-RESEARCH ARTICLE-

THE EFFECT OF IFRS AND CEO OVERCONFIDENCE ON VALUE RELEVANCE

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─Abstract─

This study analyzes the role played by International Financial Reporting Standards (IFRS) and CEO overconfidence on the level of value relevance found in the financial reports. The study determines whether the value relevance is affected by the mandatory adoption of IFRS. This study also investigates whether the managers with overconfidence lead to a high level of value relevance after adopting IFRS. Through using a sample of EU firms consisting of 25442 firm-year observations, for the period from 2002 to 2012, the researchers reached the conclusion that firms' adherence to value relevance will increase after adopting IFRS and the firms in which managers are characterized by low overconfidence. The findings of this research are novel contribution to literature and practice for value relevance.

Keywords: IFRS, value relevance, CEO overconfidence, organization

INTRODUCTION

The value relevance imposes that accounting figures affect the decisions of users of accounting information (Ben Ahmed & Jarboui, 2022). We defined value relevance as

the explanatory power of the relationship between accounting figures and market data, or accounting data that is capable of causing a change in a particular user's decision, whether the decision is to retain, sell or purchase equity (Almaghrabi et al., 2024). This leads to the relevance of accounting information being measured from the perspective of accounting information users. Previous studies Kouki (2018) show that relevance is measured through a model that includes two components: the first is accounting data (accounting figures), and the second is financial market data. Therefore, financial market data is a reflection of accounting data (Almaleki et al., 2021). This appears in stock prices, stock returns, or the market value of the firm's total shares. Over confidence is also dangerous for establishing a business (Murad et al., 2024).

Furthermore, we explore the related issue of whether the impact of accounting figures in the financial market for firms will increase after the adoption of IFRS and firms managed by managers with low overconfidence. In other words, is this relationship between accounting figures and market figures stronger for firms after the mandatory IFRS adoption and firms that are managed by managers with low overconfidence? Previous research provides evidence that the relevance of information improves after the adoption of IFRS (Sumiyana et al., 2023). After the adoption of IFRS, there will be a single set of accounting standards applied by all firms, and thus the understanding of the accounting methods used by firms to produce financial reports increases.

Although these standards are optimistic, they tend to provide accounting information that can influence the decisions of users of accounting information (Majed et al., 2023). On the other hand, the value relevance does not change after the adoption of IFRS, because the adopting firms do not apply these standards correctly but rather merely announce the adoption of IFRS. This is to avoid the costs of applying IFRS, which are represented by the costs of training employees and the costs of changing the external auditor if he is not qualified to work according to IFRS, and this situation was called by (Ball, 2006) "under the rug." It is when the firm announces the application of IFRS until the previous local standards sneak under the title of IFRS to be actually applied.

We also expect that the value relevance will increase among firms managed by managers with low overconfidence. According to Zhong et al. (2024), "these managers are likely to maximize the value of the firm by maximizing the firm's stock price." Furthermore, Kouaib (2023) discussed, "this can only be achieved by sending accounting figures that affect the financial market, the stock price in the market. in order to, achieve a high level of value relevance, the firm ensures that the firm is not exposed to criticism for its performance." In other words, this correlation between the accounting figures and the financial data of the firm will increase for the firms managed by managers with overconfidence, because these managers seek quality, i.e., the quality of the financial report and the accounting figures it contains.

According to Filip (2010) and Aubert and Grudnitski (2011), "the adoption of IFRS improves the relevance of accounting information for decisions, but these studies did not investigate the effect of the personal characteristics of the chief executive on the level of relevance of accounting information, especially CEO overconfidence." In the current study, this point is expanded by assuming that the level of information relevance is not only affected by adopting IFRS but is also affected by the chief executive's overconfidence. The main research questions addressed in this study are: (a) Does the relevance of accounting information change after mandatory adoption of IFRS? and, (b) Does managerial overconfidence affect the relevance of accounting information after mandatory adoption of IFRS?

Using a large sample of firms listed on the EU countries that adopted IFRS adoption beginning 2005 for the period 2002 to 2012, in order to capture value relevance, we follow (Barth et al., 2013), then we test our expectations regarding the effect of the mandatory IFRS adoption and CEO overconfidence on value relevance, as a result of our main investigations, the results are inconsistent with the study's expectations. Our results contribute to literature in several ways. First, this research expands the growing literature on EU countries regarding value relevance after adopting international financial reporting standards. It shows that firms report relevant accounting figures after adopting IFRS and that the relevance of their information will be more closely related to that of the information of the other firms after adopting IFRS. This suggests that IFRS contributes to improving the value relevance of firms and that it will be strongly related to the relevance of the accounting figures of other firms operating in the same sector.

REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

We make three main predictions: (1) Value relevance increases (improves) after the adoption of IFRS. (2) Value relevance improves for firms managed by CEO overconfidence. (3) Value relevance increases after the mandatory IFRS adoption and by firms managed by manager with overconfidence. These predictions lead to three hypotheses.

Value Relevance and IFRS

Since adopting a single set of standards, and here the mandatory IFRS adoption, will work to make the areas of common understanding for accountants broad in terms of the understanding of accountants and auditors of how to operate the inputs and thus produce financial reports (Ben Ahmed & Jarboui, 2022). Another point is that these standards, i.e., IFRS, are high-quality standards compared to the local accounting standards that were prevalent before the adoption of IFRS, and this will lead to financial reports produced under IFRS being of high quality. On the contrary, critics of IFRS doubt that one set of standards fits all (Huang et al., 2022). Imposing one set of standards on countries around the world ignores the characteristics of these countries as well as the

motivations of firms regarding their adoption of the standards. Countries are institutionally, culturally and economically different, which leads to uneven application of IFRS.

Furthermore, the firms' motivations for adopting IFRS are different, as large firms have high motivation for applying IFRS, with the aim of engaging in the global firm through the flow of investments to these firms or in order to list these firms in new markets (Just et al., 2023). Non-large firms have less incentive to adopt and, therefore, are not willing to incur the costs of mandatory IFRS adoption, which include training staff, audit fees, and replacing the accounting system (Qiao et al., 2024). Therefore, these firms resort to announcing their adoption of IFRS, but they do not implement them or may implement them partially while retaining most of their old accounting practices (Thesing & Velte, 2021). Consequently, it is not possible to predict whether they will comply with IFRS. Our study relies on the literature linking IFRS and value relevance, which focuses on the association between accounting figures disclosed in financial reports and stock market prices or changes in stock market prices. In their important work, Capkun et al. (2016) used a sample of 1722 firms in nine EU countries to verify the relevance of accounting figures generated by applying IFRS and GAAP. They concluded that accounting figures produced according to IFRS have a higher value relevance than those produced under GAAP.

On the other hand, Roncagliolo (2024) did not find any improvement in value relevance after the adoption of IFRS. The study Fang et al. (2024) found "a decrease in the value relevance of net income and the book value of equity after the adoption of IFRS." While Zhang et al. (2024) discussed, "there is no improvement in the value relevance after the adoption of IFRS." However, for one country, Germany, whose firms have voluntarily adopted IFRS, they found that the relevance of information did not change after adopting IFRS, and they concluded that it is not necessary that adopting IFRS will lead to high-quality financial reports. According to Chen et al. (2024), "the value relevance decreased after adopting IFRS." The above discussion results in the following hypotheses.

H1a: *Mandatory IFRS adoption will improve the value relevance of accounting information.*
H1b: *Mandatory IFRS adoption did not change the level of value relevance of accounting information.*

CEO Overconfidence and Value Relevance

According to Nguyen et al. (2023), "overconfidence can lead to improving the value relevance of accounting information." This happens when the firm is managed by an overconfident CEO, who works to protect the firm and his position in the firm by providing accounting information to participants in the financial market (Mnif &

Znazen, 2024). This information should have a value related to the decisions of these participants in order to ensure that their decisions are based on accounting figures that enable them (Frii & Hamberg, 2021). When the CEO overconfidence is high, the quality of the financial report is high. Lee et al. (2023) discussed, "a highly overconfident CEO may be inclined to maximize his personal benefit, which leads to his manipulation of accounting figures and thus works to settle them, leading to reducing their suitability for the decisions of users of accounting information". CEO overconfident tend to increase financial reporting complexity, that confirm by (Guan et al., 2022). The following hypothesis is developed:

H2: *The improvement in the value relevance of accounting information is more evident among firms managed by CEO overconfidence.*

The Value Relevance After Adopting IFRS for Firms Managed by CEO Overconfident

After developing the first and second hypotheses, we delve into the issues of firms following IFRS, these issues arise from the firms being affected by mandatory IFRS adoption and CEO overconfident. We expect value relevance will increase after adopting the IFRS and firms that manage by managers with characteristic by high CEO overconfident. Therefore, the following hypotheses are purposed.

H3a: *The value relevance of firms improves after adopting IFRS, which are managed by managers with high overconfidence.*
H3b: *The value relevance does not change for firms after adopting IFRS, which are managed by managers with high overconfidence.*

RESEARCH DESIGN

Value Relevance Proxy

In our main tests, we employ the relationship between returns and profits to estimate the value relevance, the value relevance is estimated using a regression of returns on earnings and changes in these earnings. In this study, the steps of Barth et al. (2013) are followed to estimate the explanatory power of the return-earnings relationship through the following equation:

$$RET_{it} = \alpha i + \beta 1\, E_{ijt}/P_{ijt} + \beta 2\, \Delta E_{iJt}/P_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\, (1)$$

Where:
RET_{it} is an annual return measured beginning three months after the firm's fiscal year end.
E_{itj} is earnings before extraordinary items scaled by the beginning of year price.
P_{ijt} is stock price beginning of year.

We have applied this model for six years and for 18 industries with the condition that there are at least 10 observations in each industry year, which results in 198 separate industry components. We apply equation (1) and then do estimation to obtain its explanatory power, which reflects the level of the value relevance, but this estimate reflects the explanatory value for each industry in each year. To capture differences at the level of the firm, rearranges the firms based on the residuals of equation (1) into four portfolios. Since our sample consists of 11 years, we will have 44 industry-neutral components. In detail, after running equation (1) and obtaining the residuals, the firms are classified on the basis of the residuals, where portfolio (1) consists of the observations that carry the largest negative residuals. Portfolio (2) consists of the observations that carry a quarter of the residuals from the sum of the following residuals. Thus, all the portfolio observations are allocated. This is repeated for all the years of the sample. Portfolio (1) carries the observations that are characterized by the largest negative residuals, and portfolio (4) is characterized by the largest positive residuals.

$$RET_{it} = \alpha i + \beta 1\, E_{ipt}/P_{ipt} + \beta 2\, \Delta E_{ipt}/P_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \text{(2)}$$

Where:
$\Delta E_{ipt}/P_{it}$ is change annual return measured beginning three months after the firm's fiscal year end.
All other variables were defined previously.

According to these features, R2 measures the level of value relevance. Where the value relevance is the sum of R2 from equation (1) and (2). If R2 is large, the value of the information is high. That is, the closer R2 is to the value of (1), the greater the relevance.

Managerial Ability Measure

In this study, we follow Kermani et al. (2014), Duellman et al. (2015) and Salehi et al. (2020) to measure managerial overconfidence. The CEO overconfidence model is represented by the relation between growth of total assets and growth of sales. Therefore, we measure the overconfidence of executives according to the following equation:

$$SG_{it} = \alpha i + \beta 1\, AG_{it} + + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \text{(3)}$$

Where:
SGit is growth of sales for firm i end of year t.
AGit is growth of total assets for firm i end of year t.
εit is random error.

Sales growth and asset growth are arrived at using the following equations:

$$SG_{it} = (S_{it} - S_{it-1})/ S_{it-1} \dots \dots \dots \dots \quad (4)$$
$$AG_{it} = (TA_{it} - TA_{it-1}) /TA_{it-1} \dots \dots \dots \quad (5)$$

S_{it} is sales of the firm i end the year t.
S_{it-1} is sales of the firm i end the year t-1.
TA_{it} is total assets of the firm i end the year t.
TA_{it-1} is total assets of the firm i end the year t-1.

Managerial overconfidence is inferred from the value of the residuals ε_{it} resulting from the regression of asset growth on sales growth, where a positive value of the residuals indicates overinvestment, i.e., managerial overconfidence, while a negative value of the residuals indicates underinvestment in assets, i.e., low managerial overconfidence).

We divide overconfidence into two parts. The first part includes managers who are overconfident. The second part includes managers who are underconfident. To distinguish overconfident managers from underconfident managers, we calculate the sample mean based on the managerial confidence variable calculated in equation (A). Firms above the mean are considered to be managed by overconfident managers. However, if the overconfidence value is below the mean, this means that the firm is managed by managers who are underconfident.

Measuring IFRS

This study investigates the change in value relevance after adopting IFRS. Therefore, the variable of adopting IFRS (POST) is measured as a dummy variable that takes a value of (1) if the firm's observations fall within the period of adopting IFRS, and zero otherwise. Also, we divided the period of adoption into two subperiod. First period of adoption (first period) included four years after mandatory IFRS adoption (2005-2008), where the period that was located at years 2005 to 2008 take one and zero otherwise. Second period of adoption (second period) content four years after mandatory IFRS adoption covered 2009 to 2012. The reason behands the divided period adoption of IFRS is capture the change in value relevance over period of adoption.

Control Variables

In order to capture the effect of firm characteristics on the value relevance of the firm, we employed a number of variables that could capture this effect. Firm size, which is the natural logarithm of total assets. It was added that large firms are of interest to the financial market in addition to listed firms. Financial leverage, which is the result of dividing total liabilities by total assets, whereas firms with high debt work to achieve a performance threshold to get rid of creditors' control. Sales growth, which is the annual sales growth rate, is in order to control cases of low growth and thus justify this by following the leader firm in the industry. The ratio of market to book value (MTB) was

also added to control the firm's investment opportunities. Loss, which is a dummy variable that takes a value of (1) if net profit is less than zero, and zero otherwise. This variable was added because losing firms are likely to try to avoid criticism.

Study Model

To test our first hypothesis that expects a positive effect (improvement) in the relevance of accounting information after mandatory IFRS adoption, the following are applied:

$$VR_{it} = \alpha i + \beta 1\ POST + \beta 2\ size + \beta 3\ Growth + \beta 4\ LEV + \beta 5\ BTM + \beta 6\ lOSS + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (6)$$

VR = is the extent of the impact of accounting information on stock prices measured by the (Barth et al., 2013) model

POST = is a dummy variable that takes the value (1) for the period of firms adopting IFRS (2017, 2018, 2019), and zero otherwise.

Size = is the logarithm of the total assets of firm i for period t.

Growth = Firm sales growth rate.

LEV = the result of dividing the total liabilities of firm i for period t by the total assets of firm i for period t.

MTB = Market to Book ratio.

Loss = is a dummy variable that takes the value of (1) if the firm is making a loss, and zero otherwise.

We expect B1 in equation (6) to be positive as it is expected that adopting the international reporting standards will improve the quality of financial reports, and thus improve the relevancy of accounting information for users of these reports.

In order to test the change in the impact of CEO overconfident on the relevance of accounting information for firms, the following model was designed:

$$VR_{it} = \alpha i + \beta 1\ CEO\_OVER + \beta 2\ size + \beta 3\ Growth + \beta 4\ LEV + \beta 5\ BTM + \beta 6\ lOSS + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots.. (7)$$

Where:
CEO overconfident is dummy variable take value of one if the managers of firms located above median of sample, and zero otherwise.

All other variables were defined previously.

We expect the regression coefficient B1 in equation (7) to be positive because managers with excessive managerial confidence tend to provide more information to market participants. This leads to the reflection of accounting information in market participants' decisions, which indicates an improvement in the relevance of accounting information.

To test the change in the relevance of accounting information as a result of the firm following IFRS and CEO overconfident, we conduct the following test:

$$VR_{it} = \alpha i + \beta 1 \, POST + \beta 2 \, CEO_{OVER} + \beta 3 \, POST * CEO_{OVER} + \beta 4 \, size + \beta 5 \, Growth + \beta 6 \, LEV + \beta 7 \, BTM + \beta 8 \, lOSS + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots. \text{ (8)}$$

All other variables were defined previously.

In Equation (8), we focus on the regression coefficient of the interaction variable between IFRS and overconfidence of managers, where a positive value of B1 indicates an improvement in the relevance of accounting information for companies managed by overconfident managers after adopting IFRS.

DATA ANALYSIS AND FINDINGS

In this study, accounting data was collected from the OSARIS dataset. The study sample covers 11 years from 2002 to 2012, as EU countries declared its adoption of IFRS mandatorily in 2005. Firms operating in the financial sector were excluded from any confusion that may appear in the study results, as financial firms operate under regulatory procedures and regulations that differ from those applied to non-financial firms. Also, we excluded the firms that adoption IFRS voluntarily.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
VR	25442	0.588158	0.403659	0.0009	1.983
POST	25442	0.783474	0.411885	0	1
CEO_Over	25442	0.586714	0.492433	0	1
Size	25442	18.50271	2.275492	8.0641	26.1035
Growth	24485	0.480632	4.527321	-43.4062	211.902
LEV	25442	1.840448	9.922262	-245.293	320.292
BTM	25442	1.048665	33.25516	-725.92	5065
Loss	25442	0.322903	0.467595	0	1

These testing procedures lead to a final sample of 25442 firm-year observation. Table 1 shows the study variables, the arithmetic mean, the standard deviation, and the highest

and lowest values for the period covered by the study sample for companies listed on the EU countries. The average fit value is 0.588158 and the average overconfidence of managers is 0.586714.

Table 2 shows the correlation matrix to capture any strong relationship between the study variables. The aim of displaying the correlation matrix is to explore any autocorrelation between the variables that have not been previously indicated. Therefore, they can be employed together in the current study models. Table 2 shows that the relationship between fit value and overconfidence of executives is a negative relationship.

Table 2: Pearson (upper diagonal) and spearman (lower diagonal) correlation of variables

	VR	**post**	**CEO_Over**	**size**	**growth**	**lev**	**btm**	**loss**
VR	1	-0.0023	-0.0249	0.0542	0.018	-0.0091	-0.0077	-0.06
POST	-0.0172	1	-0.0025	0.0077	0.0033	0.0006	0.0046	0.0186
CEO_Over	-0.0256	-0.1162	1	0.1062	0.1636	0.0028	0.0041	-0.1868
Size	0.0702	0.0336	0.053	1	0.0099	0.0082	-0.0359	-0.34
Growth	0.005	0.0163	0.1512	0.0043	1	-0.0202	-0.0014	-0.0063
LEV	-0.0075	0.0036	-0.0042	0.0167	-0.0156	1	0.0003	0.0204
BTM	-0.0084	0.0085	0.0006	-0.0297	-0.001	0.0014	1	0.0111
Loss	-0.0629	0.0084	-0.1131	-0.3611	-0.0046	0.01	0.0072	1

Testing the First Hypothesis

In the first analysis, we studied the relationship between the adoption of international financial reporting standards and the relevance of accounting information. Table 3 shows the results of estimating equation (6), which showed that the relevance of accounting information is positively related to the mandatory adoption of international financial reporting standards in the first years of adoption (2005-2008). In particular, the regression coefficient is positive and statistically significant (0.0245***). This result was without using the control variables. We interpret this result as the fact that the IFRS were originally designed to provide investors with relevant information to make optimal investment decisions. When using the control variables, it turned out that the effect is still positive, but not significantly. However, what is surprising is that this improvement did not continue for the subsequent years, i.e. 2009-2012. We interpret this result as the fact that companies, after understanding the accounting practices under international financial reporting standards, began to exploit this in order to provide what is appropriate for them.

Table 3: Effect Mandatory IFRS Adoption on Value Relevance

	First period				Second period				All period			
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
POST	0.0245***	3.56	0.00962	1.29	-0.0531***	(-7.87)	-0.0692***	(-9.57)	-0.0169**	(-2.75)	-0.0331***	(-4.99)
Size			0.0160***	9.1			0.00197	1.21			0.00842***	6.43
growth			0.00057	0.85			0.000873	0.78			0.0012	1.93
LEV			-0.000799*	(-2.23)			0.000131	0.36			-0.00032	(-1.13)
BTM			-0.00041	(-0.84)			-8.10E-05	(-1.03)			-7.70E-05	(-0.99)
Loss			-0.0247**	(-2.90)			-0.0351***	(-4.55)			-0.0358***	(-5.71)
Constant	0.601***		0.343***	10.16	0.601***	109.8	0.603***	19.07	0.601***	110.3	0.485***	19.02
N	14791		12466		16132		14086		25442		21911	
R2	0.0009		0.0105		0.0038		0.009		0.0003		0.0064	

The other thing is that these companies have adopted financial reporting standards in a mandatory manner, and therefore the motives of these companies to comply with these standards differ from those companies that adopted international financial reporting standards voluntarily. The motives of companies when adopting IFRS are to comply with the law only, without paying attention to the quality of the financial report. The control variables also showed an impact on the appropriate value of accounting information, but this impact was very clear during the first period of adopting IFRS (2005-2008). This result confirms that companies change the relevance of their information for decision-making on an ongoing basis, even if they adopt IFRS as a mandatory measure.

Testing the Second Hypothesis

According to the study model (7) designed to test the second hypothesis, it is expected that the CEO will be overconfident and will contribute to influencing the relevance level of accounting information. Table 4 contains the results obtained from running equation (7), where the regression coefficient (B1) appeared negative and significant at all models. The results show that explanatory power is low, that means the value relevance is low, that deals with CEO overconfident. This result indicates that the relevance of information has decreased in firms managed by managers characterized by overconfidence. This result suggests that managers with excessive managerial confidence may present accounting information that they believe may be in their favor only and withhold information that is not. Managers' self-esteem may distort accounting information and thus make it useless in the decisions of financial market participants.

Table 5 shows the results of testing the third hypothesis that tests the effect of international financial reporting standards and CEO overconfidence on the importance of value. The results of running equation (7) showed a decrease in the appropriate value of accounting information in companies managed by managers with excessive managerial confidence after adopting international financial reporting standards, as the regression coefficient B3 for the interaction variable between managerial confidence and international financial reporting standards was negative and statistically significant. This negative effect continues even with the inclusion of the controlling variables at the firm level. This indicates that the appropriate value decreases for companies managed by managers with excessive managerial confidence even if the accounting system applied to them changes, which is international financial reporting standards. Therefore, we find that the effect of the characteristics of the CEO has a significant effect on the appropriateness of accounting information even if companies apply a high-quality accounting system such as international financial reporting standards.

Table 4: Effect CEO Over Confidence on Value Relevance

	First period				Second period				All period			
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
CEO_Over	-0.0229***	(-3.35)	-0.0195**	(-2.65)	-0.0588***	(-8.67)	-0.0613***	(-8.52)	-0.0210***	(-4.09)	-0.0226***	(-4.06)
Size			0.0160***	9.14			0.00199	1.21			0.00827***	6.33
Growth			0.000878	1.3			0.00234*	2.09			0.00156*	2.48
LEV			-0.000796*	(-2.22)			0.000163	0.45			-0.00032	(-1.15)
BTM			-0.00043	(-0.87)			-0.000087	(-1.11)			-0.00008	(-1.02)
Loss			-0.0274**	(-3.21)			-0.0442***	(-5.71)			-0.0398***	(-6.28)
Constant	0.631***	118.1	0.360***	10.58	0.606***	109.3	0.598***	18.92	0.600***	153.2	0.475***	18.78
N	14791		12466		16132		14086		25442		21911	
R2	0.0008		0.0109		0.0046		0.0076		0.0007		0.0061	

Table 5: Effect mandatory IFRS adoption and CEO overconfidence on value relevance

	First period				Second period				All period			
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
POST	0.0477***	4.07	0.0320**	2.64	0.0131	1.1	-0.0026	(-0.21)	0.00387	0.36	-0.0107	(-0.97)
CEO Over	0.00618	0.52	0.00856	0.68	0.00686	0.58	0.00758	0.6	0.00618	0.52	0.00668	0.53
POST_CEOOVER	-0.0398**	(-2.73)	-0.0416**	(-2.69)	-0.101***	(-6.98)	-0.104***	(-6.87)	-0.0360**	(-2.74)	-0.0417**	(-2.99)
Size			0.0161***	9.15			0.00313	1.92			0.00871***	6.66
Growth			0.000946	1.39			0.00196	1.76			0.00173**	2.74
LEV			-0.000805*	(-2.25)			0.000197	0.54			-0.00031	(-1.12)
BTM			-0.00042	(-0.86)			-7.30E-05	(-0.94)			-7.40E-05	(-0.95)
Loss			-0.0272**	(-3.18)			-0.0403***	(-5.23)			-0.0403***	(-6.38)
Constant	0.597***	60.64	0.337***	9.61	0.597***	60.61	0.577***	17.59	0.597***	60.76	0.476***	17.64
N	14791		12466		16132		14086		25442		21911	
R2	0.0019		0.0116		0.0118		0.0177		0.0014		0.0079	

CONCLUSION

We explore the European context and consider mandatory adoption of IFRS and executives' managerial confidence in the relevance of accounting information. The main research questions addressed in this study are: (a) Does the relevance of accounting information change after mandatory adoption of IFRS? and, (b) Does managerial overconfidence affect the relevance of accounting information after mandatory adoption of IFRS? In this study, we analyze the impact of mandatory adoption of IFRS on the relevance of accounting information in the European Union. We also test the impact of managerial overconfidence on the relevance of accounting information after mandatory adoption of IFRS.

Our results show that the relevance of accounting information improved in the first period of IFRS adoption, which includes the first four years after IFRS adoption (2005–2008). This improvement will disappear in the second period of adopting IFRS, i.e. the period following the first period of adopting international financial reporting standards, which includes the years (2009-2012). When testing the effect of excessive managerial confidence on the relevance value of accounting information, it was found that this effect is negative and statistically significant, indicating that the relevance value decreases in firms managed by managers who are characterized by excessive managerial overconfidence. This situation continues until this with testing the effect of IFRS and excessive managerial confidence on the relevance of accounting information.

Our study contributes to the field of accounting in the following ways: First, our study is unique in testing IFRS and excessive managerial confidence in the relevance value of accounting information. We did not find a previous study that addressed the subject of the current study. Second, our study provides evidence that the impact of executive director's characteristics continues to affect the relevance of accounting information even with the adoption of IFRS.

THEORETICAL AND PRACTICAL IMPLICATIONS

This study significantly advances the literature on financial reporting and behavioral finance by providing novel insights into the interplay between mandatory IFRS adoption and managerial overconfidence in the context of the European Union. Unlike prior research, which predominantly focused on the technical and structural implications of IFRS, this study delves into the behavioral dimensions of executive decision-making, demonstrating how excessive managerial confidence influences the relevance of accounting information. The findings contribute to the ongoing discourse on the temporal effectiveness of IFRS, revealing that while the standards initially enhance the relevance of accounting information, this effect diminishes over time. Furthermore, the study highlights the enduring influence of executive characteristics,

even in environments governed by standardized financial reporting. By bridging the gap between managerial psychologies and accounting standards, this research offers a comprehensive framework for understanding the dynamic interaction of institutional and individual factors in shaping accounting outcomes.

The findings of this study bear significant implications for policymakers, regulatory bodies, and corporate governance stakeholders. For policymakers, the results underscore the need to continuously evaluate and adapt IFRS guidelines to sustain their relevance over time. Regulatory bodies are encouraged to consider supplementary measures, such as mandatory training programs, to address managerial biases and enhance financial reporting quality. For organizations, the study suggests implementing robust governance mechanisms, such as independent board oversight, to mitigate the adverse effects of excessive managerial confidence on financial reporting. Audit committees should also adopt stringent practices to identify and address biases in financial disclosures. Additionally, the findings highlight the importance of fostering managerial self-awareness and promoting decision-making frameworks that prioritize objectivity. Investors and analysts are advised to exercise caution when interpreting financial reports from firms led by overconfident executives, as this behavior may undermine the reliability of reported information.

FUTURE DIRECTIONS

Future research could build on this study by exploring cross-cultural variations in the impact of managerial overconfidence on financial reporting. Scholars might examine how different regulatory frameworks and corporate governance structures in non-European contexts interact with managerial biases to influence the relevance of accounting information. Longitudinal studies could investigate whether the observed decline in IFRS relevance persists in subsequent periods or stabilizes over time. Additionally, research could examine the role of other psychological traits, such as risk aversion or optimism, in shaping the quality of financial reporting under IFRS. Exploring the interplay between technological advancements, such as artificial intelligence in financial reporting, and managerial characteristics may provide further insights into mitigating the effects of biases on accounting practices. Lastly, experimental studies could test interventions aimed at reducing managerial overconfidence, offering actionable recommendations to practitioners and policymakers. By addressing these avenues, future studies could provide a more nuanced understanding of the evolving challenges in ensuring the relevance of accounting information.

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