International Journal of Finance and Managerial Accounting, Vol.12, No.44, Winter 2027

The impact of IFRS on the pricing of initial public offerings (IPOs) in companies listed on the Tehran Stock Exchange is less than expected

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Submit: 22/06/2024 **Accept:** 26/08/2024

ABSTRACT

The aim of the present research is to investigate whether IFRS reduces underpricing of initial public offerings (IPOs). To this end, in this study, an OLS regression model presented by Chan et al. (2004) was utilized. The statistical population consists of companies listed on the stock exchange, of which 52 companies were selected as the sample size. The data analysis was conducted using EViews software. The findings indicate that the adoption of IFRS is significantly and negatively associated with the reduction of price deviation in the initial public offerings of stock exchange companies. The government's share ratio in Tehran Stock Exchange companies at the time of the initial public offering adjusts the relationship between the adoption of IFRS and the reduction of the initial price, confirming both hypotheses of the research.

Keywords: IFRS, initial public offering, underpricing of initial public offering

1. Introduction

The transition from domestic accounting standards, i.e. Generally Accepted Accounting Principles (GAAP), to International Financial Reporting Standards (IFRS) has significantly impacted financial reporting practices worldwide. IFRS standards issued by the International Accounting Standards Board (IASB) are generally recognized as a set of high-quality financial reporting standards that are globally implementable based on accounting principles rather than accounting rules (Vineyard, 2015). Policymakers and financial regulators expect IFRS to enhance transparency and comparability of financial statements across different jurisdictions and thereby contribute to more efficient performance and global integration of capital markets (Batten et al., 2011). However, there are conflicting empirical evidence in the literature regarding the positive impact of introducing IFRS on accounting and economic outcomes. On one hand, proponents argue that IFRS has higher quality compared to local standards and restricts accountant discretion, which in turn enhances financial reporting quality by improving market transparency and increasing comparability of accounting (Chang et al., 2010). As a result, companies experience a reduction in capital costs and an increase in market liquidity, while also improving underpricing in initial public offerings (IPOs) and foreign income and investment efficiency. On the other hand, opponents of IFRS argue that the impact of the shift from local accounting standards to IFRS is insignificant. In this regard, some studies have reported that the adoption of IFRS does not affect the quality of financial reporting (Nik Pey Pasian et al., 2023), does not lead to improved stock liquidity (Heidari et al., 2023), and has no impact on the cost of capital.

Since information related to an initial public offering is scarce at the time of offering, the process of going public for a company is accompanied by a high degree of information asymmetry. It is essential to investigate whether IFRS effectively contributes to improving in an information environment where information asymmetry is naturally high and whether such information asymmetry hinders investors from evaluating newly listed companies in the stock market. Unlike institutional investors, who usually have direct links with investment banks and have more internal information about a new offering at their disposal, retail investors mainly rely on information available on the stock exchange website to make investment decisions (Zanouri et al., 2017). In turn, this allows investors to access specific company information, such as corporate governance details, future investment plans, and historical financial performance (Zhang et al., 2016).

Research indicates that profit forecasting is one of the most important factors in signaling IPO values. Therefore, it is expected that including predicted profits in IPO information will reduce the level of information asymmetry between domestic and foreign investors of the company and reduce undesirable selection issues in the initial public offering market (Defond et al., 2015). However, profit forecasting is based on future expectations and not historical records, which reflect current changes in operations and the new returns of investments made by IPO companies. Nevertheless, since wrong forecasts may likely mislead investors, the credibility of predicted profits heavily depends on their accuracy. Research questions the reliability of the information present in profit forecasts as a tool to reduce the predominant information asymmetry in the IPO process of listed companies.

Previous studies have also shown that the adoption of IFRS reduces information asymmetry between investors and IPO companies (Jones et al., 2018) and improves accounting comparability, allowing investors to better value stocks. Therefore, it is assumed that investors can predict the future performance of IPO companies in an IFRS environment. Managers must consider this factor when issuing profit forecasts. Research indicates that profit forecasts for IPOs published in post-IFRS periods are relatively conservative (Jamani et al., 2022). Therefore, it is argued that IFRS enables investors to better evaluate the performance of IPO companies and companies that report inflated and inaccurate profit forecasts may achieve lower returns. In this regard, the present study will answer the main question of whether IFRS reduces underpricing in initial public offerings in evidence from companies listed on the Tehran Stock Exchange.

Research Assumptions

Previous studies have focused on the accuracy of financial analysts' predictions under IFRS (Ashbaugh and Pincus, 2001; Horton et al., 2013), but the accuracy of profit forecasts made by managers has also

been examined. Evidence has shown that the use of IFRS has had a positive impact on both capital market efficiency and initial public offering companies, such that investors who achieve higher initial returns with inflated and inaccurate forecasts tend to get closer to intrinsic value with more accurate profit predictions by managers, reducing price deviation from intrinsic value. Yuvar and Yang (2016) investigate the relationship between mandatory adoption of IFRS and management forecasts. Additionally, Hang et al. (2014) report that IFRS reduces information asymmetry and, besides examining the relationship between IFRS and the accuracy of management profit forecasts, they have also examined how investors react to management profit forecasts under IFRS by pricing IPOs below intrinsic value as an information proxy. They demonstrated that investors can identify inflated management profit predictions when using IFRS, thereby seeking higher initial returns. Therefore, it can be stated that:

H_1: Mandatory adoption of IFRS is significantly and negatively associated with a reduction in initial share price deviation in listed companies.

Granulz et al. (2022) research shows that the adoption of IFRS improves the accuracy of management profit forecasts in initial public offering companies in France. In this study, they focus on a country that effectively implements commercial laws and standards, while previous studies have focused on countries with weaker legal compliance. Previous studies indicate that law-compliant countries have a better institutional environment supporting investors and developed capital markets compared to other countries, and IFRS even enhances disclosure quality in a law-compliant country (e.g., Australia). Studies suggest that using data samples from multiple countries to examine the impact of IFRS results in cross-country distortions (Lin et al., 2012; Mongat, 2019; Malgio and Stoloy, 2018), leading to different results in studies conducted on a single country. Therefore, evidence shows that the adoption of IFRS has improved reporting quality in many countries, including China (Liu et al., 2011), France (Sato et al., 2017), New Zealand (Rainik et al., 2019), and Korea, and at a global level (Yu et al., 2020). Mongat et al. (2019) argue that IFRS has impacted the reduction of initial share price deviation from intrinsic value in Canada, Germany, and Italy. Therefore, disclosure quality may depend not only on accounting standards but also on external factors such as a country's legal system, cultural differences, organizational environment, and corporate capital structure. Therefore, it can be stated that:

H_2: The government ownership ratio in Tehran Stock Exchange-listed companies at the time of their initial public offering adjusts the relationship between the mandatory adoption of IFRS and the reduction of initial price.

Methodology

This study encompasses an OLS regression model proposed by Chan et al. (2004) and adds other relevant variables based on previous studies. The scaled variables used in the analysis are placed in the top and bottom percentiles of their respective distributions to mitigate outlier effects.

The models are formulated as follows, in order to examine hypotheses H_1 and H_2:

Model for testing hypothesis one:

$$\text{Underpricing} = \beta_0 + \beta_1 \text{ Post} + \beta_2 \text{ Reputation} + \beta_3 \text{ Bookbuilt} + \beta_4 \text{ Timelag} + \beta_5 \text{ Offersize} + \beta_6 \text{ SOEP} + \beta_7 \text{ FSR} + \beta_8 \text{ Age} + \beta_9 \text{ Leverage} + \beta_{10} \text{ ROA} + \beta_{11} \text{ STDret} + \beta_{12} \text{ Marketstate} + \beta_{13} \text{ Exch} + \text{Industry Fixed Effect}$$

Model for testing hypothesis two:

$$\text{Underpricing} = \beta_0 + \beta_1 \text{ Post} + \beta_2 \text{ Reputation} + \beta_3 \text{ Bookbuilt} + \beta_4 \text{ Timelag} + \beta_5 \text{ Offersize} + \beta_6 \text{ SOEP} + \beta_7 \text{ Post}^{*}\text{SOEP} + \beta_8 \text{ FSR} + \beta_9 \text{ Age} + \beta_{10} \text{ Leverage} + \beta_{11} \text{ ROA} + \beta_{12} \text{ STDret} + \beta_{13} \text{ Marketstate} + \beta_{14} \text{ Exch} + \text{Industry Fixed Effect}$$

In these models:

Underpricing represents the initial price deviation;
Post is a dummy variable equal to 1 if the IPO occurs after the convergence-IFRS adoption, otherwise 0;
Reputation denotes the company's reputation;
Bookbuilt is the book value;
Timelag is the time lag;
Offersize represents the proposed size;
SOEP signifies the organizational environment;
FSR is the acceptance of standards;
Age indicates the company's age;
Leverage signifies financial leverage;
ROA stands for the return on assets;
STDret denotes the abnormal return rate on trading days;
Marketstate relates to the market;
Exc signifies share sales;

Industry Fixed Effect accounts for the industry-specific effect.

The dependent variable, Underpricing, is set as the first-day offering return and is used as a proxy for information asymmetry (Chan et al., 2004; Bolton et al., 2011; Lin and Tian, 2012; Hong et al., 2014).

The standard deviation of post-IPO securities returns (STDret) is measured using a 255-trading-day period, starting six trading days after the initial public offering, to capture future cash flow risks.

To test hypothesis two, this study employs the interactive term, Post*SOEP, in the regression model 2 to examine the interaction effect between the adoption of convergent IFRS and the government ownership percentage on the phenomenon of reducing the IPO underpricing. Each continuous independent variable is centered on its mean before interacting with other variables to prevent multicollinearity issues. The statistical population consists of newly listed companies on the stock market from the beginning of the year 2016 to the end of the year 2022 in order to encompass a period of significant market expansion and a sizable number of companies that have issued their shares on the Tehran Stock Exchange for the first time.

Results

Initially, an examination of the descriptive findings of the research variables has been conducted. The results are presented in Table (1) and indicate the minimum, maximum, mean, standard deviation, and median of observations for the research variables during the time period of 2016 to 2022.

The study then proceeds to examine the research hypotheses, the results of which are presented in Table (2). The results indicate that the variables Post, reputation, book value, proposed size, acceptance of standards, company age, financial leverage, cash flow, and return on assets have a negative and statistically significant impact on underpricing. It can be stated that the adoption of convergent IFRS is significantly associated with a substantial reduction in underpricing in the initial public offerings of listed companies. Furthermore, time lag, organizational environment, market conditions, and trading days have a positive impact on the reduction in underpricing in the initial public offerings of listed companies.

Moreover, the interactive effect of Post*SOEP was examined, and the findings suggest that the government's share ownership in Tehran Stock Exchange-listed companies moderates the relationship between the acceptance of convergent IFRS and the reduction in underpricing during their initial public offerings, confirming the research hypotheses. Additionally, the results indicate that when controlling for other variables, the adoption of convergent IFRS in listed companies leads to a decrease in the initial stock prices in the Tehran capital market, and this effect is inevitably weakened by having a significant percentage of shares in the companies' ownership structure.

Table 1- Descriptive findings

Variables	mean	median	standard deviation	minimum	maximum
Underpricing	3.434	2.561	0.134	1.287	4.598
Post	0.454	0.377	0.091	0	1
Reputation	0.034	0.021	0.001	0.023	0.056
Bookbuilt	0.565	0.411	0.014	0	1
Timelag	24.54	21.56	1.298	19.87	77.80
Offersize	12.65	11.98	1.871	2.77	17.09
SOEP	0.476	0.343	1.002	0	0.871
FSR	0.871	0.377	0.012	0	0.981
Age	5.67	4.12	0.156	7.67	14.56
TA	0.012	0.09	0.005	0.08	0.025
Leverage	0.545	0.488	0.129	0.366	0.771
ROA	0.451	0.354	0.016	0.277	0.781
STDret	4.56	2.77	0.565	2.43	6.55
Marketstate	0.323	0.267	0.191	0.123	0.455
Exch	0.459	0.443	0.196	0.277	0.611

Table 2-Examination of research hypotheses

Variables	effect	H_1	Value t	H_2	Value t
Underpricing		2.565	10.661	2.777	11.981
Post	-	-0.3433	-12.0911	-0.7612	-11.291
Reputation	-	-0.1544	-4.0933	-0.2187	-5.0933
Bookbuilt	-	-0.0213	-3.4031	-0.0254	-2.3981
Timelag	+	0.3411	6.7095	0.2771	6.5993
Offersize	-	-0.3433	-.3.4983	-0.3498	-3.9812
SOEP Post* SOEP	+	0.4544	4.7661	0.5485 0.0454	4.5984 0.5433
FSR	-	-0.4885	-12.3498	-0.4384	-11.9810
Age	-	-0.3483	-18.2931	-0.3712	-17.3981
TA	-	-0.3281	-8.1991	-0.4312	-7.6985
Leverage	-	-0.4128	-5.4984	-0.6985	-5.1662
ROA	-	-0.3192	-5.4094	-0.3187	-4.5844
STDret	+	0.6122	6.5096	0.5121	5.9685
Marketstate	+	0.511	4.587	0.412	0.4981
Exch		0.003	0.128	0.021	0.178
Industry dummy		yes		yes	
n		53		53	
Adjusted R^2		0.5874		0.6122	
P-Value		0.000		0.000	

The results are striking. For instance, before adopting IFRS (1998–2004) the average loss in the BHAR2Y strategy was -42.8 percent which is significant at the 1 percent level. During the IFRS period (2016–2022), the BHAR2Y strategy underperforms the market by -12.5 percent, which is significant at the 10 percent level. The mean difference between the two sub-periods is reported in the last row, which is 29.2 percent and significant at the 1 percent level. According to Table 3, the IFRS mandate leads IPO shares to perform better during aftermarket trading, even after adjusting for the movements in a benchmark, that is, the market index. The following section presents cross-sectional tests on the impact of the IFRS mandate on IDR and BHAR2Y, respectively.

The analysis starts by estimating a sub-set of the benchmark model (i.e., Eq. 5), which tests the impact of IFRS adoption on average underpricing. Initially, a model that includes IDR as the dependent variable is estimated to test Hypothesis 1, which predicts lower average underpricing during the post-IFRS period. The results reported in Column 1 of Table 5 show a negative coefficient of IFRS (− 0.077), and is statistically insignificant. Thus, IFRS adoption does not lead to a lower level of underpricing in the Irans IPO market after accounting for the impact of the benchmark group (i.e., IPOs conducted before the IFRS mandate) and other control variables. This finding contradicts the findings of Hong et al (2014), Johnston and Madura (2009), and Loughran and McDonald (2013) for developed countries and Jamaani and Alidarous (2021), and Tsai and Huang (2020) for emerging countries.

Table 3- Average underpricing and Aftermarket performance of IPO shares

	IDR	n	BHAR2Y	n
2016–2022	6.501*** (8.473)	188	− 23.7*** (− 2.977)	137
Pre-IFRS	7.198*** (5.574)	77	− 42.28*** (− 2.996)	51
Post-IFRS	6.018*** (6.380)	111	− 12.5* (− 1.557)	86
Mean difference test between sub-periods	− 1.180 (0.756)		− 23.7*** (2.351)	

Table 4- The impact of IFRS mandate and institutional quality on average underpricing

	Dependent variables	
	IDR	**BHAR2Y**
Post	0.024	− 0.757**
	(0.883)	(− 2.262)
Treatment	0.243	− 0.334
	(0.392)	(− 0.994)
IFRS (Post*Treatment)	− 0.077	1.014***
	(− 0.886)	(2.973)
Firm-level controls		
Size	− 0.005	− 0.021
	(− 0.923)	(− 0.904)
Age	− 0.010	0.095
	(− 0.859)	(1.389)
Offer Rate	− 0.003	− 0.003
	(− 0.385)	(− 0.829)
ROA	− 0.026***	− 0.040
	(− 2.850)	(− 0.209)
Proceeds	0.009	− 0.058
	(0.353)	(− 0.582)
Leverage	− 0.005	0.008
	(− 0.993)	(0.352)
Market-level Controls		
BIST100	− 0.007**	0.059***
	(− 1.853)	(3.171)
VOL	0.040	− 0.086
	(1.035)	(− 0.647)
HOT	0.039	− 0.701***
	(0.799)	(− 4.010)
Institutional	− 0.003	− 0.046
	(− 0.117)	(− 0.356)
Bull dummy*Retail	0.056***	− 0.004
	(3.064)	(− 0.052)
Prestige	− 0.001	− 0.023
	(− 0.047)	(− 0.225)
Intercept	0.001	0.355
	(1.278)	(0.417)
YE and IE	Included	Included
Observations	188	137
Adj. R^2	0.039	0.389
Prob. of F-Statistics	0.256	0.000

Empirical tests related to the role of institutional quality began by investigating the governance-quality measures of the average underpricing of IPO shares. Table 6 reports the results of separately conditioning the six institutional governance quality measures against IDR. Coefficients for the control variables were excluded to save space but were available upon request. The results show that the quality of institutional governance does not significantly impact average underpricing. This finding holds even after re-estimating the models without time-fixed effects since there is a possibility that time dummies can absorb all the explanatory power of institutional quality measures Nevertheless, compared to previous studies, the

current results are unique. For instance, Boulton et al (2010) document a positive relationship between institutional quality and average underpricing in developed countries. They argue that when institutional quality is high, minority shareholders have bargaining power, so firm managers should offer them a higher uncertainty premium. However, Hearn (2014) documents a negative relationship between institutional quality and average underpricing in developing countries of Northern Africa, arguing that higher institutional quality should reduce average underpricing in emerging countries, where even in the separation of ownership and control, investors cannot attain the desired level of control over businesses controlled through pyramidal ownership, and cross share-holdings. A possible explanation for these findings is that the level of institutional quality differs significantly between developing and developed countries (Authore et al. 2014). Despite the differences reported in Table 2 for the institutional governance quality during the post-IFRS period, the levels of these six measures are significantly lower than those in developed countries. Accordingly, Iran institutional quality may not have reached the desired level, warranting an environment that stimulates the availability and quality of information around IPO events. Given these results, Hypothesis 3, which proposes a negative relationship between institutional governance quality and average underpricing, was not supported.

Table 5- The impact of institutional quality measures on average underpricing

	Dependent variable is IDR					
Post	1	0.012	0.006	0.010	0.003	0.021
	(0.642)	(0.334)	(0.181)	(0.315)	(0.103)	(0.599)
Treatment	0.086	0.073	0.063	0.054	0.054	0.080*
	(1.457)	(1.197)	(1.115)	(1.000)	(0.871)	(1.439)
IFRS (Post*Treatment)	− 0.065	− 0.057	− 0.041	− 0.052	− 0.041	− 0.061
	(− 1.072)	(0.889)	(− 0.704)	(− 0.915)	(− 0.698)	(− 1.032)
Voice and accountability	− 0.035					
	(− 0.984)					
Political stability		− 0.016				
		(− 0.510)				
Government effectiveness			− 0.015			
			(− 0.247)			
Regulatory quality				0.078		
				(1.101)		
Control of corruption					0.013	
					(0.227)	
Rule of law						− 0.071
						(− 1.073)
Firm-level controls	Included	Included	Included	Included	Included	Included
Market-level Controls	Included	Included	Included	Included	Included	Included
YE and IE	Included	Included	Included	Included	Included	Included
Observations	188	188	188	188	188	188
Adj. R^2	0.108	0.106	0.105	0.109	0.105	0.108
Prob. of F-Statistics	0.018	0.020	0.021	0.018	0.021	0.019

Table 6 focuses on testing the impact of institutional quality measures on long-term IPO performance. The results support the findings in Table 5 that, even in the presence of country-level institutional governance quality controls, the IFRS mandate leads IPO shares to perform better during aftermarket trading. However, in contrast to Hypothesis 4's predictions that institutional quality is positively associated with the long-term performance of IPO shares, the reported coefficients of the institutional quality measures are all insignificant. Despite a poor institutional setting, IFRS loads positively and significantly against aftermarket performance. Alidarous and Jamaani (2021) show that higher institutional quality leads to better aftermarket

performance of IPO shares but that IFRS does not influence long-term returns in Saudi Arabia. A direct comparison with the current findings may not be appropriate, given that the IFRS was mandated only for banks and insurance companies in Saudi Arabia during the investigation period of Alidarous and Jamaani (2021). The following section investigates the concurrent impact of institutional quality and the IFRS mandate in Iran on the pricing dynamics of IPO shares.

Table 7 reports the results from the underpricing model, demonstrating that the interaction terms that examine the concurrent impact of six different institutional governance quality measures and IFRS are all insignificant. Accordingly, Hypothesis 5, which speculates a concurrent negative impact of IFRS and institutional quality on underpricing, cannot be accepted. This finding contradicts the results of Jamaani et al (2022), who report that IFRS and institutional quality measures negatively impact the average underpricing in Saudi Arabia. This result is not surprising since, in Iran, IFRS has no impact on the average underpricing.

able 6- The impact of institutional quality measures on long-term performance

	Dependent variable is BHAR2Y					
Post	−0.611**	−0.611**	−0.741**	−0.749**	−0.757**	−0.673**
	(−2.201)	(−2.072)	(−2.213)	(−2.228)	(−2.294)	(−2.231)
Treatment	−0.200	−0.087	−0.366	−0.383	−0.332	−0.274
	(−0.719)	(−0.274)	(−1.146)	(−1.217)	(−1.042)	(−0.934)
IFRS (Post*Treatment)	0.768***	0.593**	0.943***	0.998***	1.013***	0.894***
	(2.485)	(1.757)	(2.568)	(2.884)	(3.006)	(2.814)
Voice and accountability	−0.332					
	(−1.452)					
Political stability		−0.469				
		(−1.166)				
Government effectiveness			0.423			
			(0.815)			
Regulatory quality				0.243		
				(0.522)		
Control of corruption					−0.010	
					(0.021)	
Rule of law						−0.384
						(−0.900)
Firm-level controls	Included	Included	Included	Included	Included	Included
Market-level Controls	Included	Included	Included	Included	Included	Included
IE	Included	Included	Included	Included	Included	Included
Observations	137	137	137	137	188	188
Adj. R^2	0.389	0.388	0.386	0.383	0.382	0.385
Prob. of F-Statistics	0.000	0.000	0.000	0.000	0.000	0.000

Table 7- The concurrent impact of institutional quality and IFRS on underpricing

	Dependent variable is IDR					
Post	0.021	0.018	0.017	0.025	0.018	0.021
	(1.002)	(0.614)	(0.662)	(0.837)	(0.886)	(1.031)
Treatment	−0.029	−0.030	−0.031	−0.028	−0.029	−0.028
	(−0.780)	(−0.841)	(−0.887)	(−0.777)	(−0.791)	(−0.798)
(Voice and accountability) * IFRS	0.000					
	(0.005)					
(Political stability) * IFRS		−0.004				
		(−0.138)				

	Dependent variable is IDR					
(Government effectiveness) * IFRS			0.014			
			(0.220)			
(Regulatory quality) * IFRS				− 0.011		
				(− 0.155)		
(Control of corruption) * IFRS					0.048	
					(0.766)	
(Rule of law) * IFRS						− 0.024
						(− 0.356)
Firm-level controls	Included	Included	Included	Included	Included	Included
Market-level Controls	Included	Included	Included	Included	Included	Included
YE and IE	Included	Included	Included	Included	Included	Included
Observations	188	188	188	188	188	188
Adj. R^2	0.109	0.109	0.109	0.109	0.111	0.109
Prob. of F-Statistics	0.000	0.000	0.000	0.000	0.000	0.000

Conclusion

Pricing securities of companies being offered for the first time is the most challenging and crucial step in the initial public offering (IPO) process, as determining the actual pricing of the securities being offered requires considering the interests of investors and the issuing company, necessitating the involvement of numerous variables. To this end, the aim of this research is to investigate whether the adoption of International Financial Reporting Standards (IFRS) reduces underpricing in IPOs. In this study, an OLS regression model proposed by Chan and colleagues (2004) was employed. The findings indicate that the adoption of convergent IFRS is significantly associated with a substantial reduction in the initial stock prices of listed companies, and the government's share ownership in Tehran Stock Exchange-listed companies during their initial public offerings moderates the relationship between the acceptance of convergent IFRS and the reduction in initial offering price. IFRS require confirmation of the adequacy of internal control systems and the accuracy of financial statements. Failure by accountants to perform adequately on these key fronts puts the IPO process at risk.

IFRS play a vital role by assisting in the preparation of financial statements based on Generally Accepted Accounting Principles (GAAP), selecting external accounting firms, selecting underwriters for IPOs, preparing desired drafts, meeting accounting reporting requirements, determining the initial offering price, preparing roadmaps, and assisting company executives. Initial public offerings and their impact on company profitability are pivotal in planning and policymaking for various corporate managers. It is claimed that financial resources obtained through companies' initial public offerings should not be used to cover government expenses, but rather should be directed toward the development and advancement of these companies and the stock market. It is recommended that all state-owned companies issue all their shares through an initial public offering on the stock exchange, with the government utilizing the proceeds to strengthen and enhance the efficiency of these companies.

In order to inform retail investors about stock market fluctuations, it is suggested that before deciding to invest in an IPO, they have a full understanding of how IFRS affects the volume of IPOs. This is because a proper timing, where there is a high volume of IPOs, allows retail investors to achieve greater profits. A thorough examination and complete understanding of retail investors prevent them from making mistakes and do not allow them to incur losses. Furthermore, companies looking to go public are advised to investigate the causality relationship between initial public offerings and macroeconomic factors prior to the IPO issuance, utilizing their professional expertise and knowledge to understand the impact of these factors. This is because the macroeconomic impact on low IPO volume may show that the company is not inclined to go public in those economic conditions due to insufficient capital attraction and less investor willingness to invest during

that period. Lastly, it is recommended for future research to examine the impact of financial reporting quality according to IFRS on the initial public offering using various econometric models and explore the effect of other financial standards on IPOs for further research recommendations.

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