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Accounting for equity financial instruments under IFRS 9: Determinants and usefulness

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This oral presentation aims to discuss the results of my study regarding the determinants and usefulness of accounting for equity financial instruments after the effect of the new accounting standard: International Financial Reporting Standard (IFRS) 9 Financial Instruments. The prohibition of recycling fair value gains or losses (FVGL) on equity instruments from other comprehensive income (OCI) to profit or loss when derecognition and the default fair value through profit or loss (FVTPL) presentation with alternative fair value through OCI (FVTOCI) option are some major changes for equity financial instruments accounting in IFRS 9. Motivated by the International Accounting Standards Board (IASB)'s continuing monitoring implementation evidence on equity instruments classification and measurement, I examine firms' accounting choices in presenting FVGL on EFA either at FVTOCI or at FVTPL under the framework of Positive Accounting Theory (PAT) and whether the presentation location matters to investors in ASX 500 firms. I find that firms' EFA holdings are not changed after IFRS 9 in terms of whether to hold an EFA or EFA holding amount. FVGL on EFA presentation location choice is not used opportunistically in firms to smooth earnings or increase profitability. However, information asymmetry for FVTOCI presentation choice increased after IFRS 9 adoption in non-financial firms. EFA amount in financial firms provides incremental value relevance to the market regardless of IFRS 9 adoption, and the EFA presentation location matters to investors. The results of this study provide evidence to standard setters to understand the determinants and usefulness of EFA under IFRS 9, which has implications for further revisions. I contribute to the debate around whether to recycle FVGL from OCI or not. Moreover, I extend accounting choice and value relevance literature in financial instruments accounting that is of value to a broad constituency, such as managers, investors, and various financial statement users.

Keywords
IFRS 9; Equity instruments; ASX firms; Accounting choice; Positive Accounting theory, Value relevance