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The Effect of Adoption of IFRS on the Stock Performance: Implications on investor's expectations

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Abstract
This research paper that assesses the effect of IFRS on stock market performance of banks with a view to measure whether investors' expectation is satisfactory is becomes necessary. The population consists of fourteen banks quoted in Nigerian Stock Exchange. Stratified Random sampling method was adopted and seven years (2006-2012) annual accounts of these banks covered both SAS and IFRS. Findings showed that most of the banks could not generate sufficient interest earnings to cover their interest obligations thereby unable to satisfy investor's expectation, hence the assessment of stock market performance of banks therefore can be used to measure whether investors expectation is satisfactory or not.
Key words: IFRS, Stock Performance, investor's expectation and Earnings per share.

Introduction

In the recent time, most of the countries including Nigeria are moving in the direction of International Financial Reporting Standards (IFRSs). While some countries have already adopted these standards years back, these however are new way for transition of economies like ours. Business globalization and international convergence whose combined effects is making a 'global village' of the world have posed the challenge of having in place a common financial reporting standards for the countries of the world. The series of World Bank sponsored private and public sector financial management reforms across developing economies as a prerequisite for foreign direct investments (FDI) and foreign donor agencies' intervention, has made the adoption and implementation of international financial accounting reporting standards imperative. Akhidime, 2010).

The increasing growth in international trade, cross border financial transactions and investments which unavoidably involves the preparation and presentation of accounting reports that is useful across various national borders, has brought about the adoption of IFRS by both the developed and developing countries (Armstrong et al., 2007). The process of adoption received a significant boost in 2002 when the European Union adopted a regulation 1606/2002 requiring all public companies in the territory to convert to IFRSs beginning in 2005 (Iyoha and Faboyede, 2011). A number of African countries including Nigeria, Ghana, Sierra Leone, South Africa, Kenya, Zimbabwe and Tunisia among others have adopted or declared intentions to adopt the standards. In particular, Nigeria adoption of IFRS was launched in September, 2010 by the Honourable Minister, Federal Ministry of Commerce and Industry – Senator Jubriel Martins-Kuye (OFR) (Madawaki, 2012).

In light of the globalization and changes in financial reporting process in the capital markets, many foreign and local investors invest in the Nigerian capital market, some that opted for an appropriate means of investing their capital following the financial crisis that let investors lose confidence in capital market. However, the successful adoption of IFRS will remain indispensible in any country, including Nigeria. It is in this spirit that assesses the effect of IFRS on stock market performance of banks with a view to measure whether investors' expectation is satisfactory is becomes necessary.

Literature Review

Financial statements apart from stating the financial position of an organization, provides other information such as the value added, changes in equity if any and cash flows of the enterprise within a defined period of time to which it relates (Iyoha and Faboyede, 2011). This information is useful to a wide range of users making informed economic decisions. The quality of financial reporting is indispensable to the need of users who requires them for investment and other decision making purposes. Financial reports can only be regarded as useful if it represents the "economic substance" of an organization in terms of relevance, reliability, comparability and aids interpretation simplicity (Penman, 1984). Ahmed (2003), stated that useful accounting information derived from qualitative financial reports help in efficient allocation of resources by reducing dissemination of information asymmetry and improving pricing of securities (Spiceland et al., 2001). To prepare and audit financial statements, some accounting convention and principles known as standards have been put in place by appropriate bodies set up for the purpose to encourage uniformity and reliability (Stainbank and Peeles, 2006). The implementation of IFRS would reduce information irregularity and strengthens the communication link between all stakeholders (Bushman and Smith, 2001). It also reduces the cost of preparing different version of financial statements where an organization is a multi-national (Healy and Palepu, 2001). Accounting standards ensures that important matters regarding preparation and presentation of financial statements as well as auditing same are not left to whim of the preparers and auditors. Before IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance

The Central Bank of Nigeria regulates accounting requirements for prudential regulatory reporting and general-purpose external financial reporting of banks, as well as non-bank financial institutions. At present the Central Bank of Nigeria issues guidelines in consonance with Nigerian Accounting Standards, and reviews and approves the audited financial statements for compliance before they are published.

The legal process is very slow, which discourages regulators from taking any legal recourse in enforcing compliance with accounting, auditing, and financial reporting requirements. The process of adjudicating on cases in Nigerian courts is so slow that regulators are discouraged from seeking support from the courts and law enforcement agencies in enforcing sanctions. Akhidime 2010).

The adoption of International Financial Reporting Standards has serious implications for regulatory authorities. The adoption entails the extensive use of judgments and assumptions that regulatory agencies must put into consideration. Stock exchanges possess enforcement powers in that they can refuse to list the shares of companies that fail to follow suitable accounting standards. They therefore remain trusted allies in the compulsory adoption and implementation efforts of IFRS in particular for companies listed in the Exchange. (Akhidime 2010).

Daske, Hail, Leuz and Verdi (2007) studied 3,100 companies in 26 countries under mandate to adopt IFRS in "Mandatory IFRS Reporting around the World: Early Evidence on the Economic Consequences." The objective of the study was to examine the economic effects of IFRS adoption for both voluntary and mandated adopters. The results and conclusion were that a company's adoption of IFRS creates unassailable economic gains in countries with uncompromising regulation over financial reporting. These benefits include an enhancement in the stock's market value, an increase in market liquidity, and a lower cost of capital. Companies with foremost departures between GAAP and IFRS standards show the peachiest benefit when endorsed by a strong regulatory environment. The research also investigates possible contributory factors not related to IFRS acceptation that may have engendered these economic benefits: Self-selection comes out to be a principal explanation; companies voluntarily changing to IFRS had factors unconnected to the accounting standard change that imparted them with economic benefit.

Armstrong, Barth, Jagolizer and Riedl (2008) did a study titled "Market Reaction to Events Surrounding the Adoption of IFRS in Europe", with the object of unraveling European stock market reaction to events associated with the adoption of IFRS in Europe. A sample of 3,265 European firms was employed over the period 2002 and 2005. The result of the study revealed that Investors in European firms noticed that the expected benefits associated with IFRS adoption will outweigh the expected costs. The study left it to further research to determine whether the expectations were fulfilled.

The increased trading on the stock market could have affected the volatility of the stock market. However, investors have recently been worried about the falling stock prices on the Nigerian stock market (Olowe, 2009). Also, the Nigerian stock market is a developing and inefficient one characterized by the time lag between information availability about a stock and its full reflection in the price of the stock, poor infrastructural facilities in the country which makes it virtually impossible for information to flow freely and speedily to actual and potential investors, activities of corporate insiders and insider abuses. The understanding of volatility and stock price prediction in Nigerian stock market will be imperative as it helps in predicting the path of its economy's growth and determines the efficiency of the stock market which will serve as an indicator of economic growth and development in Nigeria and in turn attract foreign portfolio investment. The scope of this study is limited to the Nigerian capital market with special reference to the stock prices of selected companies in the Banking, Brewery, Food and Beverage and Petroleum Industry.

However, it is necessary to assess the effect of IFRS on stock market performance of the banking sector with a view to determine whether investors' expectation is satisfactory.

Research Design

Due to the nature of the study, descriptive design and survey research were adopted. Descriptive research involves collection of data in other to founds answers to unanswered questions concerning the current status of a subject (Nzewi, 2009).The study analyzed the audited accounts of banks. This involves use of financial accounts of the banks under assessment for the period, 2006-2012. The accessible population for the study consists of all the banks listed in

Nigerian Stock Exchange. The paper judgmentally selected fourteen (14) banks which covered seven years of their annual reports and accounts.

Data Presentation and Interpretation

Table 1: Summary of Stock performance of Banks

1.	**Access Bank**	2006	2007	2008	2009	2010	2011	2012
	Earning Per Share (EPS)	7k	87k	173k	141k	72k	29k	159k
	Interest paid to interest earned.	3.5:1	3.4:1	2.7:1	2:1	3:1	2.8:1	2.4:1
2.	**Diamond Bank**							
	Earning Per Share (EPS)	59k	91k	110k	48k	17k	157.98	159.40
	Interest paid to interest earned.	3:1	2.8:1	3.9:1	1:1	4:1	7:1	5:1
3.	**Eco Bank**							
	Earning Per Share (EPS)	27k	34k	0k	1k	12k	1.76	1.70
	Interest paid to interest earned.	3.8:1	3:1	2:1	2:1	2.9:1	1.4:1	1.4:1
4.	**FCMB**							
	Earning Per Share (EPS)	36k	62k	123k	21k	45k	68k	66k
	Interest paid to interest earned.	2:1	2.8:1	3:1	2:1	2:1	2.4:1	2:1
5.	**Fidelity Bank**							
	Earning Per Share (EPS)	19k	25k	45k	8k	20k	14k	62k
	Interest paid to interest earned.	2:1	2:1	4:1	3:1	3:1	1.6:1	1.9:1
6.	**First Bank**							
	Earning Per Share (EPS)	269k	156k	223k	141k	83k		
	Interest paid to interest earned.	4.8:1	3.9:1	3.6:1	3.4:1	3.5:1		
7.	**GTBank**							
	Earning Per Share (EPS)	145k	173k	188k	128k	157k	1.69	3.06
	Interest paid to interest earned.	2.7:1	2:1	2.7:1	3:1	3.9:1	4.7:1	4:1
9.	**Skye Bank**							
	Earning Per Share (EPS)		32.88k	73.53k	41k	60k	20k	96k
	Interest paid to interest earned.		1.5:1	1.9:1	1.8:1	2.8:1	2.5:1	1.8:1
10.	**Sterling Bank**							
	Earning Per Share(EPS)	9k	6k	52k	53k	33k		
	Interest paid to interest earned.	2:1	2:1	2:1	1.7:1	4:1		
12.	**UBA**							
	Earning Per Share(EPS)	186k	241k	305k	60k	8k	0.24	1.44
	Interest paid to interest earned.	2.3:1	2.6:1	2.8:1	3:1	2.4:1	2.4:1	2.5:1
14.	**Zenith Bank**							
	Earning Per Share(EPS)	153k	151k	276k	58k	106k	132k	305k
	Interest paid to interest earned.	3.6:1	3:1	2.7:1	2:1	3:1	5.7:1	3:1

Source: Banks Annual Account, 2006-2012

From table 1 above, Investor's performance ratios of these banks shows an increasing trend for Earnings Per Share (EPS) over the periods covered. However, three of these banks (Diamond bank, Eco bank, First Bank,) shows decreasing trend of 20% to 35% from 2006 to 2008, but reverse was the case in 2011 and 2012.

Moreover, it is not the same with Access bank First City Monument Bank, Guarantee Trust Bank, Skye bank, Sterling bank, Wema bank and Zenith bank as there is a slight increasing trend for Earning Per Share (EPS) over these periods, but these banks shows about 40% increase in 2008 more than any other years covered. Notwithstanding this shows a kind of fluctuation in their Earning Per Share and this has been the case in terms of the DPS of these banks.

Despite the investors expectation performance these banks, their earning strength in terms of the ratio between the major sources of operating income (Interest earned) and route of expenses (Interest paid) were also evaluated;

The result revealed that about eight of these banks (Eco bank, First City Monument bank, GTB, and UBA bank) were only able to cover their interest paid by interest earned two times in most of these years (2006-2012). In addition to this three of these banks (Access bank, and Zenith bank) have a decreasing/downward coverage of interest paid by interest earned. For instance, from 2006 to 2012, they have (3.5**,** 3.4**,** 2.7**,** 2, 3, 2.8 & 2.4) and

(3.6, 3, 2.7, 2, 3, 5.7 & 3) respectively. Moreover, diamond bank was fluctuating throughout the period covered. On the other hand, fidelity bank reveals two times coverage of interest paid by interest earned in 2006 and 2007 and shows an increase to 4:1 in 2008 but decrease to 3:1 in 2009 and 2010. While using the period of IFRS it increases to 7:1 and 5:1(2011 and 2012 respectively).

Contrary to this low performance of these banks, first bank has shows a coverage of four times in 2006 and three times (3.9, 3.6, 3.4, and 3.5) in 2007, 2008, 2009 and 2010 respectively.

This is why the remaining interest earned could not be enough to pay for other expenses not to talk of makes investors smile home with good returns (Dividend), which means that investor's expectations cannot be achieved to their satisfaction.

Conclusion and recommendations

Using IFRS, most of the banks could not generate sufficient interest earnings to cover their interest obligations thereby unable to satisfy investor's expectation, hence the assessment of stock market performance of banks therefore can be used to measure whether investors expectation is satisfactory or not.

From all indication, the performances of these banks were poor this has been the reason the interest earned could not be enough to pay for other expenses not to talk of makes investors smile home with good returns (Dividend). This however impact negatively on customer's happiness in terms of dividend per share (DPS). This however means that investor's expectations cannot be achieved to their satisfaction and any bank which could not generate enough operating income to cover its operating expenses is bound to fail.

Based on the findings and conclusions made, the paper recommends that there is the need to bring financial system under control and make them to fit for the service and the interest of depositors and shareholders.

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