Global Business and Management Research: An International Journal
Vol. 14, No. 3s (2022)

Impacts of IFRS 9 on Conditional Conservatism and Reported Performance: Evidence from Malaysian Capital Market

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Abstract

Purpose: This study aims to investigate the differences between pre- and post-adoption of International Financial Reporting Standards 9 (IFRS 9) among Malaysian listed companies' financial statements with a focus on key financial and market performance indicators such as asset turnover, liquidity, net profit margin, return-on-assets, return-on-equity, growth, and Tobin's q. It also pursues to examine the impact of the adoption of IFRS 9 on the level of conditional conservatism. In addition, this study explores the effect of conditional conservatism after taking into consideration the moderating role of the quality of external auditing.

Design/methodology/approach: Using the accounting conservatism model developed by Khan and Watts (1997), the authors compare the level of a firm's conditional conservatism during pre- and post-adoption of the IFRS 9. The sample consisted of non-financial companies that were listed on the Bursa Malaysia Main Market between 2015 and 2020. There are 1,566 firm-years that consist of 357 companies from non-financial industries. The data are analyzed using ordinary least squares (OLS) regression.

Findings: This study found that reported financial and market performance is being negatively impacted by the implementation of IFRS 9. On the other hand, the influence of IFRS 9 on the conditional conservatism of Malaysian's non-financial firms is, on the contrary, positive. The additional test reveals that the firms face greater impact on conditional conservative accounting for companies with higher auditing quality.

Research limitations/implications: The study only focuses on the influence of IFRS 9 on two main areas of concern, which are first, reported financial and market performance, and second, firm-level conditional conservatism. In future, other interesting topics with regards to post-implementation of IFRS 9 could be examined to refine the cost and benefits of IFRS 9 towards financial reporting quality. Furthermore, this study only assesses the moderating effects of auditing quality and omits possible control of firm governance characteristics; therefore, future research could explore a broader perspective in terms of corporate governance or board characteristics.

Practical implications: This study contributes novel insights to the reported financial and market performance of non-financial firms pre- and post-adoption of IFRS 9. Likewise, research findings suggest that non-financial firms' conditional conservatism has risen during IFRS 9 post-adoption period and that these effects are more pronounced for companies with higher auditing quality. These results have implications for standard-setters, practitioners, managers, and investors.

Originality/value: The introduction of IFRS 9 has given new ground of research area. This study explores the difference between reported financial and market performance before and after the IFRS 9 adoption. Besides, the authors explore the extent of conditional conservatism within non-financial firms pre- and post-implementation of MFRS 9 (or IFRS 9) in Malaysia using ordinary least squares (OLS) regression.

Keywords: IFRS 9, conditional conservatism, Malaysia, reported financial performance, market performance, capital market

Introduction

The 2008 global financial crisis (GFC) has badly hit business entities, industries, and countries across the globe. Since the Great Depression, GFC has caused many financial institutions to face unprecedented liquidity issues and bankruptcy concerns. To start with, Lehman Brothers, which was once one of the world's largest financial institutions, had filed for bankruptcy on 15th September 2008 as the company was facing with liquidity problem. Consequently, Lehman Brother kicked off the GFC (Amadeo, 2021).

In recovering from the fragile market, the Federal Reserve and the U.S. Department of the Treasury have tried to stabilise the economy by spending $439.6 billion in buying bank and car stocks. Nonetheless, the unemployment rate rose to above 9% in 2010 in the U.S. alone, albeit with all the efforts that have been carried out (Amadeo, 2020). Investors and the public were shocked and negatively affected by the economic crisis dilemma. Many investors suffered from loss of wealth as their equity investments were diminishing in value within a short period, in an unpredicted and uncontrollable manner. Many blamed the accounting standards that failed to reflect the anticipated losses as the accounting standard practices and policies only allow the losses to be recognised if incurred (Rouault, 2014).

The requirement for the presence of hard evidence to recognise losses under the IAS 39 Financial Instrument: Recognition and Measurement, which is later being superseded by IFRS 9, has triggered many criticisms for being "too little, too late" (CTMfile, 2017). The complexity of IAS 39 has also made many practitioners and managers face technical problems. Consequently, accountants do not consider expected losses (soft evidence) that should be recognised to produce financial statements that present fairly on entities' current financial position and financial performance (CTMfile, 2017).

This is supported by Lee et al. (2020), which investigate whether the financial institutions would be impacted by the context of environment and accounting principles, as depicted by the banks' Loan Loss Allowances (LLA). Lee et al. (2020) found that banks that adopt IAS 39 would vividly decrease their timeliness of reflecting macroeconomic conditions and reduce the future charge-off predictability, signing the low informative power of LLA.

The accounting regulators, International Accounting Standards Board (IASB), have been asked to expedite the process of improving financial accounting and reporting standards. More specifically, calls from stakeholders to put more weight on the relevance and understandability of financial instruments have emphasised the issues depicted from IAS 39 (Crump, 2012).

In answering the call from its stakeholders, IASB has jointly cooperated with U.S. Financial Accounting Standards Board (FASB) in resolving the pitfalls of the IAS 39 standard. Consequently, the Financial Crisis Advisory Group (FCAG) has been established with the intention to enhance investor confidence in financial markets by improving financial reporting quality (FASB, n.d.). Consequently, IASB introduced IFRS 9 Financial Instrument to replace its predecessor, IAS 39.

In line with IFRS, Malaysia's accounting standard-setting regulatory body, the Malaysian Accounting Standards Board (MASB), has mandated the adoption of MFRS 9 Financial

Instrument (MFRS 9) by Malaysian public listed companies (PLCs) starting on 1st January 2018.

Objectively, the IFRS 9 standard is intended to address the perceived deficiencies witnessed from GFC. On this basis, the classification and measurement of financial instruments that fall under IFRS 9 recognition criteria will become less complex as compared to its predecessor, IAS 39.

More specifically, IFRS 9 has improved IAS 139 in three main aspects – classification and measurement, impairment methodology, and hedge accounting (Ong et al., 2015). For instance, some of the significant changes include introducing the expected credit loss model, introducing the general impairment approach and simplified impairment approach, and extensive qualitative and quantitative disclosure requirements under MFRS 7 (Balija, 2017).

These fundamental differences reflected more prudence accounting practices whereby the anticipated future losses also need to be taken into consideration to charge to the income statement. Concurrently, firms must disclose more detailed and specific information on credit risk. Accordingly, a more conservative financial reporting setting has emerged thereafter.

Upon the introduction of IFRS 9, the viewpoints from practitioners are also worth noting. As IFRS 9 would have huge impacts on financial institutions, Ong et al. (2015) draw out some of the challenges that banking entities might have amid the application of MFRS 9. According to PricewaterhouseCoopers (PwC), it is of paramount importance that firms, especially for the banking industry, to having their Day 1 assessment on the financial impact and how it would dramatically affect the performance of the financial reporting period in the following years (Raj, 2016).

Besides, other challenges shall also be anticipated by the practitioners, such as the changes made to systems and processes, the requirement of significant judgements, greater disclosure in financial statements, and management of stakeholders' expectations which the extent depending on the type and complexity of the financial instruments held by the entities (Ong et al., 2015; Pucci & Skærbæk, 2020).

However, experts like the financial advisory view that IFRS 9 carries many benefits to firms in the long term. Banks that adopted IFRS 9 may have higher chances to improve the efficiency of business models, enhance risk management capabilities, and change their business strategies to be more realistic and highly competent with the contemporaneous financial policy (Krishnamra et al., 2020).

The introduction of MFRS 9 has explicitly mandated reporting of expected losses due to uncertainties and challenges that companies will face in the future. Thus, it asserts that companies will exercise more caution and prudence when making a significant judgment in assessing credit risk or identifying the credit recoverability of their account receivables (Gornjak & Studies, 2017). Put simply, the adoption of MFRS 9 has intended to improve the transparency and faithful representation of Malaysian firms in respect of financial and non-financial information.

Several years have passed since implementing MFRS 9. However, there is lacking empirical evidence on the accomplishment of its objectives. Stakeholders such as investors and creditors who have explicit or implicit interests in the firms that adopted MFRS 9 would be keen to identify the impact of MFRS 9 adoption on the companies' performance and how the implications may impact their benefits. Hence, in the Malaysian context, we examine the key accounting and market performance variables during pre-implementation and post-implementation of MFRS 9 to gain insights into the differences in these key financial indicators during the two periods.

Furthermore, prior research that has examined the influence of IFRS implementation on accounting conservatism are limited and have presented inconclusive results (Lopez et al.,

2020). Therefore, this study aims to examine the association between MFRS 9 adoption and accounting conservatism from the perspective of the Malaysian capital market as an attempt to add to the growing IFRS-related literature.

Literature Review

Our first area of interest is to examine whether there are differences in the reported financial and market performance before and after the adoption of MFRS 9 among companies. As noted in prior empirical results of mandatory IFRS adoption, many countries do face great challenges in convergence to IFRS from their national accounting standards. Furthermore, firms that are going through the transitioning phase from IAS 39 to IFRS 9 could possibly result in several discrepancies in measurement and categorisation, resulting in financial and market performance repercussions that are represented and quantified by some important financial and market performance factors.

Early studies tried to investigate various stakeholders' pre-adoption reactions to the adoption of IFRS 9. As in a research conducted by Onali and Ginesti (2014), for instance, market reactions to 13 IFRS 9 announcements made by 5400 European public companies were being examined. According to their findings, stakeholders had a generally uniform favourable reaction to the implementation of IFRS 9. Investors favourably viewed that the new legislation is beneficial for shareholders' wealth building and agreed that the improved comparability across European accounting standards is advantageous to foreign investors and hence increased transparency pertaining to firm-specific information (Onali & Ginesti, 2014).

Another piece of evidence from emerging economies found that companies that have low pre-adoption quality data are positively influenced by the IFRS 9 announcements (ElKelish, 2021). As a matter of fact, empirical study has shown that small financial institutions rather than non-financial institutions are more prominent in this setting as compared to large non-financial corporations based on the study. According to Onali and Ginesti (2014), IFRS 9 is found to be more favourable to shareholders in countries that are experiencing weaker legal systems and with a smaller discrepancy between the local GAAP and the IAS 39, which is consistent with ElKelish's findings (2021).

Nadia and Rosa (2014), on the other hand, pointed out that despite the IASB's efforts to include guidelines that might ensure the relevant and meaningful information for assessing an entity's future cash flows in relation to the quantity, timing, and uncertainty, however, criticisms still exist. This could be evidenced by advice from stakeholders to IASB to put in more efforts on the pattern of a business model as well as financial instruments' behavioural liquidity features (Nadia & Rosa, 2014).

Since the implementation of IFRS 9, there has been a plethora of banking research literature on a range of topics. Technically, the earlier recognition of credit losses will prevent the accumulation of loss overhangs incidents from happening and inhibit the understatement of regulatory capital. As a result, this unique approach to credit loss recognition is anticipated to contribute to improved market discipline and financial stability correspondingly. Practically, IFRS 9 has enhanced the mechanisms of financial instrument classification and measurement as it has superseded IAS 39.

Early evidence presented in López-Espinosa et al. (2021) reflects the worldwide regulation's effect of demanding a shift from loan loss provisioning (LLP) based on experienced credit losses (ICLs) to LLP based on projected credit losses, where firms turn their focus from the incurred loss method to the expected loss approach (ECLs). Consequently, ECL provisions are distinctly more predictable on future bank risk as compared to ICL provisions, based on a study that has purposively examined 74 nations' "systematically important" banks.

However, prior observation noticed that firms experienced lower stock returns, and more dramatic changes in terms of credit default swap spreads could be resulted in a higher first-time impact owing to the accounting adjustment announcement (López-Espinosa et al., 2021). Besides, Novotny-Farkas (2016) asserts that relying on the point-in-time estimations of primary input parameters, such as the chance of default and loss given default, may raise the risk of increased regulatory capital volatility for those particular institutions.

Besides, the greater room given for discretionary managerial judgment has also led to the potential bias in loan loss accounting, which could compromise the integrity of financial reporting. Likewise, the impact on liquidity on firms, mainly on financial institutions, are badly affected (Nadia & Rosa, 2014) due to the incorporation of the ECL model with much earlier and larger impairment allowances are foreseen, expected, and recognised (Novotny-Farkas, 2016).

In Malaysia, IFRS 9 is said to have outperformed IAS 39 concerning relevance and reliability, financial instrument recognition criteria, and business model identification. The Islamic financial institutions, however, are facing tremendous challenges with regards to faithful representation, the concept of substance over form, and the identification of financial instruments prior to recognition criteria (Marzuki et al., 2021). In addition, Islamic financial institutions are also muddling through with the extent to which risk management plays a role in reducing manipulation during the business models identification process (Marzuki et al., 2021).

According to the accounting conservatism principle, companies are recording unfavourable (bad) news more rapidly than favourable (good) news. When it comes to recognising good news in financial statements, accountants tend to demand a higher level of verification than when it comes to recognising bad news (Basu, 1997). However, existing research suggests that accounting conservatism varies by country due to institutional variables, with the obvious two common factors being shareholder protection and the legal enforcement system (Benkraiem et al., 2021; Lopez et al., 2020).

According to Lara et al. (2008), standardisation and convergence improved earnings accounting conservatism. More precisely, the relevance and reliability of reported financial information are being enhanced upon IFRS adoption, as well as conditional earnings conservatism is way higher than the pre-implementation period, according to a study done in Chilean capital markets. Furthermore, empirical evidence suggests that IFRS adoption promotes capital market transparency, which indirectly boosts the confidence level of investors on financial markets (Barth et al., 2008; Lara et al., 2008).

Nonetheless, several researchers found little indication that accounting conservatism is being influenced by each country's accounting jurisdiction, or more specifically, IFRS implementation. For instance, prior literature commented that, in fact, accounting conservatism remained unchanged in New Zealand corporations even after the adoption of IFRS in 2007 (Kabir et al., 2010). This would be due to the high investor protection and enforcement environment.

The required implementation of IFRS in Europe in 2005, on the other hand, turned out that conditional conservatism has decreased generally (André et al., 2015). Explicitly, André et al. (2015) consistently argue that the diminishing effects of IFRS on accounting conservatism across European markets are mostly due to a less prudent approach in fair value options. As shown above, responses from countries in adopting IFRS have resulted in different reactions from capital markets (Isaboke & Chen, 2019; Menicucci, 2015).

Hypothesis Development

After scrutinizing the extant literature, this study attempts to study the effects of IFRS 9 adoption that superseded IAS 39 on non-financial institutions on the grounds that the literature on this area of research is limited. In this regard, we want to look into the differences brought about by IFRS 9 in Malaysia through the financial and market performance of companies. The following hypothesis is thus proposed:

Hypothesis One: The financial and market performance of Malaysian non-financial publicly listed firms do not differ significantly before and after the adoption of MFRS 9.

In the context of IFRS 9, its implementation is still at an early stage in Malaysia and around the globe. Hence, the existing literature on this topic is limited. Moreover, the majority of extant literature has set the research in the contexts of European countries. Thus, exposure to this region on Asian capital markets is attractive and contributory. As prior literature do not provide strong guidance on to what extent the influence of mandated IFRS adoption firm-level of conditional conservatism, with that, this study proposed the second hypothesis as follows:

Hypothesis Two: There is a significant association between the adoption of MFRS 9 and conditional conservatism.

Methods

In this section, we will go through the major financial and market performance factors, as well as our conditional conservatism measures, before moving on to the regression model that we utilised to test our hypotheses empirically.

Adoption of MFRS 9 and Financial and Market Performance

To begin, we look at the first hypothesis on whether key financial and market performance indicators have changed significantly before and after the implementation of MFRS 9. Primitively, the mean and median of the important financial and market performance variables were examined (Daske et al., 2008; Hou et al., 2014; Hung & Subramanyam, 2007; Lau, 2016; Tsalavoutas & Evans, 2010). In order to assess any significant differences with the effect of MFRS 9 adoption, we examine the difference between pre-adoption and post-adoption of MFRS 9 on key financial and market performance factors.

This study examines the mean and median of financial and market performance factors, of which the variables are being grouped into pre- and post-MFRS 9 adoption periods. First, we assume that the adoption of MFRS 9 will have an impact on a firm's sales. Thus, we look at the **Asset Turnover (AT)** variable to see how efficiently a firm uses its assets to generate sales revenue or sales income.

Second, we consider the **Liquidity (LIQUID)** variable when determining the firm's ability to cover short-term operating demands with cash or cash equivalents. Next, in examining the influence on the profitability of firms, this study utilises the **Net Profit Margin (NPM)** variable to investigate if there is any change

In a similar vein, we also look into a company's profitability in relation to its total assets, or so-called the **Return-on-Assets (ROA)**. With that being said, we want to see how the adoption of MFRS 9 affects a firm's ROA performance given that it benchmarks the company's management efficiency and has become a ruler in telling the investors or analysts how well the managers are utilising its assets for the revenue generation process. Furthermore, the **Return-on-Equity (ROE)** is a commonly used financial performance metric that assesses how well a firm manages the capital that shareholders have put in it (net income). We will now examine the impact of MFRS 9 adoption on ROE.

In terms of business growth, we employ the **Growth** variable to explore the effects of MFRS 9 in relation to the firm's growth rate, which is proxied by capital expenditure scaled by sales.

We are also interested in how MFRS 9 adoption affects a company's market value. As a result, we use **Tobin's Q** as one of our essential variables in our research.

Measurement of Accounting Conservatism

The firm-year specific Khan and Watts model is used to assess conditional accounting conservatism. To test Hypothesis 2, we modify Khan and Watts (2009)'s model by including a dummy variable, being depicted as *MFRS9*, to investigate the effect of conditional MFRS 9 adoption on conditional conservatism

We also look at the effect of auditing quality vis-à-vis conditional conservatism following the implementation of MFRS 9. We interact the *MFRS9* dummy variable with the *Big4* dummy variable in analysing the influence of audit quality on the relationship between conditional conservatism and MFRS 9 adoption by engaging the Big Four as the proxy for auditing quality. We hypothesise that firms with greater auditing quality will be more conservative in their adoption of MFRS 9.

Table 1
Sample Selection

Descriptions	Number
Malaysian PLCs at Main Market	894
(-) Firms with unavailable data	(60)
(-) Banking, insurance, and other financial industries	(36)
(-) Non-December 31 year-end	(474)
(-) Non-MFRS 9 adopters	(3)
(=) Firms included in the sample	361
(x6) Firm-years observations for 2015 to 2020	1,926
(-) Observations with unavailable data	(360)
(=) Final number of firm-year observations	1,566

The Main Regression Model

This study uses the following ordinary least squares (OLS) regression to investigate the relationship between MFRS 9 adoption and conditional conservatism from 2015 to 2020:

$$C\_SCORE_{i,t} = \beta_0 + \beta_1 MFRS9_{i,t} + \beta_2 Size_{i,t} + \beta_3 M/B_{i,t} + \beta_4 Lev_{i,t} + \varepsilon_{i,t} \quad (1)$$

where *i* and *t* are firm and year subscripts, respectively. The dependent variable, C_SCORE, which was developed by Khan and Watts (2009), is a firm-year specific measure of conditional conservatism. Regarding the independent variable, which is our variable of interest *MFRS9* dummy variable, is the adoption of MFRS 9 in Malaysian PLCs entity. Therefore, observing a positive (negative) coefficient on *MFRS9* will indicate that the adoption of MFRS 9 in a Malaysian PLCs firm is positively (negatively) associated with conditional conservatism in its financial reporting context.

We include several control variables that are potentially correlated with conservative financial reporting. Given that larger firms are prone to have low asymmetric timeliness of earnings, thus this study controls for size (*Size*), similar to Givoly et al.'s (2007) study. In addition, as

shown in Beaver and Ryan (2005), the accumulated level of unconditional conservatism affects the extent of conditional conservatism; thus, this study uses the market-to-book ratio (*M/B*) as a proxy for the level of unconditional conservatism. Next, as Watts (2003a) noted that firms with a higher amount of leverage ratio tend to have greater conditional conservatism levels and hence, we include leverage (*Lev*) as a control variable.

Data, Sample Selection, and Descriptive Statistics

The population of this study is made up of Malaysian public listed entities on Bursa Malaysia's Main Market, with financial years spanning from three years before (2015-2017) to three years after (2018-2020) MFRS 9 adoption effective date. Specific reporting regulations apply to the banking industry, insurance firms, and other financial institutions. As a result, they are not included in our sample.

In addition, this study only chooses non-financial firms that have the financial year ended on 31st December for all consecutive six-year financial periods to ensure consistency and enhance comparability throughout the empirical research models. All the information was gathered from the S&P Global database and the companies' annual reports. Table 1 shows the sample selection procedure. After removing 360 firm-years because of missing data, we get the final sample of 1,566 firm-year observations over the period of 2015 to 2020.

Findings

Table 2 provides descriptive statistics on the pre- and post-adoption of the MFRS 9 period. The sample size for the pre-MFRS 9 periods is 778 observations, while post-MFRS 9 is 788 observations. As per results, there are only three variables that are statistically different. Tobin's Q has the statistical significance at a one per cent level value at -0.304. At the same time, the other two, Leverage and ROA, are marginally significant at a ten per cent level, with the value of 0.024 and -0.015, respectively.

The median test of difference shows more variables that have statistically significant results than the mean. Conditional conservatism (C_SCORE), the dependent variable, is positive at a 1% level, with a value of -0.209, while the market-to-book ratio has negative and significant results of -0.140. Meanwhile, for the key financial and market performance variables, ROA, ROE, and NPM have medians of -0.020, -0.020, and -0.010, respectively.

Table 3 reports the Pearson correlation coefficients for key financial and market performance indicators as well as the variables in our main model. Consistent with the findings of Khan and Watts study, we found that the correlation coefficients are positive and significant between conditional conservatism (C_SCORE) and firm-specific characteristics, where firms that have higher market-to-book ratios and leverage are conservative in their financial reporting practices. We noted that no correlation coefficients between firm-year characteristics and other explanatory variables are greater than 0.600, meaning that the regression does not face with multicollinearity issue.

Association between Adoption of MFRS 9 and Conditional Conservatism: Main Results

Equation (1) is used to investigate the association between the adoption of MFRS 9 and the level of conditional conservatism, and Table 4 presents the results. By referring to Table 4, the MFRS 9 dummy variable is ***MFRS9***, and its estimated coefficients have a significance level of 0.10 (coef. = 0.341, t-stat = 1.153), indicating that the adoption of MFRS 9 is marginally correlated with conditional conservatism.

Table 2
Descriptive Statistics and Univariate Tests of Variables

Variable	Pre-MFRS 9				Post-MFRS 9				Difference tests	
	N	Mean	SD	Median	N	Mean	SD	Median	Mean	Median
C_SCORE	778	0.305	0.958	0.328	788	0.229	0.942	0.119	-0.076	**-0.209*****
SIZE	778	19.884	1.778	19.645	788	19.884	1.808	19.620	-0.000	-0.025
M/B	778	1.954	5.701	0.920	788	2.111	6.118	0.780	0.157	**-0.140*****
LEV	778	0.406	0.197	0.390	788	0.429	0.233	0.420	**0.024***	0.030
TOBINQ	778	1.565	2.551	0.890	788	1.261	1.223	0.940	**-0.304*****	0.050
GROWTH	778	0.112	0.298	0.050	788	0.094	0.179	0.040	-0.018	-0.010
ROA	778	0.030	0.142	0.040	788	0.015	0.160	0.020	**-0.015***	**-0.020*****
ROE	778	0.058	0.318	0.060	788	0.045	0.417	0.040	-0.012	**-0.020*****
ASSET TURNOVER	778	2.147	3.855	1.190	788	1.946	2.773	1.095	-0.200	-0.095
NPM	778	0.010	0.557	0.060	788	-0.036	0.538	0.050	-0.046	**-0.010*****
LIQUID	778	3.190	6.021	1.770	788	3.032	5.316	1.750	-0.158	-0.020

Note. This table presents the descriptive statistics for the sample of 1,566 firm-year observations from 2015 to 2020.
C_SCORE denotes conditional conservatism score based on the Khan and Watts model; **SIZE** denotes natural logarithm of the market value of firm' equity; **M/B** denotes the market value of equity scaled by the book value of equity; **LEV** represents leverage defined as total liabilities divided by total assets at the end of the fiscal year; **SOA** denotes total sales over lagged total assets; **TOBINQ** denotes (Total assets – book value of equity + market value of equity) scaled by total assets; **GROWTH** represents by total capital expenditure, scaled by sales; **ROA** denotes profit for the year over the book value of total assets; **ROE** denotes profit for the year over the book value of total equity; **ASSET TURNOVER** denotes sales to net fixed assets; **NPM** denotes profit for the year over sales; **LIQUID** denotes current assets total deflated by current liabilities total.
$^{*}p < 0.10$. $^{**}p < 0.05$. $^{***}p < 0.01$.

Table 3
Pearson Correlation Coefficient

Variable	C_SCORE	SIZE	M/B	LEV	TOBINQ	GROWTH	ROA	ROE	AT	NPM	LIQUID
C_SCORE	1.000										
SIZE	-0.019	1.000									
M/B	**0.226**	**0.328**	1.000								
LEV	**0.064**	**0.166**	**0.188**	1.000							
TOBINQ	**0.091**	**0.178**	**0.464**	**0.076**	1.000						
GROWTH	-0.008	**0.052**	-0.022	0.019	-0.038	1.000					
ROA	0.005	**0.264**	**0.227**	**-0.191**	**0.144**	**-0.096**	1.000				
ROE	**0.070**	**0.259**	**0.509**	**0.081**	**0.276**	**-0.064**	**0.401**	1.000			
AT	-0.001	-0.016	**0.215**	**0.075**	**0.202**	**-0.145**	**0.179**	**0.174**	1.000		
NPM	-0.019	**0.177**	**0.049**	**-0.084**	**0.046**	**-0.166**	**0.583**	**0.323**	**0.057**	1.000	
LIQUID	-0.007	**-0.107**	**-0.042**	**-0.429**	-0.024	0.038	0.025	-0.013	**-0.041**	0.037	1.000

Note. This table presents the Pearson correlation coefficients for the sample of 1,566 firm-year observations from 2015 to 2020.
C_SCORE denotes conditional conservatism score based on the Khan and Watts model; **SIZE** denotes natural logarithm of the market value of firm' equity; **M/B** denotes the market value of equity scaled by the book value of equity; **LEV** represents leverage defined as total liabilities divided by total assets at the end of the fiscal year; **SOA** denotes total sales over lagged total assets; **TOBINQ** denotes (Total assets – book value of equity + market value of equity) scaled by total assets; **GROWTH** represents by total capital expenditure, scaled by sales; **ROA** denotes profit for the year over the book value of total assets; **ROE** denotes profit for the year over the book value of total equity; **AT(Asset Turnover)** denotes sales to net fixed assets; **NPM** denotes profit for the year over sales; **LIQUID** denotes current assets total deflated by current liabilities total.
The Pearson correlation coefficients in bold are significant at the 10% level or above (two-tailed).

Table 4
MFRS 9 and Conditional Conservatism

Variable	Coefficient (t-statistic)
Intercept	295.700***
	(75.430)
MFRS9	**0.341****
	(0.153)
Size	-0.054***
	(0.010)
M/B	0.041***
	(0.014)
Lev	0.176***
	(0.053)
Year fixed effects	Yes
Industry fixed effects	Yes
Observations	1566
Number of clusters	357
Adj. R-squared	0.064

Note. Dependent variable is C_SCORE. C_SCORE denotes conditional conservatism score based on the Khan and Watts model; *MFRS9* is a dummy variable that takes the value of 1 if firm *i* in year *t* reports their financial statements with MFRS 9, and 0 otherwise; Size denotes natural logarithm of market value of firm' equity; M/B denotes the market value of equity scaled by the book value of equity; Lev represents leverage defined as total liabilities divided by total assets at the end of the year. Standard errors clustered at the firm level and year are in parentheses.
$^{*}p < 0.10$. $^{**}p < 0.05$. $^{***}p < 0.01$.

In addition, one of the firm-specific control variables, Size, is positive and has a significance level of 0.01. (coef. = -0.054, t-stat = 0.010), while the other two firm-specific characteristics variables, market-to-book ratio (M/B), and Leverage (Lev), are negative and significant at one percent (coef. = 0.041, t-stat = 0.014 and coef. = 0.176, t-stat = 0.053, respectively). Consistently, these results are being similar to findings found by prior researchers such as Givoly et al. (2007), Khan and Watts (2009), and Burke et al. (2020).

Moderating Effect of the MFRS 9 Adoption – Conditional Conservatism Relationship
In order to give make a clearer relationship between MFRS 9 and conditional conservatism, we conduct additional tests to examine several factors that could moderate the positive relation between MFRS 9 and conditional conservatism. Specifically, we look at the auditing quality as a moderator in our empirical research.
Prior literature found that the diminution in conditional conservatism is less prominent for firms that have higher auditing quality (André et al., 2015). This is because, first, Big Four auditors have market-based incentives to advocate accounting conservatism in order to decrease their risk of a lawsuit and maintain their reputation as higher quality auditors (Piot et al., 2015). Second, Big 4 auditors build network-integrated resources and realise greater economies of scale from audit technology investments (Piot et al., 2015). Third, as evidenced by audit fee premiums and error detection capabilities, industry specialists' auditors are recognised for providing quality-differentiated audit services (Piot et al., 2015).

To conduct this test, we use the Big Four auditors as a proxy for high auditing quality, and we denote *Big4* equals to one if a company uses any of the Big Four auditors as its external auditors; otherwise, it is zero. We add Big4 and its interaction term, $MFRS9 \times Big4$, to Equation (2) and estimate the following model:

$$C\_SCORE_{i,t} = \beta_0 + \beta_1 MFRS9_{i,t} + \beta_2 Big4_{i,t} + \beta_3 MFRS9_{i,t} \times Big4_{i,t} + \beta_4 Size_{i,t} + \beta_5 M/B_{i,t} + \beta_6 Lev_{i,t} + \varepsilon_{i,t} \quad (2)$$

where β_3 is the coefficient of interest, of which it captures additional marginal effects by the moderating role of auditing quality on the association between MFRS 9 adoption and conditional conservatism. The remaining variables have been defined previously. The regression results are being summarised in Table 5. It is noted that the coefficients of moderating variable of interest, as depicted as $MFRS9 \times Big4$, are positive and marginally significant at the ten per cent level. These findings support our hypothesis that the favourable relationship between MFRS 9 adoption and conditional conservatism is more substantial for companies with higher auditing quality.

Table 5
Moderating Effect of Auditing Quality

Variable	Coefficient (t-statistic)
Intercept	302.500***
	(77.040)
MFRS9	**0.279****
	(0.138)
Big4	-0.188**
	(0.073)
MFRS9 * Big4	**0.227***
	(0.122)
Size	-0.048***
	(0.010)
M/B	0.041***
	(0.014)
Lev	0.188***
	(0.054)
Year fixed effects	Yes
Industry fixed effects	Yes
Observations	1566
Number of clusters	357
Adj. R-squared	0.063

Note. Dependent variable is C_SCORE. C_SCORE denotes conditional conservatism score based on the Khan and Watts model; *MFRS9* is a dummy variable that takes the value of 1 if firm *i* in year *t* reports their financial statements with MFRS 9, and 0 otherwise; Big4 represents dummy variable where denotes 1 when auditor is Big4, and zero otherwise; Size denotes natural logarithm of market value of firm' equity; M/B denotes the market value of equity scaled by the book value of equity; Lev represents leverage defined as total liabilities divided by total assets at the end of the year. Standard errors clustered at the firm level and year are in parentheses. $^{*}p < 0.10$. $^{**}p < 0.05$. $^{***}p < 0.01$.

Discussion and Conclusion

At first, this study explores the Malaysian firms' financial and market performance pre- and post-adoption of MFRS 9. The results from the test of differences evidenced that MFRS 9 has significantly influenced the firms' reported performance, as can be observed from the decrease of Tobin's Q, ROA, ROE, Asset Turnover, and Net Profit Margin following the implementation of MFRS 9 among non-financial companies.

Apart from that, this research is purposively conducted in examining how the adoption of MFRS 9 affects accounting conservatism among Malaysian public-listed companies. Our empirical results show that conditional conservatism, being proxied by Khan and Watts (2009) model, portrays positive and significant results upon including the effect of MFRS 9. More particularly, the findings suggest that within the context where the auditing quality is high, conditional conservatism is more prominent. With this regard, the role of institutional setting is vital so as to act as a governing force for the successful implementation of IFRS 9.

Theoretical Implications

After considering the effects of MFRS 9 implementation, the study on conditional conservatism adds to the existing IFRS and financial reporting literature, further proving and explaining that implementation of IFRS 9 would, in fact, promotes conditional conservatism among Malaysian firms, and not vice versa.

Practical and Social Implications

In summary, this study adds new evidence to the practitioners and accounting standard-setters. As most of the extant literature focuses on the implication of IFRS 9 on financial institutions whilst this study aims to fill a vacuum in the literature by focusing on non-financial companies. For this reason, this research provides new grounds of empirical evidence that would benefit practitioners and accounting standard-setters.

Limitations and Suggestions for Future Research

Nevertheless, several limitations are noted in this study. First, as IFRS 9 is only recently being adopted by Malaysian non-financial firms hence, the sample period is limited to three years each for pre- and post-adoption of MFRS 9. Thus, this leads to a small sample size and hence may induce estimation bias.

Secondly, our study is narrowly focused by only examining a specific attribute of the accounting quality – accounting conservatism, without looking from other perspectives of financial reporting quality. This posits possible errors in interpretations, and we suggest adopting a different approach in measuring the impacts of IFRS 9 on financial reporting quality.

Next, omitted macroeconomic factors and corporate governance considerations have made our study unable to identify all potentially correlated variables. Thus, future researchers are advised to exercise extra caution when generalising our findings on other capital markets or observation years.

In this context, we recommend future researchers in extending the window of observations to increase the number of samples. Besides, exploring the effects of adopting IFRS 9 on value relevance accounting information may bring new insights to the growing yet limited literature. Consideration to include ownership elements, market competitiveness, or macro-economic conditions may also add value to future research.

Acknowledgement
This study is supported by the Ministry of Higher Education Malaysia for Fundamental Research Grant Scheme with Project Code: FRGS/1/2019/SS01/USM/02/1 and Universiti Sains Malaysia, School of Management, Incentives for Research Delivery.

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