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Value Relevance of IFRS Adoption in ASEAN-5 Countries: Does Presentation Matters?

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Abstract:
Research aims: This study discusses a recent development in adopting the International Financial Reporting Standard (IFRS) in ASEAN. The objective of this study is to examine the value relevance of the Other Comprehensive Income (OCI) after the International Accounting Standard (IAS 1) revision about the financial statements' presentation. This study primarily examines whether the relocation of the OCI from the Statement of Changes in Owners' Equity to the Statement of Comprehensive Income increases the value relevance.
Design/Methodology/Approach: This study compared the value relevance of other comprehensive income (OCI) one year before and after the adoption of IAS 1 in each country. The study focused on ASEAN 5 countries: Indonesia, Malaysia, Philippine, Singapore, and Thailand.
Research findings: The study's result found that OCI had higher value relevance after the adoption of IAS 1.
Theoretical contribution/Originality: This study extends previous studies around IFRS adoption, mostly focused on European countries. The study of IFRS adoption in ASEAN countries is limited. This study presents a unique setting since most of the Countries in ASEAN adopted IAS 1 not in the same year as the year enacted by the IASB. This study contributes to the recent development in accounting standards, showing that IAS No. 1 adoption as part of the IFRS adoption in ASEAN will increase the financial statement's value relevance.
Practitioner/Policy implication: This study implies for the Practitioner and Policymakers that the IFRS adoption's benefits aimed to improve the financial reports' quality, so users can more easily and readily process information about company performance.
Research limitation/Implication: This study only focused on total OCI. This study did not analyze the impact of revised IAS 1 adoption for each item of OCI, such as available for sale component, revaluation surplus, or translation component. The result is consistent with the IFRS adoption's proponent that the IAS 1 revision will increase the financial statement's usefulness.
Keywords: International Accounting Standard; Comprehensive Income; Earnings Quality; Value Relevance

Introduction

This research is motivated by the IAS 1 revision in 2008 regarding the Financial Statements' Presentation, which is effective since 1 January 2009. Revised IAS 1 aims to improve information quality through the structure, content, and presentation of Financial Statements that are easier to understand and more useful for investors. This research focuses on ASEAN 5 countries: Indonesia, Malaysia, the Philippine, Singapore, and Thailand, which have only recently begun an extensive convergence of the international accounting standard (hereinafter IFRS) in the last decade. Accounting information is considered valuable to investors if the information has value relevance, i.e., providing relevant and useful information to investors as a basis for making investment decisions. Whether the revised IAS 1's purpose has been achieved remains unanswered for ASEAN countries.

The financial statements' presentation regulates the provisions of the financial statements' elements, how information is grouped and aggregated, the order in which they are presented, and the location where the information is presented. Provisions regarding financial statements' presentations are regulated in IAS 1 and are intended to make financial information useful to users. The consideration of how the presentation is and the location where the information presented in the financial statements is based on the perspective that the information will be easier to process and useful to the users if organized or presented in a grouping and the available location. For example, to calculate financial ratios and to make it easy for users to understand.

The most significant revision in IAS 1 is presenting other comprehensive income (OCI) in a separate section included in the Comprehensive Income Statement. According to the revised IAS 1, the OCI is presented in a different location. Before the revision, OCI was presented on a Statement of Changes in Equity separate from its performance information. The concept of companies' earning is all-inclusive, meaning that all transactions increase the shareholder's capital that does not come from the owner's capital deposit. Therefore, revised IAS 1 aims to make it easier for investors to use company performance information using a readily bottom line of the comprehensive income. Whether the IAS 1 revision causes changes in the OCI presentation's location will increase the value relevance remains to be questioned. The phenomena of the financial information's presentation have been attractive to the researcher, but the study which focuses on the IAS 1 revision in ASEAN countries as IFRS adopters is very limited. Prior research has indicated that the locations where financial information was presented would have a different value relevance for investors (Maines & McDaniel (2000); Mechelli and Cimini (2014); Khan and Bradbury (2014)). Hirst and Hopkins (1998) found that individual investors were better at estimating prices when other comprehensive income information was reported in the Income Statement than in the Statement in Changes in Equity. The bottom line presented in the Comprehensive Income Statement made investors easier in understanding all transactions' impact that leads to changes in capital resulted from the company's performance.

Based on the above-identified research gap, the purpose of this research is to test whether the OCI after IAS 1 revision has higher value relevance for investors. This research promotes recent issues regarding IFRS adoption's benefits. Previous studies have focused on the European Union (EU) countries as they first adopted the IFRS. This study compares the value relevance of the OCI in one year before and after adopting IAS 1 in each country. This study presents a unique setting since most of the countries in ASEAN adopted IAS 1 not in the same year as the year enacted by the IASB. This study contributes to the recent development in accounting standards, showing that IAS 1 adoption as part of the IFRS adoption in ASEAN will increase the financial statement's value relevance. Therefore, this research is expected to contribute as empirical evidence regarding one of the revised accounting standards' impacts as feedback IFRS convergence measures taken by the Financial Accounting Standards Board in each of the five ASEAN countries. The quality of financial accounting standards determines the Financial Statements' quality. This research is essential as feedback on efforts to improve the quality of financial statements, which is essential in realizing the integration of capital markets in ASEAN. One of the envisions of the ASEAN Economic Community is the realization of the integrated capital market in ASEAN. The higher the financial statements' quality, the higher accuracy and transparency will be to better allocate their capital efficiently. Better capital allocation will promote an efficient market and support the capital market's integration.

This paper is divided into six sections. First is the introduction, which tells about the background and the study's objective. Secondly is the literature review and hypothesis. The third part is the research methodology, and the fourth is the study's results. Moreover, the fifth section is a discussion and the result's analysis, and the last section is the conclusion.

Literature Review and Hypotheses Development

This section contains theoretical underpinning and literature references about previous research related to the topic and highlights a research gap. It is highly recommended that research Goncharov and Hodgson (2011) examine whether it is necessary to separate the operating profit and other comprehensive income (OCI) in the financial statements. The results showed a need to separate operating income presentation and other comprehensive income (OCI) presentation. Operating income as an appropriate decision matrix needs to be presented separately with OCI that is not yet realized. Jones and Smith (2011) compared OCI components and special items (SI). The accounting treatment of the regime studied by Jones and Smith (2011) revealed that SI was immediately recognized in the current profit, while the OCI was being postponed until realized. Jones and Smith's results discovered that both SI and OCI had value relevance.

Khan and Bradbury (2014) uncovered that the comprehensive (Total Comprehensive Income, hereinafter TCI) profit was more volatile than net income. TCI correlated with market risk measurement (beta and standard deviation return). The finding indicated that TCI had risk relevance. Nevertheless, Khan and Bradbury found that comprehensive income incremental to net income volatility was not correlated with market risk and was not valued (not correlated with stock prices). Besides, research from Mechelli and Cimini (2014) examined the relative and incremental value relevance for Total Comprehensive Income (TCI) and Other Comprehensive Income (OCI) in listed companies in Europe after the International Accounting Standard (IAS 1) revised's implementation. IAS 1 revised requires the company to present a statement of comprehensive income (SOCI) in which Net Income (NI) components and OCI components are disclosed separately. The results demonstrated that NI had higher value relevance than Total Comprehensive Income (TCI), although OCI in one period provided additional relevant information than NI information and book value. However, the OCI's total coefficient had a smaller value than NI. It indicated that a separate Statement of Comprehensive Income (SOCI) did not increase TCI and OCI value~~s~~ relevance. In addition, Maines and McDaniel (2000) investigated whether and how alternative presentation formats affected nonprofessional investors' processing of comprehensive-income information, specifically disclosing the volatility of unrealized gains on available-for-sale marketable securities.

The argument that supports the presentation of the statement of comprehensive income is that the only source of information that can measure all value creation done by the company is distinguished by value distribution to the owner (Chambers, Linsmeier, Shakespeare, & Sougiannis, 2007). Research Biddle and Choi (2006) also support the disclosure of comprehensive income components. His research explained that the different profit definitions would have different information uses for financial statements' users. Comprehensive earnings reporting increased the value relevance of the earnings information. Increasing the value relevance of the OCI component of the earnings increased its information usefulness in investor decision making.

Psychological-based research has been done through experimental methods by Hirst and Hopkins (1998). In his research, Hirst and Hopkins (1998) stated that information would not be used if it was not available and not ready for processing (not clear). The research's results showed that the income statement and other comprehensive income presentations were useful in improving the transparency of earnings management activities undertaken by management to be more visible, thereby reducing analyst judgment to be equivalent to the judgment level in companies that did not perform earnings management. The results also revealed that other comprehensive income disclosures were more effectively presented on the Statement of Changes in Equity.

Comprehensive income has value relevance for the investor because it measures the company's overall performance, including all transactions that increase the equity other than transactions with the company's owner (Chambers et al. 2007; Biddle & Choi, 2006). Thus, the first hypothesis tested in this study is:

***H_1**: Other Comprehensive Income has value relevance.*

The revised IAS 1's adoption aims to improve the quality of information valuable to investors than before the revision. Following Hirst and Hopkins (1998), Maines and McDaniels (2000) stated that information would be useful if available and ready for processing by the user. Thus OCI, whose presentation location was moved from equity to comprehensive income after adopting revised IAS 1, then its value relevance is expected to be higher than before the revision. Therefore, this study proposes the second hypothesis:

***H_2**: The value relevance of the Other Comprehensive Income increases after adopting revised IAS 1: Presentation of Financial Statements.*

Research Method

Data and Sample

This study employed listed companies in ASEAN 5: Malaysia, Singapore, Philippine, Thailand, and Indonesia and compared the value relevance of the OCI one year before and after the IAS 1's adoption in each country. Table 1 shows IAS 1's adoption into local accounting standards for each country.

Table 1 IAS 1's adoption in ASEAN Country

Country	Local Accounting Standard	Effective Year
Indonesia	PSAK No. 1	1 January 2011
Malaysia	MFRS No. 101	1 January 2010
Singapore	SFRS No. 1	1 January 2009
Philippine	PFRS No. 1	1 January 2009
Thailand	TAS No. 1	1 January 2011

Hypothesis Testing

Value-relevance studies aim to assess the extent to which accounting data reflect information that is "relevant" for firm value as represented by the stock price (Holthausen & Watts, 2001). This study used a model widely employed in the value relevance literature: The Price Regression Model (PRM) from Ohlson Model (1995) with stock price as the dependent variable. Ohlson Model (1995) starts from the assumption that firm value equals the present value of the expected dividend. The underlying idea that stock value (net) corresponds to value creation and distribution. The firm value theory relies on net surplus relationships to identify different roles for each of the three variables: income, book value, and dividends. The essence of the valuation function can be stated that the company value is the weighted average of (i) current income, which is capitalized (adjusted for dividends), and (ii) current book value. The OCI is part of current income that has to be examined. Therefore, this study would test the hypothesis by inserting the OCI as current income in the Ohlson Model.

Model 1 was used to examine OCI's value relevance before considering the IAS 1 revision. Meanwhile, model 2 was used to test OCI's value relevance after the IAS 1 revision. Model 1 and Model 2 are stated as follows:

$$Price_{it} = \beta0 + \beta1BVE_{it} + \beta2NI_{it} + \beta3OCI_{it} + e_i \quad (1)$$

$$Price_{it} = \beta0 + \beta1BVE_{it} + \beta2NI_{it} + \beta3OCI_{it} + \beta4D\_IFRS + \beta5D\_IFRS*BVE_{it} + \beta6D\_IFRS*NI_{it} \quad \beta7D\_IFRS*OCI_{it} + e_i \quad (2)$$

Whereas, $Price_{it}$ = is the stock price on the 31st of $March_{t+1}$; NI_{it} is the Net income per share; BVE_{it} is book value per share; OCI_{it} = OCI per share. D_IFRS = 1, in the period of Revised IAS 1, become enacted in each country; Indonesia and Thailand (2011), Philippines and Singapore (2009), and Malaysia (2010) and 0 (zero) in the one year period before the adoption.

If the OCI presentation has a value relevance for financial statement users, as stated in H_1, then it is expected that the OCI coefficient is positive and significant (β3>0). Moreover, if the IAS 1 revision leads to a higher OCI's value relevance, as stated in H2, it is expected that the interaction coefficient between dummy IFRS and the OCI is positive and statistically significant (β7>0). BVE and NI are also expected to be positively associated with price.

Result and Discussion

This study collected 46,662 firm years. This study handled the outlier by winsorizing all continuous variables at the 1st and 99th percentiles. As a result, 46,410 firm years were obtained as our final sample.

Statistic Descriptive

Table 2 provides descriptive statistics for the variables observed. All variables were scaled by common stock outstanding in the fiscal year.

Tabel 2 Statistic Descriptive

Variable	N	Min	Max	Mean	Stdev
BE	46,410	-58.065,38	2.545.152	449,857	20.017,98
NI	46,410	-71.942,23	359.241,6	47.072	2.104,047
OCI	46,410	-13.787,47	7.314,871	0,123	74,968
D_IFRS*BV	46,410	-58.065,38	2.545.152	372,113	19.877,38
D_IFRS*NI	46,410	-71.942,23	359.241,6	35,582	2.066,069
D_IFRS*OCI	46,410	-13.787,47	2.311,996	-0,050	66,784

Hypotheses testing results

This study's results are presented in Table 2. Model 1 regression result showed the value relevance of book value of equity, net income, and OCI without considering IAS 1 implementation. The results revealed that OCI had a significant positive association with the stock price (β=0,769, p<0,05), meaning that OCI had value relevance on price. Therefore, H_1 was supported. The results also showed that the book value of equity had value relevance on price, but the net income was not proven to have value relevance.

Table 3 Regression Results

	Model 1: Priceit = β0 + β1BVEit + β2NIit + β3OCIit + εit				**Model 2: Priceit = β0 + β1BVEit + β2NIit + β3OCIit + β4D_IFRS + β5D_IFRS*BVEit + β6D_IFRS*NIit β7D_IFRS*OCIit + εit**			
Variable	*Hyp*	*Coeff*	*t-stat*	*Prob*	*Hyp*	*Coeff*	*t-stat*	*Prob*
Const		217.192	40.67	0.000		115.169	14.14	0.000
BV		0.003	5.64	0.000***		0.003	0.81	0.420
NI		-0.017	-3.86	0.000***		-0.014	-0.59	0.554
OCI	H1: +	0.769	6.81	0.000***		-0.162	-0.99	0.321
D_IFRS						180.951	16.62	0.000***
D_IFRS*BV						0.003	0.66	0.511
D_IFRS*NI						-0.025	-1.05	0.296
D_IFRS*OCI					H2: +	1.792	7.87	0.000***
Country			Yes				Yes	
N (obs)	46.410				46.410			
R2	0.0011				0.0056			
F-stat	16.36				34.83			
Prob F-stat	0.000				0.000			

This result is consistent with Chambers et al. (2007) that the investors are more concerned if OCI is presented in the Statement of Changes in Equity than in the Income Statement. This finding is different from Mechelli and Cimini (2014) findings, where the results demonstrated that NI had higher value relevance than OCI. Table 3 presents the results of testing model 1 per each country. The results indicated that net income had a higher value relevance than OCI in all sample countries except Indonesia. Net income had value relevance in Malaysia, Singapore, and the Philippines. Testing using only the Indonesian sample proved that net income had lower value relevance than OCI. Therefore, model 1 main results, shown in Table 3, are mainly due to the companies' sample in Indonesia.

Model 2 regression result showed the IAS 1 implementation's effect on the value relevance of book value of equity, net income, and OCI. The result revealed, with β=1,792, p<0,05, the increased value relevance of the OCI after the revision of the IAS 1. Thus, H_2 was supported. It indicated that the comprehensive earnings reporting increased the value relevance and information usefulness in investor decision making. This result is consistent with the results of Biddle and Choi (2006), and Mita, Siregar, and Fitriany (2017) support the disclosure of comprehensive income components. Separate test results by country (refer to Table 3 Model 2) uncovered mixed evidence. OCI's value relevance was shown in Indonesia. An increase in OCI's value relevance was only found in Indonesia. The result might be because, before the revised IAS 1 implementation, OCI's value relevance in Indonesia had the lowest value of magnitude (significantly negative) compared to other sample countries. Therefore, when the IAS 1 revision was adopted, it benefited more from the increase of OCI's value relevance than other countries.

Table 4 Summary of Regression Results by Country

	Indonesia	Malaysia	Singapore	Philipines	Thailand
Model 1: the *OCI has value relevance*					
BV	+	+	+	+	+
NI	-	+	+	+	Not Significant
OCI	+	Not Significant	Not Significant	Not Significant	Not Significant
Model 2: *The value relevance of OCI is increased after the adoption of revised IAS 1*					
BV	+	+	+	+	-
NI	+	+	Not Significant	-	Not Significant
OCI	-	Not Significant	Not Significant	Not Significant	Not Significant
D_IFRS*BV	Not Significant	+	-	+	+
D_IFRS*NI	-	+	Not Significant	Not Significant	Not Significant
D_IFRS*OCI	+	Not Significant	+	Not Significant	Not Significant

According to Table 4 ,overall, the study's results showed that the IAS 1 implementation increased OCI's value relevance, especially in sample companies in Indonesia. The results also revealed that without considering the IAS 1 implementation, the net income had a higher value relevance compared to OCI in all sample countries, except for Indonesia and Thailand.

This study also performed a sensitivity analysis for the stock price on 31st December $_{t+1}$ and found similar results (Table is not shown). The regression result disclosed a consistent result with the main test. There was a positive and significant association between the OCI and price. The OCI had a higher positive coefficient, meaning higher value relevance after the IAS 1 revision.

Discussion

The financial statements' presentation, according to IAS 1, requires OCI to be included in the statement of companies' performance, i.e., Statement of Comprehensive Income. Therefore, the location of the OCI presentation is matters for investors. It supports the view that IFRS adoption improves financial statements' quality, in this case, increases OCI's value relevance. This result is consistent with prior research, such as Chambers et al. (2007); Biddle and Choi (2006); Khan and Bradbury (2014).

The OCI reporting in a single statement in the comprehensive income statement makes the investors easier in analyzing the companies' performance. The items presented as the bottom line are ready to use and summarize all companies' performance for the period. Investors, obviously, want a financial statement that can portray the economic condition of related firms. Thus, the investor will quickly examine the presentation of the earnings and OCI's components and reward those firms with their trust that reflected on the company's stock price. Based on Kanagaretnam, Mathieu, and Shehata

(2009), other comprehensive income components are associated with the firm performance summarized in stock price. When the OCI is increased, the stock price is also increased. The results indicated that the investors used the information about OCI as their assessment basis.

This study's result aligns with Khan and Bradbury (2014) that there was an increase in OCI's value relevance after the IAS 1 revision. This study confirmed the phenomena that the location of the OCI information's presentation is matters. Investors and analysts will be easier to analyze the OCI if the OCI items are reported after net income in a single statement. It can also help a new investor who barely has the experience to analyze all financial statements' details. It is why the location of OCI presentation, according to IAS 1, had higher value relevance.

Conclusion

This study examines whether OCI's value relevance has been increased after revised IAS 1. Extending the literature on the OCI usefulness and its reporting location, the results found that adopting IAS 1 revision led to higher-value relevance of the OCI.

This result provides empirical evidence about the impact of adopting revised accounting standards as feedback on the IFRS convergence process conducted by the Financial Accounting Standards Board in each ASEAN member country. Our findings also imply that IFRS convergence is beneficial for investors. Improving the financial statements' quality is essential in realizing the capital markets' integration in ASEAN.

The study result has to be considered with some limitations. This study only focused on total OCI. The study did not analyze the impact of adopting IAS 1 revision in each item of OCI, such as available for sale component, revaluation surplus, or translation component. Another thing to elaborate in the future study is the impact of adopting IAS 1 revision in each 5 (five) countries. OCI's value relevance in each country may not be the same. It depends on some factors, such as legal title in that country. It will be interesting if the future study can analyze the differences in the impact in IAS 1 revision.

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