The Vanishing Role of IFRS Application on the Performance of Saudi Arabian IPO Companies

Fouad Jamaani[1]

[1] Department of Economics and Finance, College of Business Administration, Taif University, Saudi Arabia

Correspondence: Fouad Jamaani, Department of Economics and Finance, College of Business Administration, Taif University, Saudi Arabia. E-mail: fjamaani@tu.edu.sa

Received: October 17, 2022 Accepted: December 21, 2022 Online Published: January 1, 2023

doi:10.5430/ijfr.v14n1p1 URL: https://doi.org/10.5430/ijfr.v14n1p1

Abstract

This research investigates the long-term impact of the International Financial Reporting Standards (IFRS) regulation on the performance of Initial Public Offering (IPO) corporations in developing market nations. The research employs 124 IPO companies listed in Saudi Arabia from 2003 to 2019 using Difference-in-Differences (DiD) estimation. It was discovered that enforcing the use of IFRS provides no role on the performance of IPO companies in the long-run. On the secondary market, where there was low information asymmetry, the IFRS did not enhance the aftermarket performance of IPO corporations. The success of the IFRS in creating high-quality financial reporting is dependent on the level of information asymmetry and disappears when analysts and investors have access to an abundance of information about traded enterprises, especially in emerging IPO markets like Saudi Arabia.

Keywords: initial public offerings, international financial reporting standards, aftermarket performance, information asymmetry, emerging markets, Saudi Arabia

1. Introduction

Literature documents that the aftermarket underperformance of IPO corporations is a frequent event on the international equity market (Zattoni *et al.* 2017; Ong *et al.* 2021). IFRS-IPO research ties the persistence of this equity market anomaly to faulty accounting practices and inadequate financial reporting (Chang *et al.* 2010; Brogi *et al.* 2020). Proponents of the IFRS suggest that enforcing the adoption of IFRS might increase reporting clarity and information parity among readers of financial reports by requiring high-quality reporting (Horton *et al.* 2013; El-Diftar and Elkalla 2019; Lakhal and Dedaj 2020).

Lyft firm went public on NASDAQ in March 2019 for $72 per share. Lyft's first-day trading price closed at $87, up 19.50% due to investor optimism (Fortune 2019). Fraud cases hit the stock market in October 2019 (CNBC 2019). This included deceptive prospectus statements and disappointing first-quarter financial performance. It lowered Lyft's price to $39 for each share by undermining the IPO investors' initial value and future viability. Lyft's shares lagged the NASDAQ by roughly 97% in this seven-month period, which rose from 7,600 to 8,110 points (The New York Times 2019). Thus, the key issue is whether implementing IFRS would enhance accounting standards and information reporting of IPO businesses, impacting their long-term performance. Over 160 countries, 52% of which are developing market nations, have officially pledged to partly or completely conforming with the IFRS, according to IAS Plus (2022b). Therefore, governments in developing countries must decide whether to speed complete conversion to the IFRS to reap the advantages of greater financial reporting quality seen in established nations' IPO markets. Due to Denmark's superior information quality in the secondary market than the primary market, Dorsman *et al.* (2010) concluded that the IFRS rule provided no aftermarket influence on IPO businesses' success. Thus, the long-run implications of the IFRS rule on newly listed companies in developing countries are unknown. Consequently, this paper presents the first verifiable research to examine if mandated IFRS could influence the aftermarket performance of IPO organizations in a developing market country like Saudi Arabia (Note 1). The research employs several cross-sectional DiD estimation for 124 IPO businesses from 2003 to 2019.

The paper found no long-term advantages for IFRS-mandated enterprises in Saudi Arabia, demonstrating that the IFRS provides no aftermarket influence on information asymmetry for IPO corporations. IPO investors and analysts may better value IPO businesses' stock prices post-listing due to their accessibility to multiple secondary market sources of data. Consumers of IPO businesses' financial reports no longer need the IFRS due to the secondary market's information advantage.

This study contributes to developing country research, policy, and investment decisions by utilizing Saudi Arabia's implementation of international financial reporting standards and its cultural and legal commonalities with a diverse array of developing countries. It adds to the research on the IFRS requirement and IPO businesses' long-term performance. This research adds to IPO-IFRS literature by offering the first verifiable research of the advantages of the IFRS on the quality of IPO businesses' accounting information in developing nations. The results that IFRS standards have no long-term impact on long-term performance might support the existing studies that IFRS do not aid new IPO enterprises (Dorsman *et al.* 2010; Byard *et al.* 2019). If all emerging economies were like this, more than half of IFRS implementers wouldn't need to embrace it. The findings explain IFRS's function in emerging countries' IPO markets and the association between IFRS financial reporting and information asymmetry in the secondary market.

The research is arranged into seven sections. The significance of Saudi Arabia as a testing environment for developing markets is discussed in Section 2. The third section is a literature review. Section 4 discusses the development of hypothesis. Section 5 shows the employed data and used econometric model. In Section 6, empirical results and discussion are presented. Last Section ends.

2. What Factors Led to the Selection of Saudi Arabia?

Saudi Arabia shares cultural and legal similarities with many developing nations. Kaufmann *et al.* (2022) found that Saudi Arabia's average corruption control, a measure of legal system quality, was -0.09 between 2003 and 2019 out of 2.5 for the best and -2.5 for the worst legal practice. The researchers also present the mean lower numbers for corruption control from 2003 to 2019 for numerous developing countries, such as Brazil (-0.09), China (-0.45), India (-0.38), Indonesia (-0.75), Mexico (-0.94), and Russia (-017). Another commonality is shown in shared equivalent cultural quality, such as power distance (Note 2). Hofstede (2011) On the dimension of power distance, Hofstede (2011) assigns Saudi Arabia a value of 95 out of 100, whereas the developing cultures score similar results. For example, Brazil scores 69, China 80, India 77, Indonesia 78, Mexico 81, and Russia 93 out of 100. Saudi Arabia has used IFRS longer than other developing nations (IFRS Foundation 2022; IFRS Organisation 2022). For instance, Saudi Arabia implemented IFRS in 2008, thus it has been in place for about 12 years. On the other hand, the median period of experience with IFRS in developing economies is around seven (Note 3) years. Thirdly, as of 2008, Saudi Arabia requires IFRS exclusively for banking and insurance industries, and other publicly traded enterprises are not authorized to implement IFRS freely (IAS *Plus* 2022a). This indicates that the IPOs in Saudi Arabian are immune from the self-selection bias that influenced the outcomes of volunteer research., for instance, IFRS research suggests that voluntary IFRS implementors, who pick IFRS after evaluating its advantages and expenses, struggle with self-selection bias that undermines the trustworthiness of empirical outcomes (Christensen *et al.* 2013). Considering the aforementioned features of Saudi Arabia, it provides a perfect example for the generalizability of any conclusions generated from Saudi Arabia in respect to IFRS mandates to developing nations.

3. Literature Review

IPO research document that in the days, weeks, and months after trading, IPO businesses are known to underperform the baseline market index (Aggarwal and Rivoli 1990; Chan *et al.* 2004; Zattoni *et al.* 2017). IFRS-IPO literature shows that secondary market IPO analysts and investors may get adequate information about IPO businesses, incorporating historical financial history, experts' reports, companies' statements, and press reports, reducing asymmetric information regarding their aftermarket performance (Jamaani *et al.* 2022). In comparison, the sole publicly available information resource for primary market IPO participants is entirely within the issuer's control (Shi *et al.* 2013; Jamaani and Ahmed 2020, 2021). Such an information inferiority ultimately results in a higher information imbalance between the secondary and primary markets (Jamaani and Alidarous 2019).

Dorsman *et al.* (2010) examine the connection between the aftermarket performance of IPO businesses and mandatory IFRS adoption by analyzing registered IPOs in Denmark between 1990 and 2011. They find that the IFRS standards provided no discernible effect on the aftermarket performance of IPO businesses relative to the general market index. Since the obligatory deployment of IFRS in 2008 in Saudi Arabia, a handful of scholars have sought to understand the aftermarket underperformance of IPO enterprises without considering the influence of the IFRS requirement on IPOs in the secondary market. For example, Alanazi and Al-Zoubi (2015) examined the aftermarket performance of 139 traded enterprises in Gulf Cooperation Council (GCC) nations from 2003 to 2010. The researchers noted that IPO enterprises underperform the Saudi Arabian's All-Share Index by around 28% in three-year, 24% in two-year, and 9% in on-year periods. In comparison, AlShiab (2018) presented evidence that IPO businesses traded in Saudi Arabia beat the Tadawul by about 22.5 % over the course of one year. Likewise, Kamaludin and Zakaria (2018) found IPOs outperform by 9% over one year period.

There has not yet been any empirical research conducted on the implications of the IFRS requirement on the performance of IPO companies in the long-run for developing market nations like Saudi Arabia. As a result, one of

the goals of this study is to fill a void that currently exists in IPO- IFRS research by determining whether or not the IFRS has a role on the performance of IPO enterprises in the kingdom in a way that justifies conformance with the IFRS for developing countries.

4. Hypotheses Development

Dorsman *et al.* (2010) discovered that initial public offerings lagged the market index despite the fact that IFRS was mandated in 2005 in Denmark. Therefore, it is fair to suppose that the IFRS standards could not provide an influence on the performance of Saudi Arabian IPO businesses in the long-run. The paper anticipated that the IFRS would not provide any benefits for consumers of financial reports in the secondary market due to the fact that there is very much information certainty in the secondary market in comparison to the primary market. When opposed to the secondary market, the primary market is characterized by much higher levels of information uncertainty among investors and analysts about IPO businesses (Chan *et al.* 2004; Dong *et al.* 2011; Jamaani and Ahmed 2022). Previous studies have shown that analysts and investors operating in the secondary market have the ability to obtain information from a variety of sources, which helps to reduce the amount of informational ambiguity about listed businesses (Chan *et al.* 2004; Brogi *et al.* 2020). On the other hand, the information in the primary market is entirely governed by the owners of the companies that are participating in the initial public offering. Therefore, it is reasonable to assume that there is a better information symmetry in the secondary market in comparison to the primary market. Even for developing nations such as Saudi Arabia, the good information available in the secondary market is quite possible to counteract the sound role of the IFRS on consumers of IPO companies' financial reports.

Hypothesis 1:

Mandatory adoption of IFRS provides no role on the aftermarket performance of IPO firms.

5. Data Used and Methodology Employed

The research is consisted of 124 companies from fifteen different sectors that were traded between January 2003 to December 2019, and they were sorted into two groups. The treatment group comprised 83 IPO businesses who only mandated IFRS, whereas the control cluster had 41 initial public offering firms (non-IFRS mandators. Both groups were separated into post-IFRS (2009–2019) and pre-IFRS (2003–2007) eras. The hypothesis was tested using a battery of DiD models constructed in accordance with the procedures established by Hong et al (2014). As a statistical tool used in experimental and correlational study design, the DiD model compares the outcomes for a treatment group (IPO businesses that required the IFRS) and a control cluster (IPOs without IFRS mandates) to see how the two groups perform (Slaughter 2001). The DiD design allows one to contrast the mean variations in the dependent variable across control and treatment groups, therefore analyzing the influence of treatment on the explanatory variable (in this case, the aftermarket performance of IPOs) (Jamaani *et al.* 2022). This technique has been widely utilized to assess the influence of the use of IFRS on stock markets (Florou and Pope 2012; Ahmed *et al.* 2013; Barth and Israeli 2013). In accordance with Jamaani *et al.* (2022), the 2008 data were omitted to remove any transitional impacts. This paper computes $BHAR_{i,t}$ using the method of Zattoni et al. (2017) as shown in Equation (1):

$$BHAR_{i,t} = \left[\!\left[\prod_{t=1}^{min(T)}(1+r_{it})-1\right]\!\right] - \left[\!\left[\prod_{t=1}^{min(T)}(1+r_{mt})-1\right]\!\right], \text{T=12 months} \quad (1)$$

$BHAR_{i,t}$ represents the buy-and-hold index return of IPO $_i$ in month $_t$, r_{it} represents the monthly return of IPO $_i$ in event month $_t$, and r_{mt} represents the monthly baseline raw return of the Saudi Arabian all-share index. In Equation (2), $BHAR_{i,t}$is the dependent variable describing to the performance of traded IPO businesses in the long-run. To answer H1, the coefficient $\beta 3$ of $IFRS_i$ must provide statistically insignificant result in Equation (2).

$$\begin{aligned} BHAR_{i,t} &= \beta_{0i} + \beta_1\, Post_i + \beta_2\, Treatment_i + \beta 3\, IFRS_i + \beta 4\, Initial_i \\ &+ \beta 5\, Prestige_i + \beta 6\, Tech_i \\ &+ \beta_7\, Volatility_i + \beta 8\, Size_i + \beta 9\, Private_i \\ &+ \beta 10\, Integer_i + \beta 11\, Price_i + \beta_{12}\, Duration_i \\ &+ \sum_{a=1}^{A}\beta_{13}\ Year\ Dummy_i + \sum_{b=1}^{B}\beta 14\ Industry\ Dummy_i + \varepsilon i \end{aligned} \quad (2)$$

The paper followed IFRS-IPO research like Alanazi and Al-Zoubi (2015) and Jamaani *et al.* (2022) to adjust for many company- and market-specific influences. Table 1 defines all variables and descriptive statistics.

List of tables

Table 1. Descriptive statistics and variable definitions

Variables	Mean values	Source of Data
Dependent variables		
BHAR is the dependent variable representing the aftermarket performance of traded IPO businesses, calculated as the difference between the closing price of an IPO business twelve months after registration and the market close of an IPO business on launch, where a month = 21 working days.	0.06	Bloomberg and DataStream
DiD variables		
Post covers the post-IFRS requirement era for all publicly traded companies from 2009 to 2019.	0.54	Estimated by author
Treatment covers all traded companies with an initial public offering from 2003 to 2019. It functions as a cluster-effect variable in the DiD analysis for tracking the shifts in the aftermarket performance of the sector's IPO businesses throughout the entire time, relative to the IFRS non-mandating cluster every year.	0.35	Estimated by author
IFRS provides the interaction factor, Post*Treatment, representing the variance in the aftermarket performance for solely firms post-IFRS requirement (2009–2019).	0.67	Estimated by author
Control variables		
Initial is the initial return on an IPO. It is the difference between the trading price of a company's initial public offering and its offer price.	1.82	Bloomberg
Prestigious Underwriting Banks (Prestige) is a rating mechanism determined by the researcher in accordance with Jamaani *et al.* (2022) that ranks all underwriting banks based on their total revenues for all IPOs underwritten in Saudi Arabia from 2003 to 2019. If the underwriting bank controls over than 10% of the underwriting industry in Saudi Arabia, it is considered a NUB and is assigned a value of one; otherwise, it is assigned a value of zero.	0.74	Bloomberg
Technology IPO Company (Tech) is a dummy variable whose value is one if an IPO company is categorized as a technology-type organization and zero otherwise.	0.07	Bloomberg
Stock Market Volatility (Volatility) is the measure of the spread of the Tadawul market returns fifteen days before the corporation's launch.	0.03	DataStream
Size of IPO Company (Size) refers to the total size of the IPO businesses, it is the offer price times the total quantity of IPO stocks sold in US million dollars.	$225	Bloomberg
Private IPO Type (Private) is a dummy variable whose value is 1 if the IPO company is family-owned and 0 otherwise.	0.94	Bloomberg
Integer (Integer) is a dummy variable whose value is 1 if the offer price of an IPO company is an integer and 0 otherwise.	0.97	Estimated by author
IPO Stock Offering Price (Price) corresponds to the per-share offering price of the IPO firm specified in US dollars in the IPO brochure.	$10.18	Bloomberg
Listing Duration (Duration) represents the time between the announcement of an IPO firm's offering price and its debut.	108	Bloomberg

6. Empirical Results and Discussion

The IFRS coefficient was statistically insignificant when this research assessed it in Model 1 in Table 2, where the hypothesis was being examined. This result provided evidence that the IFRS did not provide a role on the secondary market performance of initial public offering businesses in the long-run. As Dorsman *et al.* (2010) found and this paper's finding corroborates, the IFRS do not have an impact on the aftermarket performance of Saudi Arabian IPO enterprises. Due to the increased amount of market information that is present in the secondary market, the IFRS are unlikely to be beneficial in delivering information advantages to the consumers of financial reports in Saudi Arabia. Additionally, as can be shown in Table 1, not all company- and market-specific determining factors are of comparable significance to the aftermarket performance of enterprises that have had an initial public offering. This finding is consistent with those that have been discovered in the IFRS-IPO literature (Ritter 1991; Chan *et al.* 2004; Dorsman *et al.* 2010; Jamaani *et al.* 2022).

Table 2. The role of the mandatory implementation IFRS on the aftermarket performance of IPO businesses

Variables	Model 1
DiD Independent variables	
Post	0.09
	[0.40]
Treatment	0.02
	[0.08]
IFRS	-0.06
	[-0.31]
Control variables	
Initial	-0.05**
	[-1.80]
Prestige	-0.16*
	[-1.35]
Tech	-0.13
	[-0.67]
Volatility	-1.43
	[-0.31]
Size	-0.02*
	[-1.40]
Integer	0.35**
	[1.72]
Private	0.03
	[0.04]
Price	-0.02
	[-0.67]
Duration	0.021**
	[2.40]
Industry and year dummies	YES
Intercept	0.19
	[0.60]
Observations	124
Adjusted R2	0.15

Robust T-statistics in parentheses, adjusted for heteroscedasticity, represent the following significance levels: *** p<0.01, ** p<0.05, * p<0.1.

In summing up the results of mandating IFRS on the performance of IPO businesses, it is possible to conclude that the IFRS have no long-term role on the issue of asymmetric information continuously troubling IPO companies in the secondary market. As a result of the low-quality information that is not already available in the primary market compared to the secondary market, this paper concludes that IFRS will not be of any help to investors of the secondary market who are interested in the financial reports of firms that have already been listed. The interpretation of this insignificant result is reinforced by a variety of earlier research that emphasize the differences in information asymmetry among the secondary and primary markets (Ritter 1991; Sehgal and Singh 2008; Dong *et al.* 2011; AlShiab 2018). The findings demonstrate that the abundance of information available on the secondary market has the potential to assist investors in initial public offering in calculating the reasonable valuation in the first year after the stock's listing, thereby diminishing the significance of the IFRS in this sector of the economy.

6.1 Sensitivity Tests

To increase the dependability of the obtained findings, this paper conducted many sensitivity checks. First, I accounted for any bias in the findings induced by clustering because of the nature of the IPO data. Using cluster-robust standard error estimate, the research adopted the methods of Jamaani and Ahmed (2020) (Note 4). Second, in accordance with previous research, the paper excluded extreme values with a Cook value exceeds 3 (Rousseeuw and Leroy 2005). Thirdly, in controlling for possible endogeneity in the DiD model, the research used known IPO and disclosure research methodologies (Daske *et al.* 2013; Jamaani and Ahmed 2020; Jamaani *et al.* 2022). For illustration, Jamaani and Ahmed (2020) demonstrated that the choice between prominent and unreputable underwriters was likely driven endogenously by the IPO owner, causing a biased DiD estimation. In the long-term, prior research revealed that IPOs underwritten by less notable underwriters underperformed the general market index (Dong *et al.* 2011; Paleari *et al.* 2014). This suggests endogeneity problem between the rating of underwriters and the IFRS-BHAR model's error term. Consequently, the paper follows Jamaani and Ahmed (2020) to compensate for a potential endogeneity issue by employing the Two-Stage Least Squares (2SLS) approach. To manage the usage of a limited sample size and an uneven distribution of observations, the paper utilized bootstrapping estimates according to Efron and Tibshirani (1986). Finally, the research incorporated further (Note 5) economic and equity market factors to exclude the possibility of omitted variable bias in prior results. In Tables 3, 4, and 5, models representing a series of robustness checks are shown. Ultimately, the findings shown in these tables demonstrate that the IFRS provides no lasting role on the information asymmetry of IPO enterprises, in turn has no role of the aftermarket performance of IPO corporations.

Table 3. Sensitivity testing after employing clustered estimation

Variables	Model 2 IFRS versus no-IFRS clusters	Model 3 17-year clusters	Model 4 15-industry clusters
DiD variables			
Post	-0.17	-0.17	-0.17
	[-0.35]	[-0.15]	[-0.94]
Treatment	-0.02	-0.02	-0.02
	[-0.37]	[-0.21]	[-0.07]
IFRS	-0.03	-0.03	-0.03
	[-0.22]	[-0.54]	[-0.08]
Control variables			
Initial	-0.05**	-0.05**	-0.05**
	[-2.31]	[-1.95]	[-2.19]
Prestige	-0.19	-0.16*	-0.16**
	[-0.43]	[-1.75]	[-1.95]
Tech	-0.10***	-0.10	-0.10
	[-30.6]	[-0.44]	[-0.47]
Volatility	-0.03**	-0.03***	-0.03***

	[-2.32]	[-2.47]	[-2.68]
Size	-0.02***	-0.02	-0.02
	[-2.53]	[-1.36]	[-1.44]
Integer	0.27**	0.27*	0.27**
	[1.88]	[1.31]	[2.12]
Private	0.02	0.02	0.02
	[0.08]	[0.04]	[0.05]
Price	-0.03	-0.03	-0.03
	[-0.89]	[-0.52]	[-1.15]
Duration	0.02***	0.02**	0.02**
	[2.64]	[2.19]	[2.11]
Industry and year dummies	YES	YES	YES
Intercept	0.16***	0.16	0.16
	[28.1]	[0.55]	[0.76]
Observations	124	124	124
Adjusted R2	0.16	0.16	0.16
N of clusters	2	17	15

Robust T-statistics in parentheses, adjusted for heteroscedasticity, represent the following significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 4. Sensitivity testing after controlling for outliers, endogeneity, and unequal distribution of data

Variables	Model 5 Eliminating outliers	Model 6 2SLS estimation	Model 7 Bootstrap estimation
DiD variables			
Post	-0.14	-0.18	-0.22
	[-0.44]	[-0.74]	[-0.84]
Treatment	0.14	0.02	-0.02
	[0.85]	[0.41]	[-0.41]
IFRS	-0.09	0.02	-0.09
	[-0.45]	[0.21]	[-0.14]
Control variables			
Initial	-0.08***	-0.05**	-0.06**
	[-2.53]	[-1.84]	[-1.82]
Prestige	-0.14*	-0.11	-0.15*
	[-1.35]	[-0.97]	[-1.31]
Tech	-0.07	-0.11	-0.13
	[-0.30]	[-0.33]	[-0.47]
Volatility	-1.85	-2.20	-1.90
	[-0.55]	[-0.64]	[-0.47]
Size	-0.012**	-0.013**	-0.04
	[-1.80]	[-1.85]	[-1.21]
Integer	0.26**	0.28**	0.24*
	[1.85]	[1.87]	[1.35]
Private	0.05	-0.02	0.04

	[0.13]	[-0.07]	[0.05]
Price	-0.02	-0.04	-0.02
	[-0.49]	[-0.44]	[-0.41]
Duration	0.02**	0.03***	0.04**
	[2.35]	[2.85]	[1.85]
Industry and year dummies	YES	YES	YES
Intercept	0.16	0.17	0.22
	[0.42]	[0.71]	[0.59]
Observations	120	124	124
Adjusted R2	0.17	0.18	0.19
Hausman's Endogeneity Test (P-value)	NA	0.48	NA

Robust T-statistics in parentheses, adjusted for heteroscedasticity, represent the following significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 5. Sensitivity testing with additional control parameters

Variables	Model 8
DiD variables	
Post	-0.17
	[-0.84]
Treatment	0.07**
	[1.89]
IFRS	0.09
	[1.12]
Control variables	
Initial	-0.03
	[-1.00]
Prestige	-0.15
	[-1.07]
Tech	0.25***
	[4.24]
Volatility	-1.56***
	[-4.59]
Size	-0.02
	[-0.46]
Integer	0.07
	[0.53]
Private	-0.19
	[-1.02]
Price	0.02
	[0.09]
Duration	0.02
	[0.84]
Additional control variables	
Limit	-0.29****
	[-2.38]

GCC	0.18**** [2.44]
GFC	-0.05**** [-2.82]
Industry and year dummies	YES
Intercept	-1.53*** [-5.01]
Observations	124
Adjusted R2	0.28

Robust T-statistics in parentheses, adjusted for heteroscedasticity, represent the following significance levels: *** p<0.01, ** p<0.05, * p<0.1.

7. Conclusion

Even though the IFRS has been in operation for the last 20 years, there is no empirical support for the assertions that it has improved the quality of reporting information for IPO businesses in developing nations. Given that developing nations are responsible for more than half of the countries that mandate IFRS, the decision-makers in these countries must make a challenging choice regarding the implementation of IFRS. Consequently, the purpose of this empirical work was to give empirical proof regarding the role of obligatory IFRS on the aftermarket performance of publicly listed enterprises in Saudi Arabia. The conclusion drawn from this investigation was that IFRS provides no role on the information asymmetry issue that exists in the secondary market for IPO companies. In the secondary market, analysts and investors who participated in the IPO have access to a wide variety of information sources, which enables them to arrive at a more accurate estimate of the stock values of IPO businesses. Because of this information advantage, the consumers of financial reports issued by IPO businesses will not get any extra advantages as a consequence of the IFRS mandate.

Since this paper only covers data from 2003 to 2019, and the treatment group only consisted of 83 companies that solely implemented IFRS, future research might build on this work by integrating bigger and more extensive datasets. IFRS adoption becomes mandatory for all Saudi Arabian enterprises beginning from 2017, and as a result, future research may replicate this study by making use of the dataset that is now available to reconfirm its validity. In addition, this paper is not aware of any other research that examines whether the use of IFRS really offers advantages to IPO businesses operating in the secondary market in the Middle East and North African (MENA) region. Therefore, further study can try to duplicate the results of this research by using data that is already available from many other MENA stock exchanges.

References

Aggarwal, R., & Rivoli, P. (1990). Fads in the Initial Public Offering Market?. *Financial Management*, *19*(4), 45-57. https://doi.org/10.2307/3665609

Ahmed, A. S., Neel, M., & Wang, D. (2013). Does Mandatory Adoption of IFRS Improve Accounting Quality? Preliminary Evidence. *Contemporary Accounting Research*, *30*(4), 1344-72. https://doi.org/10.1111/j.1911-3846.2012.01193.x

Alanazi, A. S., & Al-Zoubi, H. A. (2015). Extreme IPO Underpricing and the Legal Environment in Wealthy Emerging Economies. *Journal of Multinational Financial Management*, *31*, 83-103. https://doi.org/10.1016/j.mulfin.2015.05.004

AlShiab, M. S. (2018). Initial Public Offerings Short and Long Term Performance of MENA Countries. *European Scientific Journal, ESJ*, *14*(10), 234-51. https://doi.org/10.19044/esj.2018.v14n10p234

Ball, R. (2016). IFRS–10 years later. *Accounting and Business Research*, *46*(5), 545-71. https://doi.org/10.1080/00014788.2016.1182710

Barth, M. E., & Israeli, D. (2013). Disentangling Mandatory IFRS Reporting and Changes in Enforcement. *Journal of Accounting and Economics*, *56*(2), 178-88. https://doi.org/10.1016/j.jacceco.2013.11.002

Brogi, M., Lagasio, V., & Pesic, V. (2020). Can governance help in making an IPO "successful"? New evidence from Europe. *Journal of International Financial Management & Accounting*, *31*(3), 239-69. https://doi.org/10.1111/jifm.12116

Byard, D., Darrough, M., & Suh, J. (2019). There is No Evidence that Mandatory IFRS Adoption Significantly Decreased IPO Underpricing. https://doi.org/10.31235/osf.io/b56u2

Chan, K., Wang, J., & Wei, K. J. (2004). Underpricing and long-term performance of IPOs in China. *Journal of Corporate Finance*, *10*(3), 409-30. https://doi.org/10.1016/S0929-1199(03)00023-3

Chang, S. C., Chung, T. Y., & Lin, W. C. (2010). Underwriter reputation, earnings management and the long-run performance of initial public offerings. *Accounting & Finance*, *50*(1), 53-78. https://doi.org/10.1111/j.1467-629X.2009.00329.x

Christensen, H. B., Hail, L., & Leuz, C. (2013). Mandatory IFRS Reporting and Changes in Enforcement. *Journal of Accounting and Economics*, *56*(2), 147-77. https://doi.org/10.1016/j.jacceco.2013.10.007

CNBC. (2019). *Lyft Stumbles After Lawsuit Claims the Company Misled Investors in its IPO Prospectus*. Retrieved 21 May 2022, from https://www.cnbc.com/2019/05/20/lyft-dips-after-lawsuit-claims-the-company-misled-investors.html

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2013). Adopting a Label: Heterogeneity in the Economic Consequences Around IAS/IFRS Adoptions. *Journal of Accounting Research*, *51*(3), 495-547. https://doi.org/10.1111/1475-679X.12005

Dong, M., Michel, J. S., & Pandes, J. A. (2011). Underwriter quality and long-run IPO performance. *Financial Management*, *40*(1), 219-51. https://doi.org/10.1111/j.1755-053X.2010.01140.x

Dorsman, A., Gounopoulos, D., & Wildeboer, D. (2010). IFRS Adoption and Performance of Dutch IPOs. *Paper presented to Multinational Finance Society*, Barcelona, Spain.

Efron, B., & Tibshirani, R. (1986). Bootstrap Methods for Standard Errors, Confidence Intervals, and Other Measures of Statistical Accuracy. *Statistical science*, *1*(1), 54-75. https://doi.org/10.1214/ss/1177013815

El-Diftar, D., & Elkalla, T. (2019). The value relevance of accounting information in the MENA region. *Journal of Financial Reporting and Accounting*. https://doi.org/10.1108/JFRA-09-2018-0079

Florou, A., & Pope, P. F. (2012). Mandatory IFRS Adoption and Institutional Investment Decisions. *The Accounting Review*, *87*(6), 1993-2025. https://doi.org/10.2308/accr-50225

Fortune. (2019). *Lyft Rises 9% on First Day of Trading for a Market Cap of $26.5 Billion*. Retrieved 21 May 2019, from http://fortune.com/2019/03/29/lyft-stock-today-ipo-market-cap-26-billion/

Hofstede, G. (2011). Dimensionalizing cultures: The Hofstede model in context. *Online Readings in Psychology and Culture*, *2*(1), 1-26. https://doi.org/10.9707/2307-0919.1014

Horton, J., Serafeim, G., & Serafeim, I. (2013). Does Mandatory IFRS Adoption Improve the Information Environment?. *Contemporary Accounting Research*, *30*(1), 388-423. https://doi.org/10.1111/j.1911-3846.2012.01159.x

Houqe, M. N., & Monem, R. M. (2016). IFRS adoption, extent of disclosure, and perceived corruption: a cross-country study. *The International Journal of Accounting*, *51*(3), 363-78. https://doi.org/10.1016/j.intacc.2016.07.002

IAS *Plus*. (2022a). *International Forum For Accountancy Development (IFAD)*. Deloitte Global Services Limited. Retrieved 21 May 2022, from http://www.iasplus.com/en/resources/global-organisations/ifad

——. (2022b). *Use of IFRS by jurisdiction*. Deloitte Global Services Limited. Retrieved 21 May 2022, from http://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs

IFRS Foundation. (2022). *Analysis of the G20 IFRS Profiles*. Retrieved from http://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis

IFRS Organisation. (2022). *IFRS Application Around the World Jurisdictional Profile: Saudi Arabia*. Retrieved 21 May 2022, from https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/view-jurisdiction/saudi-arabia/

Jamaani, F., & Ahmed, A. D. (2020). Simultaneous Effects of Clustering and Endogeneity on the Underpricing Difference of IPO Firms: A Global Evidence. *Research in International Business and Finance*, 101250. https://doi.org/10.1016/j.ribaf.2020.101250

——. (2021). Modifier effects of country-level transparency on global underpricing difference: New hierarchical evidence. *International Review of Financial Analysis*, 101667. https://doi.org/10.1016/j.irfa.2021.101667

——. (2022). The psychological and economic roles of culture on global underpricing difference: A new hierarchical evidence. *Journal of Behavioral and Experimental Finance*, *33*, 100615. https://doi.org/10.1016/j.jbef.2021.100615

Jamaani, F., & Alidarous, M. (2019). Review of Theoretical Explanations of IPO Underpricing. *Journal of Accounting, Business and Finance Research*, *6*(1), 1-18. https://doi.org/10.20448/2002.61.1.18

Jamaani, F., Alidarous, M., & Alharasis, E. (2022). The combined impact of IFRS mandatory adoption and institutional quality on the IPO companies' underpricing. *Journal of Financial Reporting and Accounting*, ahead-of-print. https://doi.org/10.1108/JFRA-07-2021-0199

Kamaludin, K., & Zakaria, N. (2018). The Short and Long-Run Initial Public Offerings (IPOs) Performance in the Emerging Market: Evidence From Saudi Arabia Share Market. In *31st International Business Information Management Association Conference Proceedings*, pp. 25-6.

Kaufmann, D., Kraay, A., & Mastruzzi, M. (2022). *Worldwide Governance Indicators*. The World Bank Group. Retrieved 21 May 2022, from http://info.worldbank.org/governance/wgi/index.aspx#home

Lakhal, N., & Dedaj, B. (2020). R&D disclosures and earnings management: The moderating effects of IFRS and the global financial crisis. *Journal of Financial Reporting and Accounting*, *18*(1), 111-30. https://doi.org/10.1108/JFRA-10-2019-0129

Ong, C. Z., Mohd-Rashid, R., & Taufil-Mohd, K. N. (2021). IPO valuation using the price-multiple methods: evidence from Malaysia. *Journal of Financial Reporting and Accounting*. https://doi.org/10.1108/JFRA-05-2020-0128

Paleari, S., Signori, A., & Vismara, S. (2014). How do underwriters select peers when valuing IPOs?. *Financial Management*, *43*(4), 731-55. https://doi.org/10.1111/fima.12060

Ritter, J. R. (1991). The Long‐Run Performance of Initial Public Offerings. *The journal of finance*, *46*(1), 3-27. https://doi.org/10.1111/j.1540-6261.1991.tb03743.x

Rousseeuw, P. J., & Leroy, A. M. (2005). *Robust Regression and Outlier Detection*. John Wiley & Sons, USA, Hoboken.

Sehgal, S., & Singh, B. (2008). Determinants of Initial and Long-Run Performance of IPOs in Indian Stock Market. *Asia Pacific Business Review*, *4*(4), 24-37. https://doi.org/10.1177/097324700800400403

Shi, C., Pukthuanthong, K., & Walker, T. (2013). Does Disclosure Regulation Work? Evidence from International IPO Markets. *Contemporary Accounting Research*, *30*(1), 356-87. https://doi.org/10.1111/j.1911-3846.2012.01158.x

Slaughter, M. J. (2001). Trade liberalization and per capita income convergence: a difference-in-differences analysis. *Journal of International Economics*, *55*(1), 203-28. https://doi.org/10.1016/S0022-1996(00)00087-8

The New York Times. (2019). Lyft's First Results After I.P.O. Show $1.14 Billion Quarterly Loss. *The New York Times.* Retrieved 21 May 2022, from https://www.nytimes.com/2019/05/07/technology/lyft-ipo-financial-results-uber.html

Zattoni, A., Witt, M. A., Judge, W. Q., Talaulicar, T., Chen, J. J., Lewellyn, K., … Puffer, S. (2017). Does Board Independence Influence Financial Performance in IPO Firms? The Moderating Role of the National Business System. *Journal of World Business*, *52*(5), 628-39. https://doi.org/10.1016/j.jwb.2017.04.002

Notes

Note 1. I briefly explore why Saudi Arabia was chosen in Section 2.

Note 2. Hofstede (2011) characterizes power distance as uneven authority allocation in a community. The author claims that when a society accepts power inequality, it creates an aristocracy. Thus, society is split into strong and powerless groups, with the former group ruling and regulating information flow.

Note 3. Nigeria in 2012, Brazil adopted IFRS in 2011, Russia in 2012, Argentina in 2012, Mexico in 2012, Sri Lanka in 2012, Ukraine in 2012, Peru in 2012, Taiwan in 2013, and Chile in 2009 (IFRS Foundation 2022). Past accounting disclosure research raises reservations about the conclusions of IFRS research, notwithstanding the relative inexperience of IFRS use (Ball 2016; Houqe and Monem 2016).

Note 4. Jamaani *et al.* (2022) discovered a clustering impact in which months with large IPO listings were commonly followed by months with strong IPO market activity. Additionally, they discovered an industry-clustering influence for IPOs, whereby significant concentrations of IPO businesses were seen in certain sectors.

Note 5. These considerations include the consequences of events such as the 2013 price limit restriction for IPOs (Limit), the 2006 GCC equity market meltdown (GCC), and the 2008 Global Financial Crisis (GFC).