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Does Mandatory IFRS Adoption Improve Market Efficiency in Emerging Stock Markets? Evidence from Saudi Arabia

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Given that most emerging stock markets are inefficient, it is more reliable to test the observable benefits of the International Financial Reporting Standards (IFRS), in terms of improving market efficiency in general, rather than the value relevance of the information produced by the IFRS as it has been addressed in previous studies of emerging stock markets. The purpose of this study is to investigate the possible impact of the adoption of IFRS on market efficiency in the Saudi stock market as a general indicator of the improvement of the informational content. The study uses the autocorrelation test and three unit root tests on the daily stock returns of three sectors, Banks and Financial Services, Petrochemical and Insurance sectors, from 2005 to 2014.The results reveal that the adoption of IFRS may have no impact on market efficiency in emerging stock markets. This highlights the importance of other institutional constituents of the stock market which could mitigate the possible benefits of adoption of IFRS for emerging economies.

Keywords: Emerging Stock Markets, International Financial Reporting Standards, IFRS, Market Efficiency, Saudi Arabia

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