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The Value Relevance of International Financial Reporting Standards (IFRS): The Case of the GCC Countries

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This study examines whether the adoption of International Financial Reporting Standards (IFRS) has increased the value relevance of accounting information in one of the Gulf Co-operation Council (GCC) countries, Bahrain. It extends the literature on the attributes of financial reports prepared under IFRS through examining its value relevance. We used a sample of 40 listed companies in Bahrain Bourse (BHB) as one of the emerging markets with a total of 280 year-firm observations. The study employs the Ordinary Least Square (OLS) regression analysis. Two models of OLS regression (returns and price models) were employed. For the stock return model, findings of the study showed a slight difference in the value relevance of accounting information after the adoption of IFRS by listed companies in BHB. However, in the price earning model, the findings showed some improvement in the value relevance after the adaption of IFRS.*

Keywords: Bahrain Bourse, corporate disclosure, IFRS, returned earnings, share price, stock returns, value relevance.

1. Introduction

There is a consensus on the fact that the quality of financial reporting is essential to its users who require useful accounting information for investment and other decision-making purposes. On the other hand, there is a recent trend towards a globalisation of accounting standards under the lead of the International Accounting Standard Board (IASB) through applying International Financial Reporting Standards (IFRS) which are increasingly becoming a common set of regulations followed by companies in many of the world's economies. Recently, approximately more than 120 countries and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately more than 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports (AICPA, 2013). IFRS have been accepted or recommended in many stock markets around the world and they have been endorsed by the International Organisation of Securities Commissions (IOSCO).

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* In this research, IFRS refers to both sets of standards, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

According to IASB framework, relevance is identified as one of the four fundamental qualitative characteristics that determine the usefulness of accounting information for making economic decisions (IASB, 2013). Useful information must be capable of making a difference in a decision through helping users form predictions about outcomes of past, present and future events or to confirm or correct expectations (FASB, 1999). Framework of both the British Accounting Standard Board - ASB (ASB, 1999) and IASB (IASB, 2013) refers that information has the quality of relevance 'when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations'.

The accounting literature in this area provides mixed evidence on the increase value relevance of accounting information after adaption of IFRS. Previous studies show more value relevant of accounting information provided under IFRS (e.g. Ashbaugh and Pincus, 2001; Horton et al., 2008; Dobija and Klimczak, 2010; Alali and Foote, 2012), other studies show contrary evidence (e.g. Lin and Chen, 2005; Callao et al., 2007; Meulen et al., 2007; Gordon et al.,2010; Atwood et al., 2011). Therefore, the current study tests whether the value relevance of accounting information increases after applying IFRS in an emerging stock market, Bahrain Bourse (BHB). Several studies argue that the characteristics of quality of accounting information can be expressed by the quality of earnings (Ashbaugh and Pincus, 2001; Barth et al., 2001; Hellström, 2006; Horton et al., 2008; Dobija and Klimczak, 2010, Filip and Raffournier, 2010 and Alali and Foote, 2012). For example, Barth et al. (2001) conclude that firms with high quality accounting have a strong association between stock prices and earnings and book value because the higher earnings quality the better reflects firm's economic conditions.

The Kingdom of Bahrain, is one of the most open economies in the Middle East and North Africa (MENA) region, is as an example of emerging markets. It is one of international financial centers in the world. Emerging markets represent countries that are experiencing a substantial economic transformation. Such countries consider the primary destinations not only for exports but also for direct investment.

The current study has a number of contributions including: (1) it extends prior research on the area of value relevance of accounting information produced under IFRS for BHB; (2) The study adds value to many parts as investors and regulators. Barth et al. (2001) argue that value relevance research is of potential interest to a broad constituency comprising not only academic researchers, but also standard setters; (3) it contributes to the accounting literature on Emerging Markets (EM) and in the GCC region.

The paper is organized as follows. Section 2 provides background on Bahraini environment. Section 3 discusses prior literature and hypotheses development; Section 4 presents research methods and sample selection; Empirical results and analysis are presented on section 5. Finally, section 6 summarizes the conclusions and discusses the limitations of the study.

2. Bahrain Environment

The Kingdom of Bahrain has a unique geographical location between the Asian and European markets. Bahrain seeks to increase foreign investment in order to achieve sustainable development and to create increased employment opportunities. This encourages Bahrain to establish a high profile regarding corporate governance. Such profile attracts a great deal of attention from practitioners and communities around the world.

According to the 2013 Index of Economic Freedom, Bahrain is ranked as the first in its region and 12 in the world rank (The Heritage Foundation, 2013). BHB was established as a shareholding company according to Law No. 60 for the year 2010 to replace Bahrain Stock Exchange (BSE) that was established in 1987 according to Amiri Decree No. 4. This step has been taken to go in line with the bourse's capability to meet the modern administrative requirements of international exchanges, as well as the commercial standards that are deemed necessary to meet the rapid developments witnessed in modern stock exchanges. This is also supporting the bourse's ability to play a greater role in the economic development of the Kingdom of Bahrain and enhance its capability to attract and maintain local and foreign investments.

BHB joined the Association of National Numbering Agencies (ANNA). By 2010, the number of public shareholding companies listed in BHB rose to 49, of them 5 are non-Bahraini, bringing up the market capitalization of the Bahraini companies to around BD 7.56 billion (BD, a Bahraini Dinar, equals US$ 2.65) (Bahrain Bourse, 2011).

The Exchange officially commenced operations in June 1989. In 2002, the legislative and regulatory authority and supervision of BHB was transferred from the Ministry of Commerce to the Central Bank of Bahrain (CBB) in which CBB regulates and supervises all the bourse's activities. BHB aims to contribute to the national economy by offering a dedicated, reliable and efficient capital markets platform. Bahrain has established its Corporate Governance Code and started to be effective in 2011. This code helps in improving the quality of financial reporting. At every company's annual shareholder meeting held after January the 1st 2011, the agenda for information regarding the company's governance should be presented. Details on the board of directors' responsibilities, voting rights, the annual meeting, communication with third party, relationships with shareholders and disclosure requirements are discussed on Commercial Companies Law 2001 (Hussain and Mallin, 2003).

3. Literature Review and Hypothesis Development

The literature on the area of value relevance of accounting information began in the early 1960s of the last century with the influential work of Ball and Brown (1968) who argued that an efficient capital market will be affected by newly released useful accounting information. Although the literature provide a large amount of research in the value relevance area during the last decades, Barth et al. (2001) indicated that the first study of which we are aware that uses the term ‘‘value relevance’’ to describe this association is Amir (1993).

The primary purpose for conducting empirical research on value relevance is to extend our knowledge concerning the relevance and reliability of accounting information as reflected in equity values. It is argued that strong relationships between earnings and returns reflect the increase in the quality of accounting earnings (Meulen et al. 2007). Accounting information presented in financial reports is reflecting various transactions of the company over the accounting period for which the financial reports have been prepared.

IFRS are clearly more value-relevant than local or national standards for countries with a weak tradition of disclosing information useful for investors (Ball, 2006 and Daske et al., 2007). This is the case of most countries of emerging capital markets. The value relevance of accounting information has been tested extensively in the accounting literature including accounting information prepared under IFRS (e.g., Callao et al., 2007; Muelen et al. 2007; Humphrey et al., 2009; Aharony et al. 2010; Gordon et al, 2012). The existing literature gives conflicting evidence on the effects of adopting IFRS on value relevance of accounting information. In United Arab Emirates, Alali and Foote (2012) examined the value relevance of accounting information under IFRS in the Abu Dhabi Stock Exchange (ADX) based on models developed by Easton and Harris (1991), and Ohlson (1995) using monthly market data from 2000 to 2006. The sample includes 56 firms with 1934 firm-monthly observations. The overall results document evidence on the positive association between accounting information and market values.

In Poland, Dobija and Klimczak (2010) investigated the relevance of earnings of listed companies from 1997 to 2008 on corporate value after the adoption of IFRS and corporate governance code. The study used 372 consolidated financial reports with total observations of 856 and applied two models (unexpected earnings model and the earnings yield model). In both models, coefficients are statistically significant and positive. The results provide evidence that accounting earnings have value relevance. Furthermore, it is reported by Hellström (2006) in the Czech market and by Filip and Raffournier (2010) in Romania that the value relevance of earnings becomes increasingly significant under IFRS.

Gjerde et al (2008) conducted a research in Norway using a sample of 145 restatements from Norwegian Generally Accepted Accounting Principles (NGAAP) to IFRS for firms listed on the Oslo Stock Exchange. They test whether the IFRS accounting information correlate more strongly with stock market values than the corresponding NGAAP information. Gjerde et al (2008) reported little evidence of increased value-relevance after adopting IFRS when comparing and evaluating the two regimes unconditionally. However, when evaluating the change in the accounting information from NGAAP to IFRS, they reported evidence that the reconcilement adjustments to IFRS are marginally value-relevant.

On the other hand, a number of studies provided contradictory evidence on the adoption of IFRS. They concluded that the adoption of IFRS has less value relevance of financial reporting. For example, Gordon et al. (2010) provided evidence on value relevance of earning. They concluded that value relevance of earning is significantly higher under US GAAP than under IFRS. Niskanen et al. (2000) analyzed 18 Finnish firms that disclose earnings under Finnish accounting standards (local GAAP) and IFRS (1984–1992) using an earnings model. The results showed that the change in local GAAP earnings, as well as the level and change in aggregate reconciliation to IFRS, are value irrelevant.

Meulen et al. (2007) examined the relationships between value relevance, timeliness, predictability, and accruals quality and the quality of earnings between IFRS and U.S. GAAP earnings by using a sample of 313 firm-year observations collected from 124 German new market firms, covering the period 2000-2003 and. First, using the prices and earnings model, the authors have R2 of 16.33% for the IFRS sample and 28.36% for the U.S. GAAP sample. Second, in the returns/earnings model, the results show that no difference between the two groups. The R^2 of the estimated model is (R^2 of 37.53% for IFRS versus 32.54% for U.S. GAAP; with a z value of 0.63). Overall results seem to suggest that no significant and consistent differences for the value-relevance attribute.

Bartov et al. (2005) found no significant difference in earnings quality measured by the price-earnings relationship for 417 German firms during the period 1998-2000 that were chosen between IFRS and U.S. GAAP. In China, Lin and Chen (2005) applied the Ohlson model and the returns model using 415 companies (reconciliation Chinese GAAP-IFRS) from to 1995–2000 and found that the quality of earnings and the book values of equity for Chinese GAAP provide more relevant accounting information than IFRS. In the light of the above discussion that show mixed evidence on the value relevance of accounting information reported by IFRS, the following hypothesis can be formulated:

H_1: The adaption of IFRS has significant increase in the value relevance of accounting information provided by Bahraini listed companies.

4. Research Method and Sample Selection

This section explains the methodology of the research and examines the hypothesis developed above. Quality of accounting information is the common measure that is using value-relevance models, based on the relationship between stock prices and accounting information.

In the accounting literature, information is defined as value relevant if it has a predicted association with equity market values (Harris et al., 1994; Muelen et al. 2007; and Dobija and Klimczak, 2010). For instance, Alali and Foote (2012) argued that value relevance can be identified as a statistical association between financial information and prices or returns. Similarly, Dobija and Klimczak **(**2010) argued that value relevance methodology examines the relationship between accounting numbers and stock prices, with the basic premise that, if accounting numbers provide useful information to investors, they should be correlated with stock prices. Harris et al. (1994) used the relationships between prices and earnings (or shareholders' equity) to measure quality. The authors found that the explanatory power (R^2) of German earnings is comparable to U.S. earnings, but the R^2 of shareholder's equity in Germany is significantly lower than in the United States. The current study builds on the existing literature (Muelen et al. 2007; Dobija and Klimczak, 2010; Clarkson et al. 2011 and Alali and Foote, 2012) which identifies the quality of earnings by applying earnings attributes (e.g., value relevance and predictability) as follows:

4.1 Value Relevance Models

Following a number of previous studies (e.g., Collins et al., 1999; Bartov et al., 2005; Muelen et al. 2007 and Dobija and Klimczak, 2010) the current study measures value relevance by using two models.

First: the return model recognizes the relationship between stock returns and accounting earnings is as follows:

$$RET_{i;t3} = \alpha_0 + \alpha_1 X_{it}/P_{i,t-1} + \alpha_2 DX + \alpha_3 \Delta X_{it} / P_{i,t-1} * DX$$

Where $RET_{i,t3}$ is the annual market-adjusted return, ending three months after the fiscal year end, X_{it} is earnings per share, $P_{i,t-1}$ is the stock price at the beginning of the period, DX is a dummy variable equal to one if earnings are negative or zero otherwise (Collins et al., 1999 argued that market prices may react by different way in positive and negative earnings). The model's R squared, which reflects the degree of association, is estimated for the IFRS and GAAP sample separately.

Second: the price-earnings model (e.g. Ohlson, 1995; Burgstahler and Dichev, 1997). Following Muelen et al. (2007), prices are used on both earnings and the book value of equity. The model distinguishes between positive and negative earnings as follows:

$$P_{it} = \alpha_0 + \alpha_1 X_{it} + \alpha_2 DX + \alpha_3 X_{it} * DX + \alpha_4 BV_{i,t-1}$$

Where P_{it} is the share price three months after fiscal year end *t*, $BV_{i,t-1}$ is the per share book value of equity at the beginning of period *t*, and other variables are as previously defined. It should be noted that the coefficient on earnings, α_1, reflects the pricing effect of current earnings. As suggested by Holthausen and Watts (2001), the coefficient on beginning-of-year book value of equity captures the effect of expected future normal earnings to control for growth opportunities. The measure of value relevance is based on the explanatory power (R^2) of the model.

4.2 The Sample

A sample of listed companies in BHB was used in the current study. By the end of 2011, a total of 49 companies were listed on the BHB. There are six sectors in BHB with a limited number of firms in each sector for example industrial sector includes only three companies. Because of the small number of listed companies, all sectors were included in the sample of the current study and we control over the type of industry. After excluded insufficient information, de-listing or suspension some companies, the final sample includes only 40 companies with completed data for seven years from 2005 to 2011.The total number of year-firm observations is 280, of which 120 observations are before applying IFRS while 160 observations after applying IFRS. A number of sources were used in the present study to collect all required information such as the companies' paper-based annual reports, the BHB's website, listed companies' websites, and other third parties' websites which include data bases of Bahraini listed companies (e.g., http://www.argaam.com; and http://www.gulfbase. com).

5. Empirical Results and Analysis

The current section of the study presents an analysis of the results, statistical tests and related discussion.

5.1 Descriptive Statistics

The sample is derived from 40 different companies listed in BHB covering the period 2005-2011 with total of 280 firms –observations. The number of observations per accounting period is equally distributed with 40 observations per year. Table 1, located in the Appendix, shows a number of descriptive statistics related to accounting and Bahraini capital market. For example, BHB is characterized by a little downward trend on average during the period of seven years, 2005-2011. The average share price melted down from BD 21.38 (the mean share price for a period of three years from 2005 to 2007) to BD 16.58 (the mean share price for the period from 2008 to 2011). This is not surprising as the second period (2008-2011) witnessed the global financial crises which affect the world economy and most stock markets around the world including GCC stock markets. Other results were found for the minimum and maximum share price for the two periods. For instance, the maximum share price was moved up from BD 894.00 in the first period (2005-07) to BD 992.00 in the second period (2008-11); while the minimum share price was moved down from BD 0.04 to BD 0.03 from the first to the second period respectively.

Table 1: Descriptive statistics of listed companies in BHB

Variables	The period before (2005-07)					The period after (2008-11)				
	N	Min	Max	Mean	SD	N	Min	Max	Mean	SD
The annual market-adjusted return ($RET_{i,t3)}$) (%)	120	-86.67	233.99	10.89	29.26	160	-79.59	63.41	-11.70	22.97
Share price three months after fiscal year end ($P_{it)}$) (BD)	120	0.04	894.00	21.39	130.99	160	0.03	992.00	16.58	106.39
Earnings per share Xit (BD)	120	-0.228	145.145	3.042	19.352	160	-422.240	241.130	0.660	38.792
The per share book value of equity ($BV_{i;t-1}$) (BD)	120	0.06	725.00	16.98	104.58	160	0.04	671.00	15.09	93.35

Furthermore, Table 1 shows information on the annual return of the sampled companies. Firms, on average, have a mean of 10.89 for the period 2005-2007 with a standard deviation of 29.26 indicating that during that period the average share price was moved up by 10.89%. The minimum of annual return was a negative of -86.67 for the period 2005-2007, while the maximum was 233.99. Concerning the second period, 2008-2011, the annual return was considerably dropped to show a mean of -11.70 as an average of the four-year period. This result shows the general down trend of the BHB during the period from 2008 to 2011 showing the effects of the global financial crises on the GCC stock markets. No significant difference revealed between the two periods concerning minimum annual return, while an important difference was revealed between the two periods for the maximum annual return as it was moved from 233.99% in the first period to be only 63.41% in the second. The average EPS melted down from BD 3.042 (the mean share price for the first period, 2005-07) with a standard deviation of BD 19.352 to only BD 0.660 (the mean EPS for the second period from 2008 to 2011) with a standard deviation of 38.792.

Again the clear difference between the two periods can be justified because of the global financial crises. Regarding the per share book value of equity, descriptive results reveal that the average for the two periods, before (2005-07) and after (2008-11), is nearly the same. This means that there is no big difference between the two values of per share book value of equity. Further, no important differences revealed between minimum and the maximum values of this variable.

5.2 Correlation Analysis

Table 2 below presents correlation coefficients which based on Person correlation as continues variable are exist. As expected, Table 2 revealed some correlation between earning performance share and security price (0.124) and book value (0.123). These correlations are significant at 0.05 level. Further, it shows a higher correlation between share price at the beginning of the period and book value of 0.192. This correlation is significant at 0.01 level. However, Table 2 provides very low correlation among other variables (e.g.: -0.008 between return and share price). However, this correlation does not indicate a serious multicollinearity problem in the current research. Tabachnick and Fidell (1996, p.86) argued that we must "think carefully before including two variables with a bivariate correlation of, say, .7 or more in the same analysis". Accordingly, inter-correlation among independent variables does not appear to be problematic, and multicollinearity should not be a serious concern in the current study.

Table 2: Correlation among variables of the current research

Variables	**RETURN**	**EPS**	**SPRICE**	**BVALUE**
1. RETURN	1			
2. EPS	0.081	1		
3. SPRICE	-0.008	**0.124***	1	
4. BVALUE	-0.014	**0.123***	**0.192****	1

*- Correlation is significant at the 0.05 level; **- Correlation is significant at the 0.01 level.
Notes: 1- Pearson correlation was performed for all variables.
2- All coefficients are based on 280 observations.

5.3 Regression Analysis

The current study employs two models of OLS regression (returns and price models) for two different sample periods, 2005-2007 "Before IFRS" and 2008-2011"After IFRS". However, to avoid losing observation, the study estimates regression models for the overall sample. The results of regression analysis for the overall sample are provided in Table 3 below. Regarding returns–earnings Model, it provides results of both R^2 and Adjusted R^2 which are 10.4% and 9.5% respectively. Conversely, a higher value of both R^2 and adjusted R^2 of 57.2% and 49.1% are obtained for the second Model, price-earning model. This result reveals that Model 2 may give better explanations of value relevance of accounting information than Model 1.

Table 3: Regression results – Overall (returns–earnings model & Price–earnings model)

Overall (N=280)						
α0	α1	α2	α3	α4	R^2	**Adj.R^2**
***Panel 1*: Model 1**						
-19.054	0.016	18.192	0.001		0.104	0.095
(-3.454)*	(-2.368)*	(2.952)*	(0.255)		[10.755]*	
***Panel 2*: Model 2**						
0.109	0.001	0.002	0.863	3.639	0.572	0.491
(0.090)	(-5.156)*	(7.576)*	(22.034)*	0.647	[2363.255]*	

Note: T-statistics on the parameters are presented between ( ), while the overall model's F-test is mentioned between [ ] **, * = *p*-value < 1%, 5% respectively.

Differences between the two periods selected in the current study to test for the value relevance of accounting information, before the application of IFRS (2005-07) and after (2008-11) with regard to return model and price earning model, are reflected in differences (if any) in the models' R^2 between the two periods, before and after the adoption of IFRS. Results from all of the four models (two models types) can be found in Table 4. Concerning the stock return model, the first model, Table 4 (Panel 1) shows all values for the two periods (before and after the application of IFRS). For the first period, it provides results of both R^2 and adjusted R^2 which are 8.0% and 6.0% respectively. However, a little higher value of both R^2 and adjusted R^2 of 12.6% and 10.9% are obtained for the second period, after the adoption of IFRS indicating that there is no big difference in the value relevance of accounting information after the adoption of IFRS by listed companies in BHB.

Table 4: Regression results (returns–earnings model & Price–earnings model)

The period before IFRS (N=120)							The period after IFRS (N=160)						
α0	α1	α2	α3	α4	R^2	**Adj.R^2**	α0	α1	α2	α3	α4	R^2	**Adj.R^2**
***Panel 1*: Model 1**													
-2.161	0.045	8.265	0.011		0.080	0.060	-22.716	0 .012	13.102	0.001		0.126	0.109
(0.141)	(1.255)	(0.477)	(0.196)		[1.231]		(-4.676)**	(2.083)*	(2.376)*	(0.367)		[7.469]**	
***Panel 2*: Model 2**													
0.040	0.235	0.149	0.447	0 .342	0.241	0.232	0.048	0.065	.o23	.009	.065	0.433	0.406
(0.216)	6.543)*	(0.800)	(3.146)**	(0.029)	[5.443]*		(0.012)	(0.015)	-6.902)**	(4.322)**	(7.760)**	[11.324]**	

Note: T-statistics on the parameters are presented between ( ), while the overall model's F-test is mentioned between [ ]; **, * = p-value < 1%, 5% respectively.

The above result is not fully supporting the research hypotheses, H_1, formulated earlier which states that "the adaption of IFRS has a significant increase in the value relevance of accounting information provided by Bahraini listed companies". Therefore the alternative hypotheses can be accepted. Following a number of previous studies (e.g.: Barth et al., 2008; Meulen et al., 2007), the current study uses the Cramer test statistic (Cramer, 1987), which is based on the estimation of R^2 standard deviations, to assess whether a difference in the R^2 is statistically significant between the two models, before and after. Results from the Cramer test statistic for the returns-earning model, Model 1, reveal slight evidence (t = 1.30) of after IFRS than before IFRS.

One possible reason for the above result is that most companies listed in BHB might apply IFRS before that period especially that the Ministry of Commerce and Agriculture in Bahrain advised and recommended the corporate sector companies in late 1990s to adopt the IAS. Another possible reason is that accounting information is not the only factor that can be considered by user of such information, whether it is prepared according to IFRS or other standards. The above result does not support the argument that IFRS are clearly more value-relevant than local standards. In general, the above results are consistent with a number of studies that conclude that the adoption of IFRS has less value relevance of financial reporting. For instance, the above result is in consistent with what was revealed by Meulen et al. (2007) who tested a number of quality measures. One of them was value relevance and reported that no significant differences for the value relevance.

Regarding the price earning model, the second model, Table 4 (Panel 2) provides values of the two periods and shows some improvement in the value relevance from the first to the second period. For the first period, it provides results of both R^2 and adjusted R^2 which are 24.1% and 23.2% respectively. However, considerable changes were noticed in the second period as both values of R^2 and adjusted R^2 were increased to 43.3% and 40.6% respectively. This result indicates that the adoption of IFRS may affect the value relevance of accounting information, price earning information. This suggests that earnings stated according to IFRS have more value relevance than other set of standards earnings numbers. This finding is supporting the acceptance of our research hypothesis which formulated earlier in this study.

The above result maintains the argument that IFRS are clearly more value-relevant than other standards. This result is in line with findings reported by a number of the previous studies. For instance, it is in line with what was reported in the Czech market by Hellström (2006) and in Romania by Filip and Raffournier (2010) and in Poland by Dobija and Klimczak (2010) who all concluded that the value relevance of earnings becomes increasingly significant under IFRS. Similar findings were obtained by Niskanen et al. (2000) in Finland who reported that the transformation from local GAAP earnings to IFRS had irrelevant value. Similarly, the above result is in line with what was reported in UAE by Alali and Foote (2012) who reported that earnings are positively and significantly related to returns and earnings per share.

However, the above finding is not consistent with Goodwin et al. (2008) who concluded that no evidence is found that IFRS accounting information is value relevant. Furthermore, our findings are not in line with what was reported in China by Lin and Chen (2005) who found that earnings identified by Chinese GAAP provide more relevant accounting information than IFRS. Further, conflicting evidence was obtained by Bartov et al. (2005), in Germany, who found no significant difference in earnings quality when measured by the price-earnings relationship; and by Gordon et al. (2010) who found that value relevance of earning is significantly higher under US GAAP than under IFRS.

6. Summary and Conclusions

The movement toward global acceptance of IFRS has generated considerable attention and debate. The current paper extends the literature on the attributes of financial reports prepared under IFRS by examining its value relevance. International studies on the quality of accounting information tend to focus on developed economies and on a limited number of countries. This study, which offers the potential for better understanding the global impact of IFRS, focuses on Bahrain as a country of an emerging stock market with an open economy. To the best of the researches' knowledge, the current study can be seen as the first one which investigates the value relevance of IFRS in Bahrain. On practical level implications, the results of the study should be of interest to the associations involved in putting and improving accounting standards in GCC as well as for the investors planning business activities in GCC. They should also be of interest to practitioners in the area of accounting standard setting and regulation, as well as academic researchers and educators, and the investment community at large.

Findings related to stock return model showed a little higher value of both R^2 and adjusted R^2 from the first period to the second (after the adoption of IFRS) indicating that there is no obvious difference in the value relevance of accounting information after the adoption of IFRS by listed companies in BHB. Only with regard to the price earning model, the second model, we found results in favor of IFRS adoption. In other words, our findings showed some improvement in the value relevance from the first to the second period as considerable changes were noticed in the second period as both values of R^2 and adjusted R^2 were increased. This finding is consistent with those reported by a number of previous researches in the area.

The current study is subject to several limitations. First, the sample size of this study might be expanded by including other GCC members. Future research, as long as data on a sufficient period from the IFRS adoption in the GCC will be available, should explore to what extent the mandatory adoption of IFRS in such a large economic area will have contributed to improve the ability of analysts to correctly interpret the information contained in the financial statements of GCC companies. The effect of IFRS adoption on investor is a fruitful area for future research.

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