-Bannany, 2018). Both studies show a positive relation between conservatism and IFRS. According to the above studies, the question on the effect of IFRS implementation on accounting conservatism is still a wide-ranging and renewed area of study in terms of subject matter and scope as the application of the IFRS is widespread in most countries, including Malaysia, and also because the production of these standards is ongoing and has not stopped at any stage. Despite the mixed arguments from previous studies, we believe that conservatism plays an important governance role to the stakeholders of Malaysian banks and thus, the following hypotheses are proposed:

H1a: There is significant difference of conservatism for pre and post IFRS

H1b: There is significant positive relationship between IFRS and conservatism.

3. RESEARCH METHODOLOGY

3.1. Sample Selection and Data Collection

The sample for this study are of the public-listed financial companies in Bursa Malaysia. As we focus on financial sectors, other sectors were excluded from the sample selection as the financial sector is separately regulated under Banking and Financial Institution Act of 1989. The financial or banking industry is predicted to face more challenges of internalisation as they implemented IFRS and corporate governance. This is due to their need for consolidation of subsidiaries and investments abroad and also the quotation at international capital markets (Tanko, 2012). The final sample for the study was 11 local commercial banks listed in Bursa Malaysia's Main Market and registered under Bank Negara Malaysia. Since this study is conducted for 6 years for the periods between 2010 till 2015, total firm-observations are 66 observations. As the mandatory full adoption of IFRS and MCGG 2012 for banks in Malaysia is in 2012, we have chosen 2010 and 2011 as the pre period and selected four more years being 2012, 2013, 2014 and 2015 as the post period for a more robust result.

Financial data is collected from Data Stream database and some are hand-collected from annual report of the banks. Corporate governance variables are collected from firms' annual report. All firms with sufficient data on the DataStream database for estimation of conservatism are included in the initial sample.

3.2. Variables Measurement

The dependent variable of this study is conservatism. Conservatism relates to the asymmetric timeliness in earnings between bad and good news (Beekes, Pope, & Young, 2004). Conservatism in accounting is when net assets values are constantly understated under asymmetric treatment of gains and losses (Lang, Raedy, & Yetman, 2003; Watts, 2003). We have chosen to measure conservatism using large negative net income as suggested in studies by Lang et al. (2003) and Tanko (2012). Using the large negative net income, a result showing large negative results suggest that the loss recognition is not timely in thus less conservative, if the result is a positive large negative net income it signifies that the firm recognise more frequently, thus becoming more conservative. Their studies suggest that a higher-quality earnings record losses as they incurred rather than being postponed or deferred to the future and thus delay the gain recognition. Using large negative net income (net income/total asset), the measurement will show where a dummy indicator equals to 1 for observations in which annual net income scaled by total assets is less than -0.2 and 0 otherwise (Tanko, 2012). A positive coefficient on the negative net income will suggest that IFRS firms recognise large losses more frequently in the post-adoption period than they do in the pre-adoption period. Nevertheless, since our sample indicates positive net income for all the years throughout the period we use large positive net income to indicate less conservatism. That is the larger positive income, the less conservatism will be. The independent variables in this study is IFRS convergence It will be measured by using the disclosure of firms' adoption of IFRS in the notes to the accounts using dummy 1 if the bank fully adopts the IFRS and 0 if otherwise.

3.3. Control Variables

Consistent with past studies, there are several control variables involved in this study which were financial variables and corporate governance variables. For financial variables, we use firm's size and leverage. The study expects the relationship between conservatism and growth to be positive. Leverage is measured by debt ratio where total liability divided by total assets. For corporate governance, we have chosen board size and presence of female board member as control variable. Previous researches indicate that women are more ethical and risk averse, thus, tend to report more conservative earnings (Byrnes, Miller, & Schafer, 1999; Garcia-Sanchez, Martínez-Ferrero, & García-Meca, 2017). We expect that smaller board size is more conservative as there would not be over concentrated opinion from boards (Abdul Manaf, Amran, & Zainol Abidin, 2014). In addition, we control for board independence and board tenure due to the changes of these variables in the revision of Malaysian Code of Corporate Governance (MCCG) issued by Securities Commission Malaysia in 2012. Board independence is measured by the proportion of independent directors on the board. MCCG 2012 suggested that the majority of board members should comprise of independent directors. Board tenure is defined by the average tenure (number of years) of all outside directors in the board and a director's tenure is calculated as the year of annual meeting minus the start year of directorship, minus any breaks in the service of directorship. The board tenure is determined by measuring the overall number of years the board members have been in the board of the organisation (Huang, 2013). In MCCG 2012, it is recommended that the tenure of an independent director should not exceed a cumulative term of nine years.

4. EMPIRICAL FINDINGS

4.1. Descriptive Analysis

Table 1 presents the descriptive statistics for testing the variables. The table presents the mean, median, maximum and minimum and standard deviation value of all variables from the 66 observations. Panel A reports descriptive statistics for the dependent variable, conservatism by using net income. For conservatism, it shows that the net income per asset on average is 0.014 ranging from 0.005 to 0.019 with a standard deviation of 0.0004. The median for this variable is 0.015.

Our analysis in Panel B shows the independent variables of convergence to IFRS, board tenure and board independence. For convergence of IFRS the result shows that 66.7 percent of the samples comply and fully adopt IFRS and that 33.3 percent have not fully complied in converging into IFRS in 2012. This is due to some banks having the year ended on the month of March and June, thus were still in their transition period. After the year of convergence, all the financial institutions had made full convergence to IFRS. Board tenure shows that most banks have their director on at average of 6.7 years, which means that are complying with MCCG 2012's recommendation of having up to a maximum of 9 years the director's as members on board. For board independence, the result indicates that 52.8 percent of board are independent. MCCG 2012 suggested that the board must have a majority of independent directors. So, from the result, we can see that the samples show majority of the banks have complied with the recommendation of MCCG 2012.

Table-1. Descriptive Statistic.

N=66					
	Mean	Median	Maximum	Minimum	Std. Dev.
Panel A: Dependent Variable					
NET_INCOME	0.014	0.015	0.019	0.005	0.004
Panel B: Independent Variable					
IFRS	0.667	1.000	1.000	0.000	0.475
Panel C: Control Variable (Financial Indicator)					
LOG_ASSET	18.329	18.516	20.378	15.838	1.185
TOTAL_ASSET	163000000.000	110000000.000	708000000.000	7557275.000	166000000.000
LEVERAGE	0.916	0.910	0.950	0.880	0.017
Panel D: Control Variable (Corporate Governance Variable)					
BOD_TENURE	6.744	6.000	12.000	3.000	2.310
IND_BOD	0.528	0.555	0.750	0.220	0.129
FEMALE	0.561	1.000	1.000	0.000	0.500
BOD_SIZE	9.500	9.000	13.000	7.000	1.542

4.2. Correlation Analysis

Table 2 tabulates the correlations analysis for the variables used in this study. The result indicates that there is negative and significant correlation between *NET_INCOME* and *IFRS* (-0.044, $p < 0.001$) using the Pearson correlation. This means that when the firms adopt IFRS, the lesser will be the large positive net income indicating that the higher the conservatism. Therefore, the result indicating that Malaysian banks are more conservative after IFRS, highlighting the benefit of IFRS. Another significant and negative correlation is between *NET_INCOME* and *BOD_TENURE* (0.294, $p < 0.05$). This indicates a positive relationship between the large positive net income and the board tenure.

Table-2. Pearson's Correlation Analysis.

Correlation	NET_INCOME		IFRS		BOD_TENURE	IND_BOD	LOG_ASSET		LEVERAGE	FEMALE		BOD_SIZE				
Panel A: Dependent Variable																
NET_INCOME	1.000	-----														
Panel B: Independent Variable																
IFRS	-0.044	0.723	1.000	-----												
Panel C: Control Variable (Financial Indicator)																
LOG_ASSET	0.558	***	0.126		-0.007	0.241	*	1.000	-----							
LEVERAGE	-0.305	**	-0.117		-0.368	***	-0.009	-0.223	*	1.000	-----					
Panel D: Control Variable (Corporate Governance Variable)																
BOD_TENURE	0.294	**	0.165		1.000	-----										
IND_BOD	-0.020		0.090		-0.286	**	1.000	-----								
FEMALE	0.317	***	0.216	*	0.163		-0.301	**	0.471	***	-0.251	**	1.000	-----		
BOD_SIZE	0.299	**	-0.021		0.018		-0.123		0.516	***	-0.342	***	0.449	***	1.000	-----

Note: * for 1%, ** for 5% and *** for 10%

The result indicates that the longer period that the directors serve the board, the higher will be the large positive net income, the lesser will be the conservatism. The result is consistent with existing literature of Vafeas (2003), Fracassi and Tate (2012) and Huang (2013) whereby their studies shows a negative link between conservatism and tenure of the boards. This indicates that directors that have longer tenure are less effective in monitoring the quality of the firm's reporting quality.

The results for IND_BOD have no significant relation with NET_INCOME highlighting that the variable do not influence conservatism. The result for financial indicator of control variables shows that firm size has positive correlation with conservatism (0.558, $p < 0.001$). This indicates that larger firm size will result in higher net income and thus lower conservatism. The result also indicates that higher leverage lead to lower net income.

In addition, the result highlights that having at least one female directors and large board size lead to increase in net income. Overall, the correlations between variables suggest that there is no serious multicollinearity issue. We have also run Variation Inflation Factor (VIF) to evaluate the problem of multicollinearity. The result of VIF indicates that all the value of variables is below ten, indicating that multicollinearity is not likely to be a serious problem in this study.

4.3. Univariate Analysis

The result shown in Table 3 indicates that the net income of the financial institutions are not much different between pre and post of IFRS convergence and MCGG 2012. The average of board tenure is 6 years for the pre IFRS and MCGG 2012, whereas the average increase to 7 years after adopting MCGG 2012. The result indicates that the banks complied to the recommendation of MCGG 2012 of having a board member not more than 9 years serving the board, there is only a slight change in the board tenure years. The result for board independence also shows there is an increase from fifty percent to fifty-three percent. The result indicates that in average the banks do not comply with the recommendation to have majority of independent board. For control variables, the mean for the firm size and leverage is 18.43 and 0.915 respectively Nevertheless, there is insignificant differences for all the variables in the period pre and post of IFRS convergence and MCGG 2012. Therefore, we run multivariate analysis for further analysis.

Table-3. Univariate Analysis of Pre and Post Convergence of IFRS.

	Pre IFRS Convergence		Post IFRS Convergence		t-test	Mann-Whitney
	N=22		N=44			
	Mean	Median				
NET_INCOME	0.013	0.014	0.014	0.015	0.717	0.840
BOD_TENURE	6.209	5.000	7.011	7.000	0.499	0.118
IND_BOD	0.511	0.500	0.536	0.560	0.241	0.521
LOG_ASSET	18.120	18.320	18.434	18.680	0.312	0.157
TOTAL_ASSET	127000000.000	90592938.000	182000000.000	130000000.000	0.148	0.157
LEVERAGE	0.919	0.915	0.915	0.910	0.355	0.365

Table-4. Regression Result Using Large Positive Net Income.

Regressions	1		2		3	
Dependent Variable	Net_Income					
Intercept	0.009	**	0.000		0.004	
	2.126		-0.009		0.130	
IFRS	-0.001		-0.001	*	-0.001	*
	-1.120		-1.765		-1.699	
IND_BOD	0.002		-0.002		-0.003	
	0.404		-0.449		-0.574	
BOD_TENURE	0.001		0.000	*	0.000	
	1.438		1.695		1.615	
LOG_ASSET			0.002	***	0.002	***
			3.456		2.989	
LEVERAGE			-0.021		-0.026	
			-0.626		-0.779	
FEMALE					0.000	
					-0.011	
BOD_SIZE					0.000	
					-0.468	
Adjusted R-Squared	0.059		0.392		0.375	
F-Stats	2.353	*	9.385	***	6.582	***

Note: * for 1%, ** for 5% and *** for 10%.

4.4. Multivariate Analysis

Table 4 shows the regression results for the effect of convergence of IFRS and corporate governance towards the conservatism whereby * for 1%, ** for 5% and *** for 10%. The result indicates that IFRS and the large positive net income are significantly negative at 10 percent. The finding supports our second hypothesis that convergence of IFRS can reduce the large positive net income, thus indicating a more conservative accounting practise in the banks. This finding is consistent with the findings of Barth et al. (2008); Tanko (2012); Marzuki and Wahab (2016) and Humeedat (2019) which imply that the adoption of IFRS results in enhancement of financial reporting quality. The result of IND_BOD and BOD_TENURE are not significant indicating that both variables do not significantly influence conservatism. The result is consistent with Ataur-Rahman and Islam (2018) research of 85 observations years of 17 public listed banks in Bangladesh, which find that board independence has insignificant relationship with the quality of financial reports which relates to conservatism. Meanwhile, study by Shean Sun and Uddin Bhuiyan (2020) shows that the board tenure also has no significant impact on the reporting quality and earnings.

4.5. Robustness Test

For robustness test, we also use Basu (1997) measurement of conservatism by estimating Basu (1997) regression with Equation 1 and allow the coefficients to vary across firms and with time, the equation as follows:

$$NI_{it} = \beta_0 + \beta_1 DR_{it} + \beta_2 R_{it} + \beta_3 R_{it} * DR_{it} + e_{it} \quad (1)$$

Where:

NI_{it} = Net income before extraordinary items deflated by total assets of firm I ;

R_{it} = The fiscal year continuously compounded return;

DR_{it} = The dummy variable, which is equal to one if R_{it} is negative and is zero otherwise.

In this model, dependent variable is earnings and stock return as the independent variable. Since the R_{it} for the sample is all positive throughout the period, following the Basu (1997) definition of conservatism, the DR_{it} is measured as the dummy variable, which is equal to one if R_{it} is less than NI_{it} and is zero otherwise. The coefficient on stock return β_2 measures the sensitivity of accounting income to positive stock return (a proxy for economic gain). Then, input ($\beta_2 + \beta_3$) to measure the total sensitivity of accounting income to negative stock return. Conservatism is measured by the interaction between $R_{it} \times DR_{it}$ represented by β_3 . Under conservative reporting, β_3 is expected to be positive. The higher the β_3 , the higher will be earnings conservatism. Following Khan and Watts (2009) this study use firm's size and leverage as control variables. Thus, our final model will be:

$$NI_{it} = \beta_0 + \beta_1 DR_{it} + \beta_2 R_{it} + \beta_3 R_{it} * DR_{it} + SIZE + LEV + e_{it} \quad (2)$$

Where:

SIZE = The natural log of total assets;

LEV = The total debt deflated by total assets.

Table 5 presents the result of conservatism using Basu (1997) model. The result indicates that the measurement of conservatism which is the coefficient of β_3 is significantly positive at 1 percent (3.520, $p < 0.01$) indicating that overall, the Malaysian banks are conservative throughout the period and thus support our hypothesis 1b. To test the effect of IFRS using Basu (1997) model, the Basu's model is run separately in the period of pre and post IFRS convergence.

Table-5. Regression Result Using Basu's Model.

Regressions	1		2	
Dependent Variable	Net_Income			
Variable	Coefficient		Coefficient	
Intercept	0.002		0.107	**
	0.319		2.535	
R	0.000		0.000	*
	1.506		1.841	
DR	0.012		0.014	**
	1.514		2.213	
R*DR	0.000		0.000	***
	1.166		3.520	
LOG_ASSET			-0.001	***
			-3.129	
LEVERAGE			-0.098	**
			-2.177	
Adjusted R-Squared	0.224		0.385	
F-Stats	4.459	***	5.504	***

Note: * for 1%, ** for 5% and *** for 10%.

Basu uses reverse regression with earnings as the dependent variable rather using the standard regression which would be earnings to returns as measured by 'Earnings Response Coefficient (ERC)', because, according to him, OLS standard errors and test statistics are better specified when the leading variable is specified as independent and the lagging variable as dependent. Therefore, Basu (1997) regresses annual earnings on current annual returns. Conservatism, the dependent variable, where we use large positive net income, contains more timely information for 'bad news' firms, resulting in a higher predicted R² for this sample. The slope coefficient β is predicted to be greater for the 'bad news' sample because earnings is predicted to be more sensitive to contemporaneous unexpected returns.

The result indicates that Malaysian banks are more conservative for the post period of IFRS convergence and MCCG 2012 amendment as the result for conservatism is significantly positive ($R_{it} \times DR_{it}$) at 1 percent level (5,739, $p < 0.01$). This result highlights that IFRS have increased the level of conservatism and thus support our Hypothesis 1a.

5. CONCLUSION

The main objective of the study is to determine the impacts of IFRS adoption on conservatism among Malaysian banks in order to understand the relevance benefits of the adoptions. Our findings indicate that the banks have become more conservative indicating that IFRS promotes conservatism and thus improving the reporting quality of the firms. The result of this study provides implication to the regulators to continuously promote the banks to apply IFRS. Even though all of the banks have adopted IFRS, the standards keep continually change. The result also provide evidence to other countries that have not yet adopted of fully adopted IFRS continually adopt IFRS as it can enhance conservatism and thus enhance financial reporting quality.

This study provides new evidence on the effect of IFRS on conservatism for financial sector which have different regulatory framework from other sectors. It provides implication to the regulators to take strategic and proactive approaches to encourage Malaysian banks to fully embrace IFRS such as promoting the benefit of the framework and standard. For the good of all future users of financial statements, IFRS promotes the significance of financial statements, thus its implementation is therefore the key to providing a larger range of users of financial statements with more relevant information. It is prepared by various bodies in numerous jurisdictions to increase transparency, understandability, competitiveness and comparability of financial statement (Tan, Lim, & Kuah, 2017).

Funding: This study received no specific financial support.

Competing Interests: The authors declare that they have no competing interests.

Acknowledgement: Both authors contributed equally to the conception and design of the study.

Views and opinions expressed in this study are the authors' views and opinions; the Asian Journal of Empirical Research shall not be responsible or answerable for any loss, damage, or liability, etc. caused in relation to/arising out of the use of the content.

REFERENCES

- Abdul Manaf, K. B., Amran, N. A., & Zainol Abidin, A. (2014). Board size and accounting conservatism of Malaysian listed firms. *Australian Journal of Basic and Applied Sciences*, 8(23), 207-211.
- Ahmed, A. S., Neel, M., & Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. *Contemporary Accounting Research*, 30(4), 1344-1372. Available at: <https://doi.org/10.1111/j.1911-3846.2012.01193.x>.
- André, P., Filip, A., & Paugam, L. (2012). Accounting conservatism in Europe and the impact of mandatory IFRS adoption: Do country, institutional and legal differences survive. *ESSEC Business School Cergy-Pontoise*, 95021.
- Ashbaugh, H., & Pincus, M. (2001). Domestic accounting standards, international accounting standards, and the predictability of earnings. *Journal of accounting research*, 39(3), 417-434. Available at: <https://doi.org/10.1111/1475-679x.00020>.
- Ataur-Rahman, M. A., & Islam, J. (2018). The impact of corporate governance on bank performance: Empirical evidence from Bangladesh. *Global Journal of Management and Business Research*, 18(8), 49-53.
- Ball, R. (2006). International financial reporting standards (IFRS): Pros and cons for investors. *Accounting and Business Research*, 36(sup1), 5-27. Available at: <https://doi.org/10.1080/00014788.2006.9730041>.
- Barth, M., Armstrong, C., Jagolinzer, A., & Riedl, E. (2008). Market reaction to events surrounding the adoption of IFRS in Europe.
- Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics*, 24(1), 3-37. Available at: [https://doi.org/10.1016/s0165-4101\(97\)00014-1](https://doi.org/10.1016/s0165-4101(97)00014-1).
- Beekes, W., Pope, P., & Young, S. (2004). The link between earnings timeliness, earnings conservatism and board composition: evidence from the UK. *Corporate Governance: An International Review*, 12(1), 47-59. Available at: <https://doi.org/10.1111/j.1467-8683.2004.00342.x>.
- Bliss, J. H. (1924). *Management through accounts*. New York: The Ronald Press Co.
- Byrnes, J. P., Miller, D. C., & Schafer, W. D. (1999). Gender differences in risk taking: A meta-analysis. *Psychological Bulletin*, 125(3), 367-383. Available at: <https://doi.org/10.1037/0033-2909.125.3.367>.
- El-Bannany, M. (2018). Financial reporting quality for banks in Egypt and the UAE. *Corporate Ownership & Control*, 15(2), 116-131. Available at: <https://doi.org/10.22495/cocv15i2art10>.
- Financial Accounting Standards Board (FASB). (1975). Original pronouncements as amended: Statements of financial accounting concepts No. 2.
- Fracassi, C., & Tate, G. (2012). External networking and internal firm governance. *The Journal of Finance*, 67(1), 153-194. Available at: <https://doi.org/10.1111/j.1540-6261.2011.01706.x>.
- Garcia-Sanchez, I.-M., Martínez-Ferrero, J., & García-Meca, E. (2017). Gender diversity, financial expertise and its effects on accounting quality. *Management Decision*, 55(2), 347-382. Available at: <https://doi.org/10.1108/md-02-2016-0090>.
- Heidi, T. (2009). Twenty questions on international financial reporting standards. *The CPA Journal*, 79(3), 32-37.

- Hope, O., Jin, J. Y., & Kang, T. (2006). Empirical evidence on jurisdictions that adopt IFRS. *Journal of International Accounting Research*, 5(2), 1-20. Available at: <https://doi.org/10.2308/jiar.2006.5.2.1>.
- Huang, S. (2013). Board tenure and firm performance. Retrieved from: <http://www.efmaefm.org/0EFMAMEETINGS/EFMA%20ANNUAL%20MEETINGS/2013-Reading/phd/Board%20Tenure%20and%20Firm%20Performance.pdf>. [Accessed December 12, 2020].
- Humeedat, M. M. (2019). Changes in accounting conservatism in pre-and post-IFRS adoption in Jordan. *Changes*, 10(4), 9-14.
- Khan, M., & Watts, R. L. (2009). Estimation and empirical properties of a firm-year measure of accounting conservatism. *Journal of Accounting and Economics*, 48(2-3), 132-150. Available at: <https://doi.org/10.1016/j.jacc.2009.08.002>.
- Kunle, O., Omoruyi, E., & Hamed, A. (2011). Impact of international reporting standards on insurance management in Nigeria. *Middle Eastern Finance and Economics*, 2, 128-142.
- LaFond, R., & Watts, R. L. (2008). The information role of conservatism. *The Accounting Review*, 83(2), 447-478. Available at: <https://doi.org/10.2139/ssrn.921619>.
- Lang, M., Raedy, J. S., & Yetman, M. H. (2003). How representative are firms that are cross listed in the United States? An analysis of accounting quality. *Journal of Accounting Research*, 41(2), 363-386.
- Lim, C. Y., Lee, E., Kausar, A., & Walker, M. (2014). Bank accounting conservatism and bank loan pricing. *Journal of Accounting and Public Policy*, 33(3), 260-278. Available at: <https://doi.org/10.1016/j.jaccpubpol.2014.02.005>.
- Madah Marzuki, M., & Abdul Wahab, E. A. (2018). International financial reporting standards and conservatism in the Association of Southeast Asian Nations countries: Evidence from jurisdiction corruption index. *Asian Review of Accounting*, 26(4), 487-510. Available at: <https://doi.org/10.1108/ara-06-2017-0098>.
- Manawadu, I., Azmi, A. C., & Mohamed, A. (2019). Moderating effect of IFRS adoption on FDI and conditional accounting conservatism in South Asia. *Journal of Accounting in Emerging Economies*, 9(1), 51-74. Available at: <https://doi.org/10.1108/JAEE-03-2017-0035>.
- Marzuki, M. M., & Wahab, E. A. A. (2016). Institutional factors and conditional conservatism in Malaysia: does international financial reporting standards convergence matter? *Journal of Contemporary Accounting & Economics*, 12(3), 191-209. Available at: <https://doi.org/10.1016/j.jcae.2016.09.004>.
- Nobes, C., & Parker, R. (2008). *Comparative international accounting* (10th ed.). Harlow: Prentice Hall.
- Shean Sun, X., & Uddin Bhuiyan, M. B. (2020). Board Tenure: A review. *The Journal of Corporate Accounting and Finance*, 16, 1-21. Available at: <https://doi.org/10.1016/j.jcae.2020.100182>.
- Sidik, M. H. J., & Abd Rahim, R. (2012). The benefits and challenges of financial reporting standards in Malaysia: accounting practitioners' perceptions. *Australian Journal of Basic and Applied Sciences*, 6(7), 98-108.
- Tan, P. H.-N., Lim, C. Y., & Kuah, E. W. (2017). Advanced financial accounting: An IFRS standards approach. (2017). 1-1131. Research Collection School of Accountancy. Retrieved from: https://ink.library.smu.edu.sg/soa_research/1720. [Accessed August 21, 2020].
- Tanko, M. (2012). *The effect of international financial reporting standards (IFRS) adoption on the performance of firms in Nigeria*. Paper presented at the International Financial Reporting Standards (IFRS) Conference - Challenges & Opportunities. At: College of Business & Economics, Qassim University - Saudi Arabia.
- Tendeloo, V. B., & Vanstraelen, A. (2005). Earnings management under German GAAP versus IFRS. *European Accounting Review*, 14(1), 155-180. Available at: <https://doi.org/10.1080/0963818042000338988>.
- Vafeas, N. (2003). Length of board tenure and outside director independence. *Journal of Business Finance & Accounting*, 30(7/8), 1043-1064. Available at: <https://doi.org/10.1111/1468-5957.05525>.
- Watts, R. L., & Zimmerman, J. L. (1986). Positive accounting theory. Prentice-Hall Inc. Retrieved from: <https://ssrn.com/abstract=928677>. [Accessed July 15, 2020].
- Watts, R. L. (2003). Conservatism in accounting part I: Explanations and implications. *Accounting Horizons*, 17(3), 207-221.
- Watts, R. (2003). Conservatism in accounting part II: Evidence and research opportunities. *Accounting Horizons Journal of the American Accounting Association*, 17(4), 287-301.
- Wong, K. L. N. (2018). IFRS adoption impacts on financial position and earnings management: Evidence from Malaysia. SEMANTIC SCHOLAR. Retrieved from: <http://semantic scholar.org/paper/IFRS-adoption-impacts-on-financial-position-andWong/c7c4a0e1235d3862ad1516976415ce688f0ff64c#citing-papers>.
- Zeghal, D., Chtourou, S. M., & Fourati, Y. M. (2012). The effect of mandatory adoption of IFRS on earnings quality: Evidence from the European Union. *Journal of International Accounting Research*, 11(2), 1-25. Available at: <https://doi.org/10.2308/jiar-10221>.
- Zeghal, D., & Lahmar, Z. (2016). The impact of IFRS adoption on accounting conservatism in the European Union. *International Journal of Accounting and Financial Reporting*, 6(1), 127-160. Available at: <https://doi.org/10.5296/ijaf.v6i1.9581>.