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IFRS Adoption and the Quality of Loss Recognition in Emerging Markets: A Case Study on the Casablanca Stock Exchange.

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Abstract

The International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), are increasingly becoming the preferred accounting framework among companies in African countries. Research on the impact of IFRS adoption on the quality of financial reporting in emerging economies remains scarce. Therefore, this paper examines the effect of IFRS adoption on timely loss recognition, a key indicator of financial reporting quality. The financial data from 34 companies listed on the Casablanca Stock Exchange, covering the period from 2009 to 2019, are analyzed using logistic regression within a quantitative econometric methodology. Two balanced panels were created: one consisting of 14 companies that adopted IFRS, and the other comprising 20 companies following Moroccan accounting standards. The results indicate that the quality of earnings (as measured by timely loss recognition) did not improve after IFRS adoption. This finding suggests that accounting regulators and bodies in African countries should encourage a more rigorous application of IFRS by continuously training accountants and auditors of listed companies on the practical implementation of these standards. Such training should be mandatory and easily accessible.

Keywords: IFRS Standards; Timely Loss Recognition; Logistic Regression; Listed Companies.

Introduction

This study addresses the impact of IFRS adoption on the timeliness of loss recognition for publicly listed companies in Morocco, a crucial aspect of accounting quality that influences decision-making by creditors, investors, and other stakeholders. The need for transparency and comparability in financial reporting has become increasingly important due to globalization, the expansion of international businesses, and the acceleration of capital flows. Historically, accounting systems varied significantly across countries, leading to discrepancies in financial reporting practices (Nobes, 1998). In response, efforts to harmonize global accounting standards have been underway, with the International Accounting Standards Board (IASB), formerly the International Accounting Standards Committee (IASC), playing a leading role since 2001.

IFRS, advocated by the IASB, has become the global benchmark for financial reporting, supported politically and financially by major economies such as the European Union, where it became mandatory for publicly traded companies in 2005. The adoption of IFRS has shifted accounting practices from historical cost to fair value measurement, promoting a substance-over-form approach that enhances financial transparency, reduces information asymmetry, and lowers associated costs (El-Gazzar et al., 1999; Botosan & Plumlee, 2002). Despite the global reach of IFRS, its adoption in emerging markets, particularly in Africa, remains an area with limited academic exploration. For instance, Moroccan research on IFRS is sparse, with only a single publication listed in Scopus (Ezenwoke & Tion, 2021).

The objective of this research is to assess whether the adoption of IFRS has improved timely loss recognition for companies listed on the Casablanca Stock Exchange over the period from 2009 to 2019. The focus on timely loss recognition is justified as it is a key proxy for accounting quality, helping limit managerial opportunism and supporting more accurate economic decisions by stakeholders (Ball & Shivakumar, 2005; Beatty, Liao & Weber, 2007). The study compares the timeliness of loss recognition before and after the implementation of IFRS, using logistic regression analysis to measure the incidence of extreme negative earnings, following the methodology of Lang, Raedy, and Yetman (2003).

The research seeks to answer the central question: **Has the adoption of IFRS in Morocco enhanced the timeliness of loss recognition?** This question is critical for emerging economies, where the practical implementation of IFRS may face challenges that affect the quality and comparability of financial reports. The paper contributes to the literature by providing empirical

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evidence from an underexplored region, shedding light on the effectiveness of global accounting standards in emerging markets.

The structure of the paper is as follows: First, it provides a literature review, theoretical framework, and hypotheses. This is followed by a detailed explanation of the methodological approach. The results are then presented and discussed, with a final section summarizing the findings and outlining the implications for practice and future research. The originality of the study lies in its focus on Morocco, offering new insights into the impact of IFRS in a country where academic contributions to this topic are still limited.

1. The Moroccan Accounting System and the Adoption of International Financial Reporting Standards (IFRS)

On January 1, 2005, Morocco began adopting International Financial Reporting Standards (IFRS) for certain categories of companies, particularly those listed on the Casablanca Stock Exchange. This adoption process was gradual and aligned with the global trend of accounting harmonization, which was initiated by the European Union with Regulation EC No. 1606/2002. This regulation made the application of IFRS mandatory for companies listed on EU stock markets, inspiring other countries, including Morocco, to modernize their accounting standards. The adoption of IFRS in Morocco was overseen by the National Accounting Council (CNC), established in 1989, which plays a central role in the country's accounting regulation. The CNC supervised the integration of IFRS into the Moroccan legal framework, ensuring that the standards were adapted to the national economic context. This process was strengthened by the revision of the General Accounting Standards Code in 1993, which allowed Morocco to gradually align its accounting practices with international standards. The IFRS adoption was implemented progressively depending on the type of entities: (i) companies listed on the Casablanca Stock Exchange were the first to adopt IFRS for the preparation of their consolidated financial statements in 2005; (ii) large publicly accountable enterprises followed, gradually adopting these standards to enhance the transparency and comparability of their financial statements; (iii) for small and medium-sized enterprises (SMEs), IFRS implementation remains limited, and most continue to apply Moroccan accounting standards.

In parallel, Morocco introduced significant reforms to strengthen corporate governance and transparency, notably through the establishment of a financial market regulatory authority and the revision of the Commercial Code. These initiatives aim to facilitate IFRS adoption, improve

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the quality of financial reporting, and increase investor confidence, both domestically and internationally.

As a result, the financial statements of listed companies for the year ended December 31, 2005, were prepared in accordance with IFRS, marking a significant step in Morocco’s integration into the global financial system. The CNC continues to play a crucial role by ensuring that international accounting standards are correctly applied and tailored to the local context while working with other regulatory bodies to enhance the quality and transparency of financial information in the country.

2. Literature Review and Hypothesis Development

Timely loss recognition refers to the speed at which economic losses are incorporated into the financial statements of reporting companies (El idrissi Rioui S. & al. 2024). This concept is essential because it ensures that unfavorable economic events, such as inventory write-downs, restructuring charges, or asset impairments, are promptly reflected (Ball & Shivakumar, 2005). According to Bissessur (2005), this timeliness is a crucial indicator of financial statement quality, as it shows the extent to which economic losses are quickly recognized in income statements and balance sheets.

Several studies emphasize that timely loss recognition is an important mechanism to curb opportunistic behavior by managers, who might exploit information asymmetry to their advantage (Dechow, Ge & Schrand, 2010). By providing a more conservative estimate of the company's value, timely loss recognition helps boards of directors make informed decisions and improves the overall quality of financial statements (Dechow et al., 2010). As a result, timely loss recognition is widely regarded as an indicator of accounting quality.

The work of Basu (1997), along with the extension of his model by Khan & Watts (2009), has formed the basis of numerous studies on timely loss recognition. These studies have examined the relationship between loss recognition and factors such as insider trading, debt contracts, and CEO compensation risks (Brockman et al., 2015; Jayaraman, 2012). More recently, part of the literature has focused on the effect of IFRS adoption on loss recognition and accounting quality. Barth, Landsman, and Lang (2008) studied the impact of International Accounting Standards (IAS) adoption on accounting quality by analyzing a sample of 1,896 companies that adopted IAS between 1994 and 2003. The results show that firms applying IAS recognize larger losses more frequently compared to those using national standards. This suggests that companies following national standards tend to smooth earnings more, thereby delaying loss recognition. The study concludes that IAS adoption leads to improved accounting information quality.

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However, the findings of Barth et al. (2008) contrast with those of Chen, Tang, Jiang, and Lin (2010), who examined 21,707 companies from 15 European countries between 2000 and 2007. Their study shows a reduction in timely loss recognition after IFRS adoption, suggesting that the application of IFRS may have resulted in slower recognition of large losses, which contradicts the previous conclusions.

Other studies, such as that of Chua, Cheong, and Gould (2012), which examines 172 listed companies in Australia, found that timely loss recognition increased after IFRS adoption. These findings indicate that, in certain contexts, IFRS adoption can indeed improve accounting quality by allowing for quicker recognition of losses.

Despite these differences, a general trend emerges: timely loss recognition tends to be higher in the post-IFRS adoption period, although some results remain mixed depending on the economic and geographical context. In this regard, the studies by Dimitropoulos et al. (2013) in Greece and Chua et al. (2012) in Australia support the view that IFRS adoption has improved timely loss recognition, while other research (Abdul-Baki & Haniffa, 2019; Paananen & Lin, 2009) suggests that IFRS adoption has led to a decrease in accounting conservatism and slower loss recognition. These contrasting results highlight the importance of continuing research on the effects of IFRS in different contexts.

Given the empirical evidence reviewed, we propose the following hypothesis: **timely loss recognition is higher in companies adopting IFRS compared to those using Moroccan Accounting Standards (NCM).** The table below summarizes the main empirical studies on the effect of IFRS adoption on timely loss recognition:

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Tableau N°1: Empirical Studies on the Effect of IFRS Adoption on Timely Loss Recognition

Author (s)	Sample	IFRS effect (s)	Main finding
Abdul-Baki and Haniffa (2019)	Nigeria	-	The timely loss recognition reduced following the adoption of IFRS.
A. S. Ahmed et al (2013)	International	-	IFRS adoption resulted in less timely loss recognition.
Dimitropoulos et al (2013)	Greece	+	IFRS implementation resulted in more timely loss recogniti Compared with local accounting standards.
Paananen and Lin (2009)	Germany	-	The mandatory adoption of the IFRS in 2005decreased time recognition.
Chua et al (2012)	Australia	+	Timeliness of loss recognition increased after IFRS implem
André et al (2015)	EU	-	IFRS adoption decreased conditional conservatism, is less pronounced for firms that recognize an asset impairment an pronounced for firms that do not book an asset impairment.
Elshandidy and Hassanein (2014)	UK	-	Mandatory adoption of IFRS reduced accounting conservati

Exchange in 2009, totaling 74 companies that published their financial statements during the specified period. Consistent with previous research methodologies, such as those of Gebhardt & Novotny-Farkas (2011) and Gombola, Ho & Huang (2016), financial entities were excluded from our study due to their specific regulatory framework. We also excluded companies with incomplete data or those belonging to specific financial sectors such as insurance companies, credit institutions, and banks, due to their distinct accounting and financial characteristics. Lastly, companies with negative equity values were removed from our sample, as their precarious financial situation could introduce bias into our analysis. After these filtering steps, we obtained a final sample of 34 non-financial listed companies, detailed in **Table 2.**

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Table 2: Sample Selection

Steps for Constructing the Sample	Number of Companies
Total listed companies	75
Less: Financial sector companies	30
Less: Companies with incomplete data	12
Total number of companies in the sample	34

Source: Annual reports and financial statements of the relevant companies, available on the Casablanca Stock Exchange website and the website of the Moroccan Capital Market Authority (CDVM), the regulatory authority for the Moroccan financial market.

3.2. Empirical Model

In this research study, we examine the relationship between timely loss recognition and IFRS adoption. To assess whether the implementation of IFRS leads companies to recognize losses during the studied period, we applied the Lang, Raedy, and Wilson (2006) model for timely loss recognition, as employed in previous research. Following the approaches of Barth et al. (2008) and Christensen et al. (2015), we conducted a logistic regression using our sole model for timely loss recognition as follows:

$$LL_{it} = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 SIZE_{it} + \alpha_3 LEV_{it} + \alpha_4 CFO_{it} + \alpha_5 AUQ_{it} + \alpha_6 ROA_{it} + \alpha_7 EISSUE_{it} + \alpha_8 DISSUE_{it} + \epsilon_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.\ldots\ldots..(3)$$

i=1,2,…,N et t=1,2,….,T

Où :

1. *SIZE*
2. : Natural logarithm of the market value of equity at the end of year t;
3. *IFRS*
4. : A binary variable that takes the value 0 if the company does not use IFRS and 1 otherwise. The value taken by its coefficient provides information on the evolution of loss recognition in a timely manner after the adoption of IFRS standards.;
5. *LEV*
6. : Leverage measured as total debt divided by total assets of firm i at period t
7. *CFO*
8. : Cash flow from the operation of firm i at period t;
9. *AUD*
10. : Audit quality measured as 1 for Big 4 audit firms and 0 for non-Big 4 audit firms for firm i at period t;.

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11. *ROA* 12. : Profitability measured as a ratio of returns to total assets of firm i at period t;

13. *EISSUE* 14. : Binary variable, 1 for new equity issue and 0 for no equity issued by firm i at period t;

DISSUE : Binary variable, 1 for new debt issue and 0 for no debt issue by firm i at period t.

a. Justification for the Use of Logistic Regression in the Analysis

The dependent variable LL_{it} represents timely loss recognition, a key indicator of accounting quality. The literature suggests that timely loss recognition can help limit managers' opportunistic behaviors and enhance transparency for investors and creditors. This model aims to assess whether the adoption of IFRS is associated with an improvement in this aspect of accounting quality.

IFRS it : This variable indicates the adoption of IFRS by companies and is the main variable of interest in the model. It allows for testing the hypothesis that IFRS adoption improves timely loss recognition. It is coded as a binary variable (1 for the post-IFRS period and 0 for the pre-IFRS period).

SIZEit: Company size (measured by the logarithm of total assets, for example) is included because it can affect the quality of financial information. Larger firms are often under greater pressure from investors and regulators to produce high-quality financial statements.

LEV it: Leverage, or the level of debt, is a relevant factor to consider, as highly indebted companies may be incentivized to manipulate accounting results to comply with debt covenants.

CFO it: Operating cash flows are an important indicator of a company's liquidity and may influence its ability to recognize losses promptly.

AUQ it: Audit quality, often measured by the auditor's reputation (e.g., Big Four or non-Big Four), is included to capture the impact of audit quality on loss recognition. Companies audited by reputable firms are more likely to adhere to high disclosure standards.

ROA it: Return on assets is an indicator of financial performance that can influence accounting practices. Firms with poor performance may be more inclined to delay loss recognition.

EISSUE it: Equity issuance may reflect companies' financing needs, which could influence accounting quality, as firms seek to attract investors by presenting favorable financial statements.

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DISSUE it: Debt issuance is also included to capture the effect of new financing on accounting practices, as it may influence management decisions regarding loss recognition.

b. Defense of the Logistic Regression Model Specification

The chosen model allows for examining not only the direct effect of IFRS adoption but also the influence of various factors that may modulate this effect. The combination of these explanatory variables is supported by the literature, which shows that timely loss recognition depends on several financial and organizational characteristics of companies.

In summary, the statistical approaches used in this model are motivated by the need to capture the complex impact of IFRS adoption on the quality of financial reporting while controlling for other factors influencing timely loss recognition. This provides a more comprehensive and robust evaluation of the effects of IFRS adoption.

4. Empirical Results

4.1. Correlation Analysis

Variables	LL	IFRS	SIZE	LEV	CFO	AUQ	ROA	EISSUE	DISSUE
LL	1.000								
IFRS	0.445***	1.000							
SIZE	0.442***	0.516***	1.000						
LEV	0.385***	-0.220*	0.089	1.000					
CFO	-0.128	-0.233*	-0.169	-0.245*	1.000				
AUQ	-0.397***	0.154	-0.220*	-0.581***	-0.243*	1.000			
ROA	-0.203	0.163	-0.231*	0.224*	-0.251*	0.045	1.000		
EISSUE	-0.445***	-0.333**	0.128	-0.041	-0.367**	0.277*	-0.004	1.000	
DISSUE	0.577***	0.000	0.657***	0.608***	-0.023	-0.719***	-0.132	0.000	1.000

Source: The correlation is significant at the 0.05 level. ** The correlation is significant at the 0.01 level. Source: STAT/SE18. All variables are defined in Section 3.2.

The table presents the correlation between loss recognition (LL) and various earnings quality variables for companies. As shown by the correlation matrix, there is a positive and significant relationship between loss recognition (LL) and IFRS adoption (0.445*), indicating that companies adopting IFRS are more likely to recognize their losses in a timely manner. Additionally, the correlation between LL and firm size (SIZE) is also positive and significant (0.442*), suggesting that larger companies tend to recognize losses more quickly.

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Regarding financial leverage (LEV), the relationship with loss recognition is positive and significant (0.385*), showing that more leveraged companies tend to recognize their losses more promptly. However, asset quality (AUQ) shows a negative and significant correlation with LL (-0.397*), indicating that companies with better asset quality tend to recognize losses less rapidly.

It is also interesting to note that equity issuance (EISSUE) is negatively correlated with loss recognition (-0.445*), suggesting that companies issuing shares are less likely to recognize losses in a timely manner. Conversely, the correlation between LL and debt issuance (DISSUE) is positive and highly significant (0.577*), indicating that companies issuing debt recognize their losses more quickly.

Regarding the relationships between the explanatory variables, it is observed that IFRS adoption (IFRS) is positively correlated with firm size (0.516*), meaning that larger companies are more likely to adopt IFRS. However, IFRS adoption is negatively correlated with leverage (LEV) (-0.220*), indicating that more leveraged companies are less likely to adopt these accounting standards. Furthermore, cash flow from operations (CFO) shows a negative and significant correlation with leverage (LEV) (-0.245***), suggesting that more leveraged companies tend to generate lower cash flows.

Lastly, the correlation between debt issuance (DISSUE) and leverage is positive and significant (0.608*), indicating that more leveraged companies tend to issue more debt to raise funds.

4.2. Logistic Regression Analysis

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Table N°3: Logistic Regression Results

Logistic regression	Number of obs	=	340		
LR chi2(5) =	2.25				
Prob > chi2. =.	0.8130				
Log likelihood = -11.029859	Pseudo R2	=	0.4270		
LL	Coefficient	Std.	err.	z	P>z
IFRS	-13.8997	3.21635	-11.10	0.001	-8.755264
SIZE	3.77287	3.87978	0.97	0.004	-3.831359
LEV	-3.83829	11.29355	-0.34	0.001	-25.97316
CFO	-0.014526	.2366614	-0.62	0.535	-26.97316
AUD	-0.154232	-8.42066	-0.37	0.708	- 26.97316
ROA	-22.22576	2.36221	-7.10	0.000	-26.97316
EISSUE	-2.045791	2.36221	-0.87	0.386	-6.67564
DISSUE	-1.360877	4.00522	-0.34	0.734	-9.210971
_cons	-34.8042	35.3702	-0.98	0.325	-104.1285

Source : Source: STATA/SE Version 18. Variables are defined in section 3.2.

4.3. Discussion of Results

The coefficient associated with the adoption of IFRS in the logistic regression results indicates a significant and negative relationship between the adoption of IFRS and timely loss recognition (LL). The coefficient of -13.8997 suggests that firms adopting IFRS are less likely to recognize losses promptly. This result is statistically significant, with a p-value of 0.001, indicating that IFRS adoption is strongly associated with a decline in the timeliness of loss recognition.

These findings suggest that while IFRS aims to improve transparency and comparability in financial reporting, its implementation may lead to delays in the recognition of losses. One possible explanation could be the complexity of IFRS standards, which might allow for more discretion and flexibility in financial reporting, potentially postponing the recognition of losses. Additionally, companies might face challenges in adapting to the IFRS framework, especially in emerging economies where institutional and regulatory frameworks are still evolving.

Beyond the effect of IFRS adoption, the analysis also highlights the impact of other control variables on loss recognition. The size of firms (SIZE) has a positive and significant effect, with a coefficient of 3.77287 and a p-value of 0.004. This suggests that larger firms are more likely to recognize their losses in a timely manner, possibly due to stronger governance structures and more stringent internal controls.

Leverage (LEV), on the other hand, shows a negative effect on loss recognition, with a coefficient of -3.83829, indicating that highly leveraged firms tend to delay loss recognition.

This behavior might stem from the desire of indebted firms to avoid signaling financial distress to creditors and investors by postponing the acknowledgment of losses.

However, other variables such as operating cash flows (CFO) and auditing (AUD) did not demonstrate significant effects on loss recognition in this study. The lack of significance for these factors may reflect variability in how companies manage their cash flow or engage with auditors when applying IFRS standards, but further investigation is needed to fully understand these dynamics.

These findings align partially with prior research, such as Chen et al. (2010), which showed that IFRS adoption in the European Union did not consistently lead to improved loss recognition, despite the stronger institutional frameworks present in those countries. In contrast, for countries like Nigeria, where IFRS enforcement mechanisms are still underdeveloped, the results are less surprising. The gaps in ongoing professional training and the practical implementation of IFRS could contribute to delays in the timely recognition of losses.

Furthermore, these results raise broader concerns about the effectiveness of IFRS in improving accounting quality in emerging markets. While the standard aims to reduce information asymmetry, challenges related to complexity, enforcement, and institutional support may hinder its benefits in these contexts. Therefore, additional research is necessary to explore the specific barriers companies face when adopting IFRS, particularly in regions with underdeveloped financial infrastructures.

In conclusion, while IFRS has the potential to enhance financial reporting, its effectiveness depends heavily on the institutional and regulatory environment in which it is implemented. Firms in emerging economies may need more time, training, and support to fully realize the benefits of IFRS, particularly in areas such as timely loss recognition.

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Conclusion

The findings of this study indicate that the adoption of IFRS by companies listed on the Casablanca Stock Exchange has not led to an improvement in timely loss recognition, a key indicator of accounting quality. This raises important questions regarding the effectiveness of IFRS implementation in emerging economies, particularly in Morocco. Although IFRS adoption is often seen as a mechanism to enhance financial transparency and comparability, its impact remains limited in certain contexts.

The results suggest that Moroccan firms should place greater emphasis on the rigorous application of IFRS. There is a clear need to strengthen the training of managers and auditors in the implementation of IFRS to ensure that these standards are fully understood and applied consistently. Improved financial risk management, particularly through more prudent loss recognition practices, would benefit companies seeking to attract international investors and enhance their global competitiveness.

From a scientific perspective, this study highlights the importance of conducting further research into the specific challenges that emerging economies face in the adoption of IFRS. It would be valuable to explore the underlying factors that explain why IFRS adoption does not always lead to enhanced accounting quality in these contexts. Moreover, investigating the role of institutional frameworks and governance in the effective implementation of IFRS could provide critical insights into how to maximize the benefits of these standards.

This research also makes a meaningful contribution to the accounting literature on emerging economies by providing empirical evidence from the Moroccan context. It opens the door to future inquiries into the impact of IFRS in other African nations. The limited impact observed in Morocco could be attributed to factors such as inadequate training for professionals, lack of rigorous oversight, or insufficient adaptation of IFRS to the local context.

Future Perspectives and Limitations

Future research could focus on other aspects of accounting quality, such as earnings management or tax transparency, to complement the current findings. Additionally, this study presents certain limitations, including its focus on non-financial listed companies and the analysis period being limited to 10 years. Expanding the analysis over a longer period or exploring other sectors could offer a more comprehensive view of the long-term effects of IFRS adoption.

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In conclusion, it is essential for regulators, companies, and training organizations to collaborate in reinforcing the application of IFRS in African countries. Doing so would improve the quality of financial reporting and support sustainable economic growth in these emerging markets.

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