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EFFECT OF THE MANDATORY ADOPTION OF IFRS ON THE QUALITY OF ACCOUNTING INFORMATION: CASE OF FRANCE

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ABSTRACT

The main objective of the international IFRS accounting standards is to produce and publish high-quality information that helps in decision-making at the global level. The present study examines the positive impact of the decision of applying the IFRS to the informational quality of published accounting figures. Approaching this informational quality by using asymmetrical information, and validating a model based on a quantitative study conducted by 139 cocmpanies that are listed on the Paris stock exchange for 16 years, our results show that the mandatory adoption of the IFRS has significantly reduced the cost of the capital, which implies that the informational relevance of the accounting figures has improved after the implementation of these standards. Moreover, these results show that when standards are uniform and exogenous to the national institutions, the quality of the financial information is not influenced by legal and political institutions. By also examining the moderating effect of indebtedness, this study shows that the mandatory adoption of the IFRS is more beneficial in most indebted companies.

Keywords: *IFRS, Asymmetrical information, Cost of capital, Share prices, Indebtedness.*

INTRODUCTION

The essential interest of the IFRS international accounting standards is the production and publication of high-quality financial information that helps in decision-making at the global level (Kim & Ryu, 2018; Tabet & Boukhari, 2019). This new referential accounting framework seems to provide more relevant information concerning investment compared to that provided under local standards. For the European listed groups that publish consolidated financial states, the IFRS norms have become the common-law referential framework for annual accounts. Therefore, the local or national standards of the European Union countries should no longer be applied. The IFRS standards were inspired by the Anglo-Saxon model that favors the domination of an economic approach at the expense of a historical and fiscal approach along with meeting the needs of the financial market. The IFRS standards aim at providing financial information that is relevant and useful to investors in their decision-making and resource management (Turki *et al.*, 2020). The adoption of the IFRS standards by firms has therefore led to a change in financial communication. The latter is a means of monitoring and evaluating the decisions taken by managers, assessing the value created, and estimating the future development perspectives of the firm (Lin *et al.*, 2019).

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The Evolution of Accounting Standardization in the French Context

In the 1970s, it completed the preparation of its accounting harmonization process based on two main directives. The Fourth Directive, published in 1978, concerns company accounts and aims to protect the interests of company members, third parties, and investors. However, the Seventh Directive, published in 1983, concerns consolidated accounts. In the same vein, Directive 2004/109/EC on the harmonization of transparency requirements for information on listed companies was adopted by the European Parliament and the Council of the European Union on 15 December 2004. According to this directive, European publicly traded companies are required to publish annual financial reports and semi-annual financial reports. Article 6 of the Regulation gives these undertakings the option of publishing, in addition, either half-yearly interim management reports or quarterly financial reports.

MATERIALS AND METHODS

Sample

The population of our sample is made up of French industrial and commercial firms studied over 16 years [2001–2016] while excluding 2004 as a transition year (Saadi, 2010). These companies are included in the CAC All Tradable index. According to Cormier *et al.* (2010), this index is the best choice for testing the effects of adopting IFRS because it reflects all the diversity of the implementation of the international standards.

To avoid any problems of analysis and to ensure a certain homogeneity of our sample, we opted for certain selection criteria. First, we eliminated companies whose data are not available for the period of our study (Gao & Sidhu, 2018). Secondly, we excluded companies that do not close their financial year on 31 December. We also excluded companies in the banking, insurance, and new economy sectors because of their accounting specificity, which can skew results (Urquiza *et al.*, 2012; Hashemi, & Aljohani, 2019). Observations with missing or outlier data are eliminated.

Table 1. The sample breakdown by sector of activity

Sector of activity	Number of enterprises	Percentage
Industries	35	25.18
Telecommunication	2	17.98
Health care	9	6.47
Oil and gaz	6	4.32
Services for consumers	25	17.98
Technology	28	20.15
Consumption goods	27	19.42
Biotechnology	7	4.32

Definition and Measures of the Variables

The dependent variables are those of the cost of capital and the stock market price of the company which represent measures of the quality of the accounting information (DeFond *et al.*, 2019). The choice of these two measures stems from their importance in decision making.

On the one hand, the cost of capital is the opportunity cost, which measures the interest investors have in investing their money in a company rather than elsewhere. On the other hand, the stock market price is that of the last settlement when the stock exchange is opened, that is to say, that of the most recent transaction, during which a package of shares changed hands, the price offered by the buyer has been identical to that demanded by the seller. The price of the stock exchange refers to the price of a share at a specific time according to the relationship between the purchase orders and the sale orders relating to the share in question within the stock market on which it is listed.

According to Urquiza *et al.* (2012), the calculation of the cost of capital has been a major issue in previous studies. The calculation of this formula is based on the two-year forward earnings per share forecast and the combined current prices as follows:

$$COC = \sqrt{\frac{fes2 - fes1}{P0}} \quad (1)$$

where fes2 and fes1 refer to earnings per share forecasts 2 and 1 year ahead, P0 is the current price and COC is the proxy used for the cost of capital.

To apply this formula, the forecasts of the profit of the second subsequent year of a given firm must be higher than the forecasts of the profit of that firm of the first subsequent year.

Research Models

Concerning our empirical study, since the variables to be explained are continuous, we opted for multiple linear regression models (Model 1).

Model 2 is based on a model developed by Amir *et al.* (1993) and taken up by other authors (Barth & Clinch 1996; Harris & Muller 1999).

Modelization of the Capital Cost. The capital cost of the company calculated with Easton's formula (2004):

$$COC_{t,i} = \beta_0 + \beta_1 IFRS_t + \beta_2 End_{t-1,I} + \beta_3 Size_{t-1,i} + \beta_4 LEV_{t-1,i} + \beta_5 \Delta R_{t-1,I} + \beta_6 Loss_{t-1,I} + \beta_7 FC_t + \beta_8 Industry_i + \varepsilon \quad (2)$$

With:

- COC: capital cost calculated according to Easton's formula (2004),
- IFRS: a binary variable that is equal to 1 after 2005 and 0 otherwise,
- End: indebtedness is measured via the ratio (total debts/total assets) at t-1,
- Size: the size is measured by the necropsy logarithm of the market capitalization of the company i at the end of year t-1,
- LEV: the firm's financial leverage measured by the ratio (Total debt/EBITDA) at t-1,
- ΔR: the change in the company's annual return calculated by the annual standard deviation of the monthly stock market returns at the end of year t-1,
- Loss: a binary variable which takes the value 1 if the result of the year t-1 is beneficiary and the value 0 if it is not a beneficiary,

- FC: the financial crisis, a binary variable, which takes 1 for the years 2008, 2009, and 2010 and 0 otherwise,
- Industry: silent variables that take 1 if the business belongs to the business line and 0 otherwise.

Modelization of the Price of Shares. The price of shares is calculated according to the formula of Barth and Kallapur (1996):

$$P_{i,t} = a_0 + a_1 EPS^{F}_{i,t} + a_2 EPS^{DIF}_{i,t} + a_3 OCBSj^{F}_{i,t} + a_4 OCBSj^{DIF}_{i,t} + \varepsilon_{i,t} \quad (3)$$

With:

- $P_{i,t}$: the price of a share of the company i at the end of year t,
- $EPS^{F}_{i,t}$: The benefits per share according to French standards for the company i at the end of year t,
- $EPS^{DIF}_{i,t}$: the difference in earnings per share between IFRS and the French reference framework of the company i at the end of year t,
- $OCBSj^{F}_{i,t}$: the net capital per share adjusted to the benefits per share in French standards for the company i at the end of year t,
- OCBSjDIFi,t: the adjusted equity per share difference between IFRS and the French reference framework of the company i at the end of year t.

RESULTS AND DISCUSSION

Results of Regressions and Discussion

Multivariate Analysis: Results and Interpretations

Tables 2 and 3 present the estimation of the different regression models by the Xtgee method. The asymmetry of information is apprehended by the cost of capital, on the one hand, and the relevance of the accounting information is expressed by the prices of shares, on the other hand. The results of Wald Chi^2 of the different models presented in **Tables 2 and 3** are significant at the 1% threshold.

According to Turki *et al.* (2017) and Malo-Alain *et al.* (2021), financial analysts, during a crisis, more closely follow market movements to eliminate errors of estimation. Indeed, the capital cost and the quality of financial analyst forecasts were used in this study as measures of the level of information asymmetry of a given company. On the other hand, the reduction in the cost of capital, the error, and the dispersion of financial analysts' forecasts reflect a reduction in the asymmetry of information, which allows us to confirm hypothesis 1. This result highlights the informational contribution of the mandatory adoption of IFRS and leads to the conclusion that this new international standard represents a source of improvement in the informational content of accounting figures. Concerning the debt moderating effect, the examination of model estimates with the interaction variable shows that the effect of the interaction (IFRS * End) on the information asymmetry is negative and significant regardless of the measure of the latter, and this confirms the second proposed hypothesis. As expected, this result shows that the level of indebtedness moderates the effect of the adoption of IFRS on information asymmetry and consequently on the informational content of accounting figures. In addition, the compulsory

adoption of the new IFRS standards reduces the asymmetry of information, but this reduction is lower than 1 the level of indebtedness of the company which is high. This result is similar to that of Turki *et al.* (2016) and Drobetz *et al.* (2019), who found that the effect of IFRS differs depending on the level of indebtedness of the company. Indeed, the moderating effect of debt is explained by the fact that this variable is considered as a performance signal for the company. In other words, when debt is high, the company is considered to be more efficient and able to meet all its commitments. In such types of enterprises, disclosure is more important, which reduces the level of information asymmetry and therefore the effect of IFRS will be less important.

Table 2. The results of the estimates of the impact of mandatory adoption of IFRS on the cost of capital

E Estimates based on average population models (Gee model)[a]				
	Regression 1 (no interaction variable)		Regression 2 (with interaction variable)	
COC	Coefficient	p >|Z|	Coefficient	p >|Z|
IFRS	–0,7312	0,034**	1,1453	0,324
End	–1,682	0,223	0,965	0,578
IFRS* End			-5.2134	0.163
Taille	–0,3154	0,124*	–0,1986	0,201
LF	0,4628	0,634	0,954	0,325
DR	1,5982	0,004***	1,9562	0,005***
loss	–0,0121	0,889	0,0453	0,856
CS	0,7324	0,001***	0,795	0,000***
Const	0,6921	0,613	–1,5682	0,562
indystry		Oui	oui	
Wald Chi²		47.82	61.23	
Prob > Chi²		0.0000	0.0000	
Breusch-Pagan Lagragian multiplier test				
Chi²		41,22	41,21	
Prob > Chi2		0.0000	0.0000	
Breusch-Pagan test for heteroscedasticity				
Chi²		364,82	362,76	
Prob > Chi²		0.0000	0.0000	
Modified Wald test				
Chi²		1,6e + 0,6	1,4e + 0,6	
Prob > Chi²		0.0000	0.0000	
Wooldrigde Autocorrelation Test				
F		6,345	5,837	
Prob > F		0,0423	0,0447	

* significatif at 10% level; **: significatif at 5% level; ***: significatif at 1% level.
a number of observations: 355; the number of groups: 87.

Before applying the model [2] (3rd regression), we study the relative relevance of the two benchmarks by analyzing the associations that may exist between stock market prices, earnings,

and equity per share adjusted in French standards and then in IFRS. **Table 3** shows the various results obtained.

Following the example of several studies relating to different benchmarks (Capkun *et al.*, 2016; Bui *et al.*, 2020), we find that adjusted earnings and equity per share are positively associated with the price of securities regardless of the accounting standards used (significance of 1%). These variables are therefore relevant, concerning stock prices, in the French and international benchmarks. However, IFRS seems to provide a more important informational content since they result in a higher explanatory power, and this increase in R2 is statistically significant according to the Clarke test. As for the coefficients obtained on earnings and adjusted equity per share valued in the two benchmarks, they are not statistically different. This means that this information is not weighted differently according to the used standards. The introduction of variables measuring the differences in amounts induced by the application of IAS/IFRS (3rd regression) leads to a slight increase in the coefficient of determination of the model from 72.8% with the French standards only to 74.6%, a statistically significant increase. Moreover, since the difference in earnings per share with IFRS (EPS^{DIF}) is positive and significant at the 1% threshold, it would seem that these standards provide relevant additional information. However, this information does not seem to be weighted differently according to the used benchmark, since the coefficients for the EPS^{F} and EPS^{DIF} variables are not statistically different (Wald test = 1.42; critical probability = 0.18).

Table 3. Results of model

Variables	Regression (1)	Regression (2)	Regression (3)
Number of observations 8	139	139	139
constant	11.85 (7.06)***	12.73 (7.48)***	11.86 (7.49)***
$EPS^{F}_{i,t}$			4.68 (5.42)***
$EPS^{DIF}_{i,t}$	4.52 (5.18)***		3.26 (2.69)***
$OCBSj^{F}_{i,t}$			0.81 (5.98)***
$OCBSj^{DIF}_{i,t}$	0.93 (5.87)***		0.23 (0.31)***
EPS IFRS		4.63 (576)***	
OCBSjIFRS		0.69 (5.72)***	
R2 ajusté	0.728	0.741	0.746
Coefficients equality test			
Difference between $EPS^{F}_{i,t}$ and EPS IFRS		0.23 (0.68)	
Difference between $OCBSj^{F}_{i,t}$ and OCBSjIFRS		0.21 (0.33)	
Difference and $EPS^{F}_{i,t}$ and $EPS^{DIF}_{i,t}$		1.42 (0.18)	
Difference and $OCBSj^{F}_{i,t}$ et$OCBSj^{DIF}_{i,t}$		0.19(0.36)	
Test de Clarke			
Between regressions(1) and (2)		2.68***	
Between regressions(1) and (2)		-11.37***	
Between regressions(1) and (2)		-11.49***	

Our results show that, when accounting standards are uniform and exogenous to national institutions, the quality of financial reporting, as measured by results management, is not influenced by legal and political institutions such as the level of protection, investors, the quality of corporate governance, political interventionism in the economy and the development of the capital market. However, the richness of the information environment as measured by the importance of the media and the monitoring of analysts is significantly associated with the reliability of the information. Finally, once IFRS is adopted, how businesses apply them is the main factor in the quality of financial information published by businesses.

CONCLUSION

This paper attempts to answer two main research questions: has the mandatory adoption of IFRS improved the relevance of published accounting figures?
Secondly, does this improvement differ from one company to another? To answer these questions empirically, we have apprehended the informational content of accounting figures by the asymmetry of existing information. In addition, we used the level of indebtedness as a characteristic of each firm to verify whether the impact of adopting IFRS is identical from one company to another. Using a sample of French companies that belong to the CAC All-Tradable index throughout the period from 2001 to 2016 and measuring the information asymmetry by the cost of capital and share prices, the results obtained show that IFRS significantly reduce information asymmetry and that when accounting standards are uniform and exogenous to national institutions, the quality of financial information is not influenced by legal and political institutions such as the level of investor protection, the quality of corporate governance, political interventionism in the economy and the development of the capital market. Indeed, the impact of the adoption of the international benchmark on information asymmetry supports the idea that the relevance of accounting figures after the mandatory adoption of IFRS has improved. Moreover, the results of the analysis of the moderating effect of debt show that the consequences of applying these standards are not identical from one company to another. They differ according to the level of indebtedness of the company. The confirmation of the informational superiority of IFRS, through the results found, encourages countries not yet aware of the importance of these standards to adopt them and likewise for companies and especially the most indebted. Moreover, the results of this study reveal an interest both for the company and for the investor.
The fact remains that company-specific characteristics still play an important role in the reliability of information disclosed by companies. This result is achieved both when the quality of financial information is measured by the extent of results management and by loss avoidance, implying that business contractual incentives remain important factors even after the adoption of IFRS. Given the importance of adopting IFRS on the quality of financial reporting, it would be interesting in the future to carry out case studies to analyze in more detail the internal mechanisms of governance to better understand the diversity in the quality of implementation of IFRS and its relationship to the quality of financial reporting intended for investors.

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