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How Compliance with Ifrs7 Effect Bank Value: Evidence from Malaysian Banks

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Abstract

This research investigates the effect of compliance with IFRS7; an important financial disclosure measure on its value particularly on Malaysia's banks for the years 2017 to 2022. IFRS7 is developed by the international accounting standards board (IASB), which requires financial instruments disclosures that offer information on bank's position and profitability as well as credit, liquidity and market risks. The aim of this study is to assess how adherence to these disclosure requirements influences two key measures of bank value: market-to-book ratio: Tobin's Q, which measures the differential between goods and services market value and the asset reproduction cost; Market Capitalization: the gross market value of a bank. The study is triggered by the need to understand the significance of the global accounting standards resulting from globalization and the significant role that IFRS has today as an influence, which leads to the promotion of transparency, enhancement of investors' confidence, as well as achieving comparability in the financial reporting systems across countries. The study provides new knowledge to the existing theories by establishing the correlation pattern between compliance with IFRS7 and bank value in the context of the Malaysian banking segment that has its distinctive rules and conditions. The kind of research that has been used in this paper is the survey research method whereby data from 162 Malaysian banks on their stock exchange with the financial data collected from 2017 to 2022. Tobin's Q and market capitalization are used in this study in determining bank value. In order to evaluate the level of IFRS7 implementation, we use 'compliance index', which is calculated on 76 elements from the banks' reports. Further, we include variables that may have an impact on the bank value for instance; size, profitability, leverage and liquidity. The study uses the regression model as part of the panel data analysis technique to establish the direct relation between IFRS7 compliance and bank value controlling for the above variables.

Keywords - compliance with IFRS7, Determinants, Consequences, Corporate Governance, and Bank Value

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1.Introduction

The era of globalization firms must adhere to global accounting standards in this age of globalization, which serves to ensure businesses communicate their financial performance in the language of stakeholders anywhere in the world. This requirement has been reinforced by the convergence to the International Financial Reporting Standards, principles-based set of international accounting standards established by (IASB) the International Accounting Standards Board. One of which, IFRS7, addresses financial instruments disclosure, which is the fact from this discussion (Leote, L et al., 2020).

Over the years, there has been constant spotlight on the importance of IFRS. Accountants, finance professionals and investors must understand and adopt the IFRS methodology because its implementation is critical for financial reporting. With the changes in the global economic landscape, the accounting standards have received increased emphasis in order to maintain strong and trustworthy financial reporting by the corporate bodies. With the pace at which globalization is taking our world, the movement towards IFRS, is gaining significant ground upon national accounting standards (Okpo & Aruwa, 2021). IFRS7, issued in 2005 and effective in 2007, requires disclosure of information about the significance of financial instruments to the firm's financial position and performance, furthermore, the nature with extent of risks arising from these instruments. The main objective for IFRS7 compline with References Entity work together to make the institution information have ability to understand and evaluate, also exposure risks away from all users of this financial instruments. extra, that can manage capital interest rate to evaluate at fair value (Borad, 2022). Value-in-use, this idea has a dominant concept with many standards not just with IFRS7. Based on this idea, accounting leave the traditional history cost to the market value in balance sheet for assets and liabilities measure. Firm value is the current status of an asset or liability in the eyes of the firm and is therefore more relevant for the purpose of decision making (Tan, 2020).

The relationship between IFRS7 and firm value (bank value) is multifaceted. While IFRS7 sets the framework for disclosure (requirements related to financial instruments), and the concept of firm value ensures that these instruments are valued in a way that reflects their true economic value. Together, they aim to make available a comprehensive and transparent view of an entity's financial position, aiding stakeholders in making informed decisions (Garcia, 2021). The key aspects where financial instruments and disclosures under IFRS7 can influence bank value, first, Credit risk disclosure under IFRS7 provides insights into the risk of financial loss from a counterparty's failure to fulfill its contractual obligations. For Banks can enhance investor confidence and potentially improve market valuation, more stable and reliable, positively impacting its valuation. Second, Liquidity risk involves the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Under IFRS7, firms are required to disclose information about their liquidity risk management. That can signal to investors Bank has effective controls in place to manage cash flows and meet short-term obligations. Third, Market risk, including currency risk, interest rate risk, and other price risks, is significant for firm valuation. IFRS7 requires entities to disclose how they manage these risks. That can bolster their value by demonstrating resilience to financial market volatility. Fourth, IFRS7 requires Banks to disclose the fair value of financial instruments and the methods used to determine them. This transparency can affect Bank value as it provides investors with a clear view of the firm's financial health and the accuracy of its asset valuations. Fifth, when a firm applies hedge accounting under IFRS7, it discloses how financial instruments are used to manage specific risks. Effective hedging strategies and clear disclosures can mitigate risk exposure and enhance firm value by protecting against adverse movements in financial markets. To delve into the enhancement of bank value within a framework, focusing on the two metrics: Tobin's Q and Market Capitalization (MC).

In complying with IFRS 7, banks face the main challenge of coping up with complex disclosure requirements. The above is because banks handle a diversified portfolio of financial instruments with specific characteristics and different risks. The assessment and disclosure of these risks can be scary to show so accurately. In addition, financial markets move rapidly so risk exposures can change fast and banks must continuously review their expectations about risks; they have to do the same with respect of disclosure. So, the research question is to what extent firm value is affected by compliance to IFRS 7? We examine the effect of compliance with IFRS7 on Banks value using, firstly Tobin’s Q, and secondly, by Market capitalization based on Malaysian Banks over the period (2017-2022).

The choice of the Malaysian context is driven by many reasons. The Malaysian banking sector exercises stringent control over the use of leverage to guarantee financing. Under good management, leverage is beneficial, acting as a tool to enhance a bank’s profitability and capital value. In a properly functioning banking sector, leverage increases the banks’ ability to expand their loan portfolios and earn more income. Malaysian bank should prepare adequately to meet the bank’s liquidity for solvent purposes. For the Malaysian banking setting, low liquidity increases the likelihood of insolvency, affecting firm value. On the other hand, high liquidity dents down the unpleasant view of an idle or non-invested asset in the locker.

Therefore, for firms to maintain and increase their firm value, their inventory should rest at an optimum level since otherwise, too much or less asset inventory will result in a fall in firm value.

Our research paper contributes to the existing literature in several ways. Firstly, it can recognize to other researchers how compliance with IFRS7 can enhance the information disclosure. Secondly, reduce the accounting information asymmetry and make it able to read and understand for all parties who use it or need to know it. So adds to the literature how any decision makers can be easy and not risky with all the information clearly show to them. In addition, we add to the few existing research studies related to compliance with IFRS7 and Banks Value (Barth, Beaver, and Landsman, 2001; Holthausen & Watts, 2011; Pologeorgis, 2013; Garcia, 2021).

2. Theatrical background, literature review and hypotheses development

In fact, some theories have been developed in prior literature regarding to compliance with IFRS7. Indeed, compliance with IFRS7 have interests to managements and other parties as a tool to achieve such objective (Leote, F et al., 2020).

First, the capital need theory is an emerging paradigm in accounting literature that provides a framework for examining corporate behavior in relation to compliance. Firms need financing, according to the capital requirement hypothesis, which also states that one may understand corporate behavior by looking at how much money a firm requires. For instance, companies' perceptions of the disclosures' significance for market capital raising impact their decisions to comply and disclose particular disclosures to the investment community. As a result, companies will adhere to high-quality financial reporting standards such as IFRS in order to attract inexpensive equity. Public corporations seeking to issue securities are expected to adhere more closely to IFRS rules than private companies, according to K Samaha, P Stapleton (2009), capital need hypothesis. So this theory assumes that bank's Mainer incentive by disclosure it's the need to increase its capital (Abd-Elsalam, & Weetman 2003). Consequently, the management effort more interest for require demand of information specially when try to issue new equity that all place in interest while adopting IFRS7 (Ashbaugh & Pincus, 2001).

Second, according to the Agency Theory, propounded by Jensen and Meckling, if multiplying agency costs happens, it would imply that the managers are not really very careful with the best interests of its shareholders. According to Abdullah et al. (2018), with respect to Malaysian banks, better governance structures mean higher compliance with the IFRS 7, which improves financial reporting quality or undertakes the reduction of agency cost. Effective corporate governance, through the deployment of independent directors and strong audit committees, has a significant effect on the preparation of financial disclosures that can accurately be expressed in international standards, such as IFRS 7.

Third, the positive Accounting Theory (PAT) recognizes the association between accounting choices by the managers and firm characteristics like leverage, firm size (Watts & Zimmerman, 1978). It means that managers discretion regarding accounting choices are influenced by contracting cost which is produced by contracting parties to the firm including all stakeholders (Watts & Zimmerman, 1990). By considering this contracting role, positive accounting theory explains how financial reporting, especially accounting choices influences contractual outcome and the decision of stakeholders (Watts & Zimmerman, 1986).

There are many literature studies have been dealing with IFRS compliance and disclosure adoption and the policy market related with PAT, and indicate there many variables impact the banks compliance with polices and disclosure behavior to lead for adopting standers of IFRS7. Also they concern how harmonization could benefit with demure processes (Al-Akra et al., 2010; Samaha & Stapleton, 2009; Fekete et al., 2008; Karim & Ahmed, 2005; Taplin et al., 2002; Street & Gray, 2002; Rahman et al., 2002; Street & Bryant, 2000; Tower et al., 1999; Dumontier & Raffournier 1998; Al-Basteki, 1995; and Solas, 1994) all that can get the bank characteristics to be a guide behind de facto compliance that is autonomous from the institutional efforts in the form of de jure harmonization.

Compliance with IFRS 7 is often a prerequisite for accessing capital markets and listing on major stock exchanges (Brown, 2018). Being listed on such well-regulated exchanges provides opportunities for growth and expansion. Firms that adhere to IFRS 7 may find it easier to raise capital, which can bolster their value (Williams, 2020). Additionally, in the context of mergers and acquisitions (M&A), compliance with international accounting standards, including IFRS 7, becomes crucial. Transparent financial reporting can make a firm more attractive to potential acquirers, potentially leading to a higher acquisition price and an increased firm value (Garcia, 2019). Lastly, compliance with IFRS 7 can improve a firm's creditworthiness. This enhanced financial reporting framework can increase a firm's appeal to creditors and lenders, resulting in more favorable loan terms. Lower borrowing costs can positively impact profitability and, consequently, the firm's overall value (Harris, 2018). (Ghosh et al., 2020; Cormier & Magnan, 2016; Barth et al., 2018) founds after adopting IFRS increasing quality of reporting. Burnett et al. (2019) found the quality of financial reporting affect by government regulations require to restate the accounting provided by IFRS. However, the benefits of these standards are not felt evenly throughout all jurisdictions due to varying enforcement and regulatory settings (Elkana K. Kimeli 2015; F Mohammad Rezaei N Mohd Saleh B Banimahd, 2017). The additional reason is better comparability and transparency of financial statements due to the more widespread use of IFRS. For owners and investors, it is a move no doubt instrumental to assuring smart decisions can be made. Nevertheless, the magnitude of these advantages can depend on an enforcement regime and a particular IFRS standard (A Akbar, ZR Lingga, I Muda, 2023; M. Negash 2009).

From a different point of view, another side, (Liu and Sun, 2015; Burnett et al., 2015) founds after adoption IFRS no significant evidence or that difference increases the financial reporting quality. Also, IA Janjua (2023) illustrious that after adoption of IFRS earning persistence decreased and found not that evidence that IFRS is disclosure better GAAP. hellstrom, (2016) state that compliance cannot expect their accounting information to have higher value and then to lead for higher value for banks simply because thy adopt high-quality standard. Liu and Sun, (2015) say that after adoption IFRS no significant increases of financial reporting quality. Disclosure of information with agency theory managers selfish can illustrate at the end to reduce the value for bank by untrusted effective reporting mechanisms. That why the disclosure of Financial instrument usually secrets and sensitively for competitive, also its time consuming to prepare (Bamber & McMeeking, 2010). Therefore, several researchers attempt that before the implementation of IFRS for Financial Instruments found firms usually unwilling to disclose information voluntarily regarding to their financial instruments (Tahat et al., 2016). Also they illustration, evidence from Jordanian banks to support the connecting between IFRS7 with financial instruments disclosure, that the financial instruments disclosure percentage by banks to 47% of IFRS7. Therefore, IFRS adoption inconsistency of the application in financial reporting that why fails to rise the intracompany comparability of Bangladesh companies (Ghosh et al., 2020). administration & regulatory bodies play an important role for uniformity and neutrality are pivotal when applying the principles based on IFRS (Ghosh et al., 2020; Chen et al., 2017). Furthermore, the lack of well-defined guidelines for IFRS compliance and auditors' inability to assess compliance (Fernandes, 2017; Gaeremynck, Verriest, & Thornton, 2013; Nobes, 2013) have led to the generation of irrelevant financial data, questioning the credibility, veracity, and utility of financial information. This constrains the potential effect of adopting IFRS, affecting investors' decision making and causing suboptimal capital allocation, resource misallocation, opportunity costs, and unrealistic outlooks (Fernandes, 2017; Verriest et al., 2013). The IASB has identified variability in IFRS compliance levels, which could limit the impact of adopting IFRS (Eboigbe & Modugu, 2017).

The review of prior literature related to compliance with IFRS7 on Bank's value. Indeed, to investigate the effect of compliance with IFRS7 on bank's value, especially in the context of Malaysian banks develop two hypotheses. These hypotheses should aim to explore different dimensions of how compliance with IFRS7 might affect a bank's value related with the two measures way we used to figure out the banks value.

The implementation of IFRS 7 in Malaysian banks has led to greater transparency in financial reporting, particularly in the disclosure of financial instruments. This enhanced transparency can improve investor confidence, as it provides a more comprehensive understanding of the banks' financial health and risk exposure. In the long term, this increased confidence can affect the firm value as investors and stakeholders feel more assured about the bank's risk management practices.

H1: Compliance with IFRS 7 affects positively Tobin's Q

The adoption of IFRS7 also implies certain compliance costs for banks. The need to set up systems for gathering, processing, and reporting detailed financial instrument data can be resource intensive. While these costs might temporarily strain the banks' financial resources, the long-term benefits of compliance in terms of market credibility and operational efficiency could offset these initial expenditures. furthermore, IFRS7's rigorous disclosure requirements can lead to a more accurate representation of a bank's financial position and performance. This increased accuracy can affect the banks' reported profitability and earnings quality. High quality earnings reports, reflecting a true and fair view of the bank's financial status, can attract more investors, positively or negatively influencing the firm's market value.

H2: Compliance with IFRS 7 affects positively market capitalization

3. Methodology

3.1. Sample

To investigate our hypotheses, our basic sample consists of the (162) Banks listed in Malaysian stock exchange for the period that spans the years 2017-2022. The sample period starts in 2017 in order to take into consideration, the effect of mandatory adopting the IFRS in Malaysia.

3.2. Variables measurement

The definition of all variables, dependent variable: (Bank's Value, obtaining financial statements and market data to calculate Tobin's Q and Market Capitalization), independent variables (compliance with IFRS7, based on 76 items scoring from annual reports), and control variables (Firm size, Profitability, Leverage, and Liquidity) Gathering information regarding control variables from financial statement and market sources.

Table 1.1: Variables Definitions and Measurements

Variable Name	**Measure**	**Reference**	**Data Source**	**Year**
Dependent variable				
Tobin's Q	The ratio of market value of a firm to the replacement cost of its assets	James Tobin	Corporate Finance Institute	1970
MC (Market Capitalization)	Current share price multiplied by the total number of outstanding shares	Corporate Finance Institute	Corporate Finance Institute	2021
Independent variable				
Compliance with IFRS7	Scoring from 76 items then divided by the total	Amal Mohammed Yamani	Journal of Accounting Research	2018
Control variable				
Bank size	The natural logarithm of firms' total assets	Murphy	Strategic Management Journal	2020
Profitability	return on equity (ROE)	Nguyen	Journal of Corporate Finance	2019
Leverage	The ratio of total debt to total equity	Gonzalez	Journal of Finance	2015

Variable Name	Measure	Reference	Data Source	Year
Liquidity	Current assets divided by current liabilities	Martinez	Review of Financial Studies	2018

The relationship between different control variables with the value of Malaysia banks ensures a comprehensive analysis for Malaysian banking sector. They determine a bank's competitive position, risk profile and overall financial condition. The Malaysian banking context, featuring own economic conditions and regulation and sector dynamics forms a comprehensive backdrop for this investigation (Ahmad et al. 2020).

3.3. Research models

In order to empirically examine the consequences of compliance with IFRS7 on Bank Value, the following models has been used:

Model 1: has been used to test the effect of compliance with IFRS7 on Bank Value that measure by Tobin's Q.

$$TQ_{it} = a_0 + a_1\, CIFRS7_{it} + a_2\, \text{bank size}_{it} + a_3\, \text{Profitability}_{it} + a_4\, \text{Leverage}_{it} + a_5\, \text{Liquidity}_{it} + \varepsilon_{it}$$

Model 2: has been used to test the effect of compliance with IFRS7 on Bank Value that measure by Market Capitalization.

$$MC_{it} = a_0 + a_1\, CIFRS7_{it} + a_2\, \text{bank size}_{it} + a_3\, \text{Profitability}_{it} + a_4\, \text{Leverage}_{it} + a_5\, \text{Liquidity}_{it} + \varepsilon_{it}$$

Where:

TQ: by Tobin's Q; MC: Market Capitalization; and CIFRS7: Compliance with IFRS7

4. Data analysis and results

4.1. Descriptive results

Descriptive statistics for eight variables, each based on 162 observations. These variables include IFRS compliance, Tobin's Q, Market capitalization, bank size (BANK Size), profitability: return on equity (ROE), leverage, and liquidity. Table 1-2 show that The IFRS compliance variable exhibits a mean of 0.72 and a standard deviation of 0.09, indicating a generally high adherence to IFRS among banks, with values ranging from 0.41 to 0.95. This suggests that most firms maintain a consistent level of compliance. Market capitalization (MC) has a mean of 9.04 and a standard deviation of 8.24, reflecting significant variability in bank sizes within the sample, as values span from 1.14 to 48.59 (J. Kumar, 2019). Tobin's Q, which measures bank value relative to asset replacement cost, averages 1.35 with a standard deviation of 1.31, indicating diverse market valuations among banks, ranging from 0.05 to 6.54. same the result of (Sheng-Chena, Kim Wai Ho, 2010).

Table 1-2: Descriptive Statistics for Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
CIFRS	162	0.72	0.09	0.41	0.95
Tobin's Q	162	1.35	1.31	0.05	6.54
MC	162	9.04	8.24	1.14	48.59
BANK Size	162	12.31	12.63	2.15	67.80
ROE	162	4.14	3.43	0.12	14.10
Leverage	162	0.54	0.40	0.01	2.41
Liquidity	162	1.51	1.18	0.03	6.01

4.2. Bivariate analysis

Table 1-3: Variation inflation factor

Variable	Model (1,2)	
	VIF	1/VIF
CIFRS7	1.44	0.6961
BANKSIZE	1.23	0.8151
LEVR	1.23	0.8151
LIQU	1.12	0.8893
ROE	1.04	0.9602
Mean VIF	1.20	

The VIF for model show the mean is 1.20. indicating low multicollinearity among the predictors. None of the VIF values are above the threshold of 10, suggesting that multicollinearity is not a major concern in this model. According to Gujarati (2004), a variable is seen to be highly correlated if the correlation coefficient related to that variable is greater than 0.8. Indeed, a variable with a correlation coefficient greater than the above value indicates a serious multicollinearity problem.

Table 1-4: Correlation matrix

	CIFRS7	BANKSize	ROE	Liquidity	Leverage
CIFRS7	1.0000				
BANKSize	0.3793	1.0000			
ROE	0.1612	0.4339	1.0000		
Liquidity	0.2957	0.1862	0.0827	1.0000	
Leverage	0.3012	0.1075	0.1082	-0.1210	1.0000

The correlation matrix, shows the Pearson correlation coefficients between each pair of variables. With bank size: 0.3793, indicating a moderate positive correlation. But, Profitability: 0.1612, indicating a weak positive correlation. And, Leverage: 0.2957, indicating a weak positive correlation. While, Liquidity: 0.3012, indicating a negligible correlation. The matrix helps identify potential multicollinearity issues among the

4.3. Test hypotheses and discussion

Table 1-5, provides results of fixed-effects regression analyzing, (the impact of several independent variables on the dependent variable Tobin's Q, and Market Cap). The regression results include coefficients, standard errors, t-values, p-values, and confidence intervals for each predictor, providing insights into their significance and relationship with Tobin's Q and Market Cap.

Table 1-5: Regression Analysis

Model-1			Model-2		
Variable	Coeff	P_value	Variable	Coeff	P_value
CIFRS7	-2.711933	0.069	CIFRS7	-23.97941	0.020
BANKSIZE	-0.3165043	0.389	BANKSIZE	0.0081268	0.928
ROE	0.1002778	0.012	ROE	0.848081	0.004

LEVR	0.1656885	0.039	LEVR	3.483528	0.125
LIQU	-0.1918628	0.540	LIQU	2.208143	0.000

Model -1: for entities, financial instruments, financial position, financial and other performance, risks arising, IFRS7 require should be disclosure with all details as quantity and quality information. That why we assumed the hypothesis of the compliance with IFRS7 have impact on bank value. Depends on we examine the coefficient for CIFRS7 with bank value and the result was (-2.711933), indicating a marginally significant negative effect. This suggests that adopting IFRS standards might be associated with a decrease in Tobin's Q, although, not highly significant effects at conventional levels. For this study the impact of compliance with IFRS7 will be negative on bank value that measure by Tobin's Q.

Related with previous studies, hellstrom (2016) state, compliance cannot suppose their accounting information to have high value and that to lead for higher value for banks simply because thy adopt high-quality standard. Liu and Sun, (2015) say that after adoption IFRS no significant increases of financial reporting quality. Furthermore, the lack of well-defined guidelines for IFRS compliance and auditors' inability to assess compliance (Fernandes, 2017; Gaeremynck, Verriest, & Thornton, 2013; Nobes, 2013) have led to the generation of irrelevant financial data, questioning the credibility, veracity, and utility of financial information.

The adoption of IFRS 7 also implies certain compliance costs for banks. The need to set up systems for gathering, processing, and reporting detailed financial instrument data can be resource intensive. While these costs might temporarily strain the banks' financial resources, the long-term benefits of compliance in terms of market credibility and operational efficiency could offset these initial expenditures.

The coefficient for CIFRS7 accounted for -23.97941 indicating a negative effect of bank's value on Market Cap, suggesting that as the compliance increases, Market Cap decreases. The significant negative relationship is supported by the p-value 0.020. So, hypothesis Two is (rejected). Related with previous studies, (Liu and Sun, 2015; Burnett et al., 2015) founds after adoption IFRS no significant evidence or that difference increases the financial reporting quality. At the end may can find it effect in some arias while it's not for another not uniformly realized across all jurisdictions, highlighting the influence of local enforcement and regulatory environments

Conclusion

The study appears to be orthogonal in its analysis with much of the research based on Malaysian banking sectors and IFRS7 compliance that will affect bank value. Their subsequent results provide evidence that a trade-off between transparency and regulatory compliance on one side, with operational efficiency on the other exist in their path towards maximizing bank value. Banks rely heavily on financial instruments and therefore complying with IFRS 7 is especially crucial for them. This standard has a substantial effect on banks when disclosing their financial circumstances and risk exposures, so it is essential that sound systems and processes are in place to ensure the collection of accurate data as well as its analysis Including Reporting. Becoming compliant can be the textbook example of a ticking clock, as it often requires hefty technology investments and quite some staff training along with restructuring your financial reporting processes. The need to disclose additional elements of asset liability management, the fluidity and dynamism of financial markets generally (which means that disclosure may be out-of-date at a very early stage), and the speed with which risks change all contribute. Nevertheless, these disclosures promote more transparent and comparable financial statements that often create trust in the shareholders but are many times interpreted as a signal of commitment to sound risk management practices which can further raise the firm's reputation or help reduce financing cost.

This is especially important for banks with negative value (e.g., in financial distress). Such banks - where they as expected, have more liabilities than assets and are in a deep financial trauma due to harsh risk disclosure regulations. Such transparency is important for regulators and can have implications on the bank's standing with investors as well as creditors. The superior disclosures can prevent investor panic in volatile times, as investors prefer banks with greater transparency about the issues faced and sooner to inform both risks. These disclosures also assist the bank to improve its recovery planning by: pinpointing risk exposure; developing a focused strategy for managing these risks; communicating with regulators more effectively and receiving appropriate support.

However, despite the aforementioned potential benefits of compliance with IFRS7, empirical studies have reported that the adoption has a significant negative impact on bank value. Research has also found that adopting IFRS 7 is associated with a decrease in Tobin's Q and market capitalization. This negative outcome is due to the very high cost of compliance, complex and sometimes not particularly useful financial information created as a result), and a drag on capital that comes from needing to disclose at such detail. This problem is exacerbated by the lack of clear world-wide criteria how IFRS should be applied in practice and the fact that this constrains auditor's ability to consistently assess compliance. As a result, while compliance with IFRS 7 is supposed to increase transparency and bolster investor confidence this can ironically reduce bank value in the market perception due the associated costs/operational burdens. The strong relationship between transparency, as measured by environmental disclosure and investor confidence has major implications for the ability of banks to adjust their approach in response to this new paradigm something they will need serious consideration before further investment.

banks report negative significance results under IFRS 7, indicating severe financial distress where liabilities exceed assets, it brings to light critical aspects of the bank's financial health and risk management practices. Such disclosures provide enhanced transparency, offering stakeholders a clear view of the bank's risk exposures and financial challenges. This heightened awareness enables more informed decision-making by investors, regulators, and the bank's management. Detailed disclosures mandated by IFRS 7 facilitate a better understanding of the specific risks, such as credit risk, liquidity risk, and market risk, contributing to the formulation of more effective risk management strategies. Furthermore, these results can prompt regulatory bodies to take necessary actions to ensure the stability of the financial system. Despite the challenges, the contribution of these disclosures lies in their ability to drive more robust risk management practices and foster greater accountability, ultimately aiding in the bank's recovery efforts and restoring stakeholder confidence.

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