Review of the PhD Dissertation entitled

' IFRS ADOPTION AND FIRM VALUE: BANKING IN GCC COUNTRIES'

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The review has been prepared based on:

a) the letter of the Chair of the Scientific Council in the discipline the Economics and Finance of the University of Gdańsk Professor Przemysław Borkowski regarding the evaluation of the doctoral dissertation by Bassam Hassan Salame entitled as above,

b) the electronic and paper copies of the dissertation.

1. Formal assessment

The title is clearly formed as considers IFRS Adoption and Firm Value. In this phrase, the problem is evident, then comes Banking in GCC Countries which covers an immense extent of issues at first sight even if a reader recognizes the bank to be a special type of company. The more so banks traditionally tend to be institutions of public trust, hence they differ significantly from a typical business enterprise.

The submitted dissertation contains 6 chapters including an Introduction (Chapter 1) and Conclusion (Chapter 6), 19 pages of References – thoroughly prepared in the prevailing majority, a List of 23 Tables, a List of 2 Figures and an Appendix. The substantive part of the doctoral thesis consists of 4 separate chapters.

There is a firmly common opinion that the application of IFRS creates a more reliable source of information to unify accounting reports and reduce accounting variation, as the output of the reports can be generalized and proceeded with when tackling other decisions by all stakeholders.

Moreover, globalization has forced the necessity of the unification of different tools in many fields of international collaboration to make various economic, commercial and financial operations easier.

Therefore scientific/cognitive objective of the entire work was to identify the impact of International Financial Reporting Standards (IFRS) on the cost of capital and thus the firm's value, meaning for banking in GCC countries. To attain a such formulated purpose it was necessary to identify the key drivers that prompt their valuation approach in the context of IFRS adoption.

Respectively two hypotheses have arisen:

H0: IFRS adoption affects the key factors that rationalize the decision-making process and diminish the cost of capital value for listed banks in GCC countries, increasing their intrinsic values.
H1: IFRS adoption will not affect the key factors that rationalize the decision-making process and diminish the cost of capital value for listed banks in GCC countries, increasing their intrinsic values.

The language used in the doctoral thesis is professional, economic notions are relevant to the studied topics and grammatically correct. The merit content is clear, thoughts are formulated transparently, although repetitions of ideas happen, and sentences are well-styled.

References quoted in the thesis are relevant to provide the scientific discussion referring to considered topics, i.e. classical and current ones.

The merit of the manner of studying is a uniform presentation in each chapter and subchapter meaning a briefer or longer introduction to the subject of content and a conclusion at the end. That makes inquiry in the entire dissertation clearer and more order, hence it enhances the value of scientific workshops.

2. Merit assessment

The thesis comprises 4 chapters: Firm value and cost of capital (Chapter 2), International Financial Reporting Standards (Chapter 3), IFRS adoption in GCC – literature review (Chapter 4), Quantitative findings and discussion (Chapter 5). Three of them represent a review of academic achievements in the field, and the last one contains the Author's own independent research. From the main purpose point of view, the structure of the dissertation is logical.

Chapter 2 presents the conceptual theoretical framework, theories, and previous relevant literature aimed to determine the impact of IFRS adoption on local accounting standards, information quality, firm value, and information errors, which are considered as valuators' key factors for enterprise value.

Taking two approaches to the company's valuation and purposes the Author declares the research that will define enterprise value, valuation theory, agency theory, and the methodologies for firm value measurement. The entire consideration in the Chapter 2, however, concerns and touches the main issue, assumes that there is no essential difference between the firm in any branch – even in the financial sector — and in the banking sector which is the subject of the dissertation. Banks as corporations have been taken into account only by accident when systematic and non-systematic risks were taken into consideration.

They were presented from the view of cash liquidity risk leading to banks' failure and market insolvency. A relevant case of factors affecting the firm value relating to the banking sector was depicted due to tangibility. It seems the Author supposes the concept of the firm as perfectly homogeneous which impoverishes inference.

Finally, chapter 2 is a suitable theoretical framework for Author's own empirical research as it bridges Fama-French theory and two Ohlson's valuation models for estimating firm value based on accounting information.

Since the analyzed literature did not take into consideration research coming from the GCC countries it should be assumed that the subject of reviewed study is supposed to be the Author's share in the discipline's legacy.

Chapter 3 deals with International Financial Reporting Standards (IFRS). According to the Author, the chapter's goal was '[...] to conduct an extensive analysis of the consequences of IFRS adoption as a global financial reporting language on firm's valuation'. This part of the thesis is gradually approaching to two principal notions, i.e. banking sector and Gulf Cooperation Council associating seven countries in the region. In the context of the developed chapter's purpose the capital market growth acceleration after IFRS implementation had been studied under globalization.

The banking sector and enforcement process (Chapter 3.3.) have been described uniformly, therefore it enables comparison among the GCC countries.

In the next part of the chapter (3.4.), it was firmly indicated that technical changes (revenue recognition, earnings quality, exchange rate) implemented by IFRS in the GCC institutions had an impact on financial statements and their components so that IFRS provided the chance to accomplish the enhancement of bank's internal controls, treasury procedures, and financial and tax reporting systems.

Summarizing, the impact of IFRS adoption on financial statements was depicted reasonably thoroughly taking the IFRS regulations and financial reporting components, however, by the use of modest and frugally cited literature (apart from the section 3.4.7.). Especially, examples of GCC banks' IFRS executions do not have any sources. However, the main demerit of literature research in there is still the lack of IRSF influence on the banking sector (only in subchapters 3.4.3., 3.4.4., and 3.4.7. the problem is satisfactorily portrayed).

In conclusion, chapters that relied on subject literature, concerning principally IFRS regulations and requirements, have been presented imitatively. The impact of IFRS has not been analysed creatively by use of any specific method but by description reflecting plenty of details, especially, rarely essential, modes of financial instruments' measurements in financial statements.

Chapter 4 still embraces the literature review of IFRS Adoption in GCC. A new approach to the topic is involving such concepts as economic growth, legal systems, financial statement, users' culture, and behaviours. Additionally, questions how IFRS compliance can predict equity values of firms in GCC markets, and how IFRS adoption can lead to more and better disclosures have been answered enabling the bank valuation. No doubt that IFRS, due to a single set of accounting standards, allow the transfer through financial statements transparent information of a bank's value and cost of capital. Relying on the numerously quoted literature the Author has shown that IFRS should stimulate the investor's decision-making, diminish the asymmetric information, and increase the accounting reliability to measure the firm's (bank's) performance for fundraising.

Although in regard to the titles of subchapters 4.2 and in particular 4.2.1. the IFRS in GCC countries and IFRS adoption's effect on GCC bank valuation was expected to be studied, the literature review concerned only general analysis of IFRS adoption by a firm. Neither a particular country of the Gulf, nor bank valuation were taken into account (the word 'bank' has been printed/used twice).

Unfortunately, a new issue to highlight motivation in particular has not been brought in subchapter 4.2.2. Advantages and disadvantages which might affect the firm value and cost of capital had already been studied in previous parts of the doctoral thesis. Table 3 is a worthwhile point there as it contains a set of IFRS advantages researched up to now in GCC countries.

Table 5 (subchapter 4.2.3.) in turn is a remarkable concluding transition from an analysis of IFRS effects of adoption in GCC countries reflected in GCC countries' literature to own research done by the Author of the dissertation.

The impact of psychological, sociological and cultural aspects on IFRS acceptance by GCC countries (subchapter 4.3.) may arouse a particular interest for a non-Islamic reader coming from other geographical regions. Relying on literature the Author summarizes the perception of stakeholders (preparers, auditors, users, and investors) on the adoption or partial implementation of the new accounting system. The aim was to find out major factors that may determine an individual's propensity to change.

The discussion results in an essential conclusion that if the effects of implementation have positive results, especially regarding the usefulness view, the decision-makers' attitude is affirmative/constructive. Nonetheless, conservatism and entrenched culture may be factors significantly affecting IFRS's acceptance or rejection of its implementation by stakeholders. Alike conclusions have been expressed due to sociological empirical observations made in different countries by various researchers (subchapter 4.3.2.), i.e., social, educational and religious pressures (in particular in Islamic countries) as well as globalization pressure are substantial factors in the level of acceptance of a new accounting system regardless of the changes and adjustments they bring.

The review of cultural influence on IFRS adoption in GCC countries considering the specificity of the banking sector is a complement to subchapter 3.4. and has closed the literature study of aspects determining key drivers that might thrive bank valuation after IFRS has been implemented. Exposing country by country was necessary and useful since the findings turned out heterogeneous to some extent.

The Author's own and independent contribution to solving the main task and to achieving the scientific goal of the dissertation has been included in Chapter 5 dealing with Quantitative Findings and Discussion. The aforementioned hypotheses have been tested in order to determine the impact of IFRS on the cost of capital and MVPS 5 years before and 10 years (divided into two 5-year periods) after IFRS adoption in GCC countries. The empirical research focuses on examining independent factors (share price, book value per share, earnings per share, leverage, dividend payout, log size, accruals. return on equity, and return on invested capital), studied in subchapter 3.4. that are fundamental for explaining their impact on the dependent variable as cost of capital and finally on the bank's value before and after IFRS implementation.

Application of econometric panel models to identify variables' efficiency and their effect on the bank's value, and using Ohlson models to test hypotheses are adequate methods to analyze the problem. Statistical methods, their mode of use, and findings interpretation tend to be accurate and correct. Although, in subchapter 5.2.4. the Author states: 'The statistical significance of the impact of independent variables on the cost of capital was verified using the t-test in all time samples: pre-and post-IFRS for period A and B.' However, the results of this verification were not presented in the thesis. What were the results of these tests?

The size of the study sample is not large. It is understandable as it covers the units that met the criteria of selection (data availability; qualified as domestic banks). Nevertheless, multi-sectional quantitative analysis, i.e. provided country by country, by all GCC countries and consequently through four periods widens and deepens the knowledge about the relationship between the variables studied.

According to the Author's findings upon the empirical research by use of the aforementioned two econometric models, concluded that in all periods the test results suggest that the MVPS is significantly increasing in the GCC countries after the implementation of IFRS in the region. In this way, the purpose of the dissertation submitted by Mr Basam Salame has been achieved.

Chapter 5 is the most essential section of the entire dissertation as regards applying appropriate methods to test hypotheses. The Author proved the knowledge of relevant issues and competence in conducting empirical research.

Questions to Mr Bassam Salame that are expected to be answered during the doctoral defense:

1) The forms of normative, coercive, and mimatic isomorphism coming from IRSF implementation and their results in the banking sector as compared Iraq with GCC countries.
2) In studies on the impact of the introduction of IFRS on firm value, other methods were also applied, for instance, the variables based on the Capital Asset Pricing Model (CAPM). Can you share the reasons that led you to choose this specific model? What were the advantages of the application of this particular model?

3. Formal remarks

Though the dissertation is pretty neatly prepared several shortcomings have been perceived:

- In the List of Abbreviations, EBIT denotes Earnings Before Interest and Tax (p. 9);
- 'Companies can pursue several valuation methods and approaches depending on their goals as flows.'(p. 19) – an unclear statement
- 'Their study showed that earning relevance decline over time, while book value and earning relevance increase.' (p. 20) – an unclear statement
- Lack of consequences in using abbreviations and full names of items (p. 20 – EPS and market value per share);
- There is a missing subchapter 2.3. or a mistake in the Table of content?
- Various editing errors;
- KSE, MCI, SOCPA, SAS, PCG, LIFO, MBS, CDO, FFCF abbreviations not explained (p. 43, 46, 48, 58, 62,101, respectively);

- In Table 1, an incorrect definition of the equity ratio (a word equity in numerator is missing);
- WACC formula was exposed twice (p. 27 and p.103);
- Table 7 does not contain an interpreted in the text descriptive statistics of MVPS (p. 104).
- The Author's unequivocal statement in the present tense that some '[...] markets are neither developed nor informationally efficient, and they advise that these nations should build strategies based on what developed markets have learned' (p. 87) quoted after Rao and Shankariah (2003) is outdated. Twenty years passed since then.
- Several repetitions of statements have been perceived, e.g., below almost every Table in section 5.3.1. referring to definitions of R-squared values and the Hausman test p-values.
- Some studies mentioned in the text are not included in the list of References, e.g. Aboody, et al. (2002), Ball and Brown (1968), Chang (1998), Bancel (2014), Barthet et al (2001), Brüggemann, Hitz, and Sellhorn (2011), Frykman and Tolleryd (2003), Gietzmann and Ostaszewski (2003), Hopkins et al. (2008), Hughes and Liu (2005), Suadiye (2012), Taplin (2004) and others.

4. Conclusion

Summing up, the overall assessments of the merits of the doctoral thesis submitted by Mr. Bassam Salame, I confirm that the presented structure of consideration and the idea of the dissertation deserves recognition.

The Doctoral Candidate demonstrated analytical skills and good knowledge of IFRS, as well as banking system in GCC countries, despite a shortage of displaying other methods to value a firm (a bank). However, the choice of quantitative methods (Ohlson's model '95 and modified Ohlson's model) to accomplish the cognitive aim of the dissertation has been justified convincingly in numerous literature studies. One of the strengths of this thesis is also its contextual approach discussed in Chapter 4.3. It refers to the impact that psychological, sociological, and cultural aspects have on IFRS acceptance by GCC countries.

The research leads to interesting findings that support the results of other studies on the effects of the introduction of IFRS on firm/bank value derived from different models.

The above-mentioned facts entitle me to state that the submitted dissertation demonstrates Mr Bassam Salame theoretical knowledge in economics and finance, as well as the ability to conduct independent research. Hence, the dissertation meets merit and formal requirements for a PhD degree specified in Art. 13.1 of the Act dated March 14, 2003, on academic degrees and academic title as well as degrees and title in the field of art, and it is recommended for the public defence.

Teresa Kamińska

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