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► To cite this version:

Samira Demaria, Dominique Dufour. First time adoption of IFRS, Fair value option, conservatism: Evidences from French listed companies. 30^{ème} colloque de l'EAA, Apr 2007, Lisbon, Portugal. 24p. halshs-00266189

HAL Id: halshs-00266189

<https://shs.hal.science/halshs-00266189>

Submitted on 21 Mar 2008

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First time adoption of IFRS, Fair value option, Conservatism: Evidences from French listed companies

Samira DEMARIA and Dominique DUFOUR

Abstract:

The European Commission set 2005 as the date for the move to IFRS for all companies listed on European stock exchanges. The paper studies the first adoption of IFRS within the perspective of the accounting options concerning the fair value method. The optional standards included in the study are: fair value exemption of IFRS 1, IAS 16, 38 and 40. The sample is composed of the firms of the SBF 120 index.

The paper pursues two main objectives. Firstly, from an explanatory point of view, French fair value choices during the first adoption of the IFRS are presented. The second goal of the article is to reveal the determining factors behind those choices. The Positive Accounting Theory (PAT), of which one of the main objectives is to explain firms' accounting choices, is used as an explanatory background. IFRS choices are linked to the characteristics of the firm such as: size, leverage, CEO's compensation, ownership structure, cross-listing and financial sector.

The statistical analysis uses a logistic regression method to attempt to identify systematic differences between firms adopting fair value and others. This study considers the choice of conservatism as an identified criterion for explaining fair value choices. The research query can be summed up thus: How the PAT can explain fair value accounting options made by French companies during the transition to IFRS standards? The paper is organized as follows: an overview of IFRS, the literature review, presentation of the sample, the hypothesis, the statistical method, the results and the discussion.

Keywords: IAS/IFRS, first time adoption, accounting choices, positive accounting theory and conservatism.

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Introduction

The globalisation of economy and markets leads companies to become world global players. So, the comparison between firms is essential for investors and agents of the financial market. The common tool used to compare groups is accounting. But in Europe, accounting's methods are heterogeneous and it is impossible to compare companies from different countries. In order to harmonize the European financial area, the European Commission has enforced the application of international accounting standards for the consolidated statement of listed companies in the European Union. Since the 1st January 2005, European firms must apply the IAS/IFRS standards.

The first time adoption period of the international accounting standards is an exceptional and unique moment of deep changes of national GAAP for consolidated financial statements. Aware of the interest of this mutation on the French accounting practices; we have chosen to study the accounting choices made during the transition to international standards and more especially we focused on fair value choices.

The enforcement of the IAS/IFRS in Europe, and in France in particular, introduces many changes in the traditional continental accounting practices. Indeed, HUNG and SUBRAMANYAM (2004) say that *“the IAS adoption is expected to have a particularly profound effect on the financial statements of companies in stakeholder-oriented countries because IAS are heavily influenced by the shareholder oriented Anglo-Saxon accounting model while local standards in many European countries have a greater contracting orientation and are driven by considerations of tax book conformity”*. BERTONI and DEROSA (2005) define continental accounting as generally perceived as tax driven, law based, creditor oriented and focused on the determination of the distributable income by preventing firms from reporting unrealized revenues in their income. The literature shows that European countries -like France, Germany, and Italy- are representative of a conservative accounting (GINER and REES (2001), BERTONI and DEROSA (2005), JINDRICHOVSKA and MCLEAY (2005)). Thereby the adoption of IAS/IFRS and more accurately, the introduction of fair value for valuating certain assets and liabilities, means a radical change of perspectives for preparers and users (BERTONI and DEROSA (2005)). European accounting practices were generally¹ based on historical cost and focused on accounting transaction, underpinned by the concept of realisation, under which profits were not recognised until they were realised (ERNST & YOUNG (2005)). The valuation method promoted by the IASB, in

¹ Excepting the UK GAAP and Dutch GAAP.

many standards, is the fair value approach². In this way, several standards³ proposed fair value as a possible treatment. In this paper, we focus only on the fair value option for assets such as property, plant and equipment, intangible assets and investment property (hereinafter PPE, IA and IP). As regards to assets four standards applies: IFRS 1 “first time adoption of IFRS”, IAS 16 “property, plant and equipment, IAS 38 “intangible assets” and IAS 40 “investment property”. These standards give to preparers the choice between historical cost and fair value for the valuation of assets after initial recognition.

The paper’s objectives are twofold. Firstly, from an explanatory point of view, we observe French accounting choices during the first time adoption (analyse of consolidated statement published for the 31 December 2005). The second objective of the paper is to understand determinants of the choices.

The study observes the first application of the four asset’s standards. Information’s have been removed from financial statements 2005, in which the *Autorité des Marchés Financiers* enforces an explanation of the choices made by groups for the first adoption of IAS/IFRS⁴.

We have retained the Positive Accounting Theory (PAT) as an explaining background, because one of its main objectives is the explanation of firms accounting choices linked by agency relationship and political cost (WATTS and ZIMMERMAN (1990), DUPUY *and al.* (2000)). Many articles have provided empirical support on accounting choices based on positive approach (DUMONTIER and RAFFOURNIER (1998), MISSONIER-PIERA (2004)). Their results have generally proved that proxies like size, leverage, ownership structure, management compensation can explain and predict accounting choices. The first adoption of IFRS is an exceptional time of accounting choices, so we want to test prior results on this particular period.

² The IASB introduces fair value method in several standards but “*the IFRS don’t require all assets and liabilities to be measured at fair value*” CAINRS (2006).

³ The following standards were noted as requiring assets or liabilities to be measured at fair value in certain circumstances: IAS 11 - Construction Contracts, IAS 16 - Property, Plant and Equipment, IAS 17 – Leases, IAS 18 – Revenue, IAS 19 - Employee Benefits, IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, IAS 26 - Accounting and Reporting by Retirement Benefit Plans, IAS 33 - Earnings per Share, IAS 36 - Impairment of Assets, IAS 38 - Intangible Assets, IAS 39 - Financial Instruments: Recognition and Measurement, IAS 40 - Investment Property, IAS 41 – Agriculture, IFRS 1 - First-time Adoption of International Financial Reporting Standards, IFRS 2 - Share-based Payment, IFRS 3 - Business Combinations and the June 2005 Exposure Draft, IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

⁴AMF, 30 décembre 2003: *Recommandations pratiques concernant l’information à fournir pendant la période de transition 2003-2005.*

The particularity of the research is the choice of conservatism as a discriminated criterion to explain accounting choices. The research question is summed up as follows: How can the PAT –used in the conservative perspective- explain fair value accounting choices made by French firms during the first time adoption of IAS/IFRS standards? It must be noticed that the French accounting environment differs from the USA (which is the main context studied by the PAT), especially regarding the importance of the tax law context and the conservatism. Moreover, the first time adoption of IAS/IFRS is an exceptional period of deep changes in accounting practices in a short period. The PAT is mostly used for testing accounting choices in a long period in stable environment. That is why this paper aims to test the explicative weight of the PAT in the particular context of the first introduction of IAS/IFRS in France.

This study contributes to the current state of accounting research by investigating the IFRS' first time adoption from a classical use of the PAT hypothesis. Indeed, the retained hypothesis, link accounting choices to the characteristics of the firm such as: size, leverage, CEO's compensation, ownership structure and cross-listing. The empirical method uses a LOGIT regression to test the explaining capacity of proxies on the observed accounting choices.

The remainder of the paper is organized as follows. In section one, we specify the theoretical background: the PAT, conservatism and fair value. In section two, we give an overview of IAS/IFRS standards. The third section develops the sample, the conservative's choices and the hypothesis. Section four presents the statistical method and the results. And last we conclude by summarizing the main findings and discussing the implications.

1. Conceptual background

In this section we will present the conceptual background. Firstly, we briefly present the positive accounting theory then a survey on conservative literature is made and lastly the fair value concept is presented.

1.1. **The positive accounting theory**

The positive⁵ accounting theory is considered as the mainstream in accounting choices research realm. JENSEN (1976) asserts that “*the PAT is managed to explain why accounting is what it is, why accountants do what they do and what effects these phenomena have on people and resources utilization*”. WATTS and ZIMMERMAN (1990) assert that “*the accounting theory’s role is to provide explanations and predictions for accounting practices*”. According to COLASSE (2000) the PAT interferes either on the level of standards setter or on the firm level when standards setter let the choice among several options. The observation of the first time adoption of IAS/IFRS’s options is located on this second issue.

BELKAOUI (1992) asserts that “*the central ideal of the positive approach is to develop hypotheses about factors that influence the world of accounting practices and to test empirically the validity of these hypotheses*”. Studies following this trend “*studied statistically the relationship between an accounting choice made by company and characteristics of firms*” (CHIAPELLO and DESROSIERES (2003)).

Positive studies are often based on observations of the application of a single method choice (e.g. LIFO or FIFO method, R&D recognition). Besides WATTS and ZIMMERMAN (1990) notes that the focus on a sole accounting choice can reduce the explicative power of tests. In our case, it’s a portfolio of choices which is studied.

The PAT developments are mostly American, and few studies are devoted to European case⁶. That is why JEANJEAN (1999) brings to light that positive research hypotheses are strongly linked to the American background.

The first time adoption of IAS/IFRS standards is a huge change on French accounting practices in a very short period. So we can question the “universality of this theory” RAFFOURNIER (1990).

The study integrates the positive theory background. Consequently we estimate that this theory must be tested in the particular context of the first time adoption of IFRS’. Is the PAT relevant on the particular case of French transition to IAS/IFRS? In order to estimate explicative capabilities of the PAT during the first time adoption period, we are going to follow strictly the classical operating way. However, we introduce an original perspective by analysing accounting choices regarding the conservatism principle. This approach is

⁵ WATTS and ZIMMERMAN (1990) : « *the label positive distinguish research aimed at explanation and prediction from whose objective are prescription*”.

⁶ Accounting choices in the Swiss context has been studied in positive’s perspectives by DUMONTIER and RAFFOURNIER (1998) and MISSONIER-PIERA (2004).

consolidated by WATTS (2003a) and WATTS (2003b) who explain conservatism lighting on the classical hypothesis of the PAT.

1.2. Conservatism in accounting: a survey

The common definition of prudence is “*attentiveness to possible hazard*”. Applied to accounting, we talk about prudence principle or conservatism principle. Both expressions are used in the literature. BASU (1997) asserts that “*conservatism has influenced accounting practice and theory for centuries- i.e. historical records from early 15th century*”. The prudence principle is “*traditionally defined by the adage anticipate nor profit, but anticipate all losses*”, WATTS (2003a). “*This traditional definition of conservatism implies a consistent understatement of both book value of shareholders’ equity (which should imply a market-to-book ratio consistently greater than one) and earnings*”, GARCIA LARA and MORA (2004). Furthermore, for GARCIA LARA and MORA (2004) there are two different approaches of conservatism which are articulated from the legal law constraint. On the one hand, countries characterised of code law, such as Germany and France, apply continental accounting. In this case prudence shows a larger balance sheet conservatism implying an undervaluation of assets. On the other hand, countries from civil law, like United Kingdom, which apply accounting methods supporting earnings conservatism. In every instance, conservatism accounting reveals a will of avoiding dangerous valuation of total assets which could lead to a fictitious payment of dividends and to the diffusion of voluntary overstated financial information.

French GAAP are based on code law. That is the reason why balance sheet conservatism is retained by the commercial code “*any event which is likely to decrease the value of the total assets of the company must be taken into account. According to this principle, any event which can increase the value of assets of the company cannot be subject of a countable recording. Thus, increase of the portfolio stocks’ value of a company cannot be recognized, contrary to latent depreciation*”. Conservatism has been the mainstream during years in terms of valuation model. Nevertheless, its relevance has been criticized by people who see in conservatism an obviously pessimistic method, which does not reflect economic reality. IASB framework maintained prudence as a characteristic of information but refused the principle as a systematic approach. RICHARD (2005) considers that IASB conservatism is meaningless because it does not express the mandatory of recording only potential losses and excluding latent value increase; but the simple constraint of including a certain degree of caution in the

judgement. Moreover, discussions between IASB and FASB on the “Joint conceptual framework project” has lead the two standards setters “*to exclude conservatism as a separate qualitative characteristic (...) future standards may move away from conservative practices*” FASB (2005a). Indeed, they judge that conservatism is incompatible with neutrality (which is a required qualitative characteristic of financial statement), because conservatism implies a bias in financial reporting information (IASB and FASB (2006)). As a result, historical cost, a typical method issued from the conservative approach is widely questioned by the introduction of fair value as a valuation practice. Obviously, we consider the choice of a fair value option as a non conservative choice.

1.3. Fair value

French GAAP are typically characterized as stakeholder-oriented and tax-driven ((BERTONI and DEROSA (2005)). It differs substantially from IAS/IFRS, which are shareholder-oriented and independent of tax reporting considerations. This divergence appears on the way of approaching asset valuation. While France emphasizes conservatism (e.g., limited recognition of assets), “*IAS focuses on fair-value accounting and balance-sheet valuation (e.g., use of fair value for financial instruments and recognition of internally developed intangibles)*” HUNG and SUBRAMANYAM (2004). The enforcement of IAS/IFRS introduces the fair value approach in French practices. Indeed, several standards give the fair value approach as a valuation option. This section presents briefly the fair value approach and the stakes of its introduction in French practice.

Firstly, fair value is defined such as “*the amount for which an asset or a liability could be settled between knowledgeable, willing parties in an arm's length transaction*” (IAS16 §6).

More than a measurement method, fair value is an approach of the accounting practice. Fair value represents an economic way of valuating capital, it refers to the substance over form principle which means that a “*Faithful representation of real-world economic phenomena is an essential qualitative characteristic, which includes capturing the substance of those economic phenomena*” FASB (2005b). The substance over form gives the primacy to economic characteristics on juridical form. Then IAS/IFRS are shareholders oriented. Indeed, the Framework concludes that “*because investors are providers of risk capital to the enterprise, financial statements that meet their needs will also meet most of the general financial information needs of other users. Common to all of these user groups is their interest in the ability of an enterprise to generate cash and cash equivalents and of the timing*

and certainty of those future cash flows.” (Framework §10). Shareholders are supposed to need an economic view of the firm; in this case the fair value seems to be the better way of achievement.

As CAINRS (2006) noticed, IASB does not enforce a full fair value approach. IASB advises fair value as valuation solely in some cases. IFRS standards allow the use of fair value in financial statement in four main areas:

1. For the measurement of transactions at initial recognition in the financial statements
2. For the allocation of the initial amount at which a transaction is recognised among its constituent parts
3. For the subsequent measurement of assets and liabilities (we are going to focus on this point)
4. In the determination of the recoverable amounts of assets

But the fair value conception does not achieve unanimity. On one side historical cost is considered not to achieve the relevant quality of financial information (GELARD during *Rencontres internationales Institut Europlace Finance* (2003)). And so *“fair value accounting provides more transparency than historical cost based measurements”* (www.valuebasedmanagement.net). On the other side, fair value accounting is often criticized as a difficult method to approach, as intensifying volatility and giving a value of breakage of the firm.... (DUMONTIER and RAFFOURNIER (2005), ERNST & YOUNG (2005), BIGNON *and al.* (2004)).

The choice of studying the adoption (or not) of fair value option in France is interesting therefore because *“given the accounting framework prevailing in continental European countries, the adoption of IFRS and, more eminently, the introduction of fair value for valuating certain assets and liabilities, means a radical change of perspectives for preparers and users alike”* BERTONI and DEROSA (2005).

2. Standards

2.1. First time adoption

The European Union has decided to require all listed companies to prepare consolidated accounts based on International Financial Reporting Standards (IFRS) beginning in 2005.

Moreover, a presentation of one year of full comparative financial statements in compliance with IAS/IFRS standards is necessary. Indeed, the first financial statement of an entity shall

include at least one year of comparatives under IFRS. Thus, in practice firms must adopt the new standards from 2004

The transition date is defined as “the beginning of the earliest period for which an entity presents full comparative information under IFRS financial statements”.

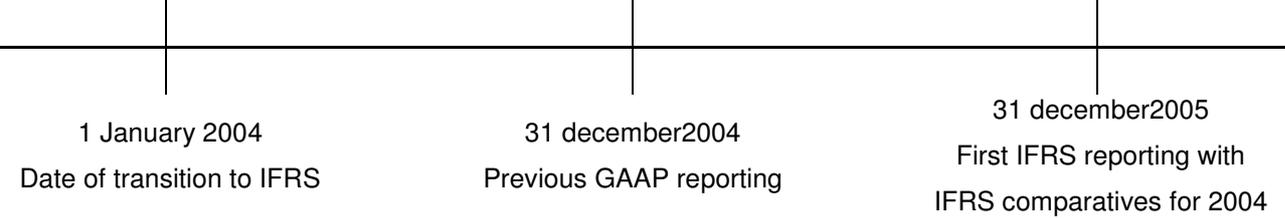


Figure 1 : First time adoption calendar (DELOITTE)

For groups which close their financial statements with the civil year, the first time adoption date is the 31 December 2005. Furthermore, the *Autorité des Marchés Financiers* (AMF) requires the publication of observed impacts on the consolidated statement for the 1st January and the 31 December 2004.

The first time adoption period has allowed to prepare the change to IAS/IFRS for the consolidated statement of companies.

2.2. Studied standards

We retain four standards that give choices between historical cost and fair value measurement. This section gives an overview of these standards.

Standards	Options	Recognition
IFRS 1	IFRS 1 allows exceptions to IAS 16, 38 and 40: Property, plant, and equipment, intangible assets, and investment property carried under the cost model, “these assets may be measured at their fair value at the opening IFRS balance sheet date (this option applies to intangible assets only if an active market exists). Fair value becomes the “deemed cost” going forward under the IFRS cost model” (IFRS1.§16.17.18)	Balance sheet in equity
IAS 16 (PPE) IAS 38 (IA)	Measurement subsequent to initial recognition ⁷ : <ul style="list-style-type: none"> • Benchmark treatment: Cost model = the asset is carried at cost less accumulated depreciation and impairment. (IAS 16§30) • Allowed treatment: Revaluation model: = the asset is carried at a revalue amount, being its fair value at the date of revaluation less subsequent depreciation, provided that fair value can be measured reliably. (IAS 16 §31) 	Balance sheet in equity
IAS 40 (PE)	Measurement subsequent to initial recognition: <ul style="list-style-type: none"> • Benchmark treatment: Revaluation model (IAS 40 §33-35) • Allowed treatment : Cost model (IAS 40 §40-56) 	Income statement

Table 1: Studied standards

⁷At the time of acquisition PPE is recorded at its cost of acquisition. Then at the end of each financial year the company must determine the value of PPE to record, this is the measurement subsequent to initial recognition

IFRS 1 is applied only once for the first adoption. Hence, firms can use this standard when they adopt the international standards. IFRS 1 allows a first adopter to opt (or not opt) for exceptions to the general restatement and measurement principles of other IAS/IFRS standards. IFRS 1 is a “one use” standard that means a group can only use it for the first application of IFRS. So in that case, studying IFRS 1 is relevant solely during the first time adoption period. IFRS 1 allows groups to apply fair value to their PPE, IA and IP, and the revaluation becomes the deemed cost at the transition date.

Concerning assets evaluation options, IFRS introduces an accounting managerial slack for the valuation of property, plant and equipment, of intangible asset and investment property. Thus, IAS 16, 38 and 40 permits two accounting models for the measurement subsequent to initial recognition⁸ such as historical cost and fair value. For IAS 16 and 38, the benchmark treatment is the cost model and the allowed alternative treatment is the revaluation model. But for IAS 40 it is the contrary, the fair value approach is the benchmark method.

We have to notice that assets can be analysed by classes and so the application of one or the other methods is made by asset categories. But “*if an item is revalued, the entire class of assets to which that asset belongs should be revalued the entire class of assets to which that asset belongs should be revalued*” (IAS 16 §36). Contrary to French GAAP, the IASB distinguishes investment property as a particular class of PPE. An investment property is “*a property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both*” (IAS 40.5). However investment property represents a unique class of asset and the method chosen is applied to all the investment properties.

Some researchers argue that “*fair value measures for property, plant, and equipment are superior to historical cost based on the characteristics of predictive value, feedback value, timeliness, neutrality, representational faithfulness, comparability, and consistency. Verifiability appears to be the sole qualitative characteristic favouring historical cost over fair value*” HERRMANN *and al.* (2005). But do French groups change the way of measuring assets?

⁸Measurement subsequent to initial recognition: after initial recognition an entity shall measure the value of assets.

3. Empirical model

In this section we describe firstly the sample, then the hypotheses and lastly the observed accounting choices made by groups.

3.1. Sample

The selection of the sample size results from a will of representativeness. Firstly, it is necessary that studied companies were under the legal constraint to apply IAS/IFRS. Then, the sample must be sufficiently important to recall a general trend. This is the reason why we retained companies belonging to the SBF 120 index of EURONEXT PARIS.

Starting sample	120
IFRS non complying groups (US GGAP...)	3
Groups exit of the index	6
Missing data groups	1
Previous compliance with IFRS	3
Final sample	107

Table 2: The sample

So, the final sample consists of 107 firms that adopted IAS/IFRS for the first time since the 1st January 2005.

Reports have been collected from the ECOFINDER database. To understand the first time application period as well as possible, we listed all publications published during this time. Thus, press release and financial communication were collected. For the paper, we use data from annual reports 2005. These financial statements contain a part devoted to the first time adoption of IAS/IFRS standards. The study focus on consolidated financial statements because in France IAS/IFRS' standards can only be applied for groups statements, it is forbidden for social statements.

3.2. Hypotheses

For WATTS and ZIMMERMAN (1990) "*it is clear that there is a relation between firm's accounting choice and other firm variables*". In this study we have retained classical variables issued from the positive's research, such as size, leverage and CEO's compensation. To these historical hypotheses we add institutional ownership, cross-listing and financial industry membership. The expected relations between accounting choices and explanatory variables

came from the literature on PAT, conservatism and accounting choices. We consider that the fair value option is not a conservative choice.

Size hypothesis : US based studies (BASU (2001) and RYAN and ZAROWIN (2001)) have found that small firms are more conservative than large firms. Small firms are more risky than large firms because their returns are more volatile. They are thus encouraged to adopt conservative accounting to avoid adding accounting volatility to economic volatility.

H1 There is a positive association between size and fair value option.

Debt hypothesis: WATTS and ZIMMERMAN (1990) assert that “*the higher the firm debt/equity ratio the more likely managers use accounting method that increase income*” and *ceteris paribus* equity. Here the goal is to reduce the leverage and so to increase shareholders’ equity. FIELDS *and al.* (2001) notice that “*in general, researchers conclude that their results suggest that incentives work: managers select accounting methods to increase their compensation and to reduce the likelihood of bond covenant violations*”. Managers are incited to select accounting methods to avoid covenant violations.

H2 There is a positive association between financial leverage and fair value option.

CEO’s compensation hypothesis: WATTS and ZIMMERMAN (1978) affirm that “*management selects accounting procedures to maximise its own utility*”. So, if manager’s compensation contracts are constituted by bonus plans, that may affect firms’ accounting choices. Thus managers may be encouraged to adopt accounting procedures that increase their compensation.

H3 There is a positive association between bonus plan and fair value option.

Institutional ownership hypothesis: Institutional investors follow long-term investment strategies. We may expect that a high level of institutional ownership encourages companies to manage conservative choices in accounting. Institutional ownership is the percentage of ordinary shares held by banks, insurance companies and mutual funds.

H4 There is a negative association between institutional ownership and fair value option.

Cross-listing hypothesis: We can expect that conservatism will be more pronounced for cross-listed companies because they are confronted with a stricter enforcement regime (HUIJGEN and LUBBERINK (2002) and SALVA (2003)).

H5 There is a negative association between cross-listing and fair value option.

Sector segment hypothesis : Ball and *al* (quoted by BASU (2001)) have revealed the lack of influence of industry membership on conservative accounting choices. However first adoption studies seem to reveal a particular behaviour of financial industry more disposed to adopt new norms.

H6 There is a positive association between financial industry membership and fair value option.

3.3. Descriptive analysis of accounting choices

The first goal of this paper is to observe fair value choices made during the first time adoption of IAS/IFRS. We begin by presenting a descriptive overview of the SBF 120 retained options. It must be noticed that the study considers the content of consolidated financial statement published for 2005. This constitutes an observation of what groups have declared during the transition period. The study is based on the analysis of annual reports and so, on the information contained in these documents. Several groups choose voluntarily not to specify the choices of options carried out. In this case, we consider that these firms have not chosen the options examined.

Table 3 shows accounting choices of valuation for assets made by groups during the first time adoption of IFRS standards. Table 4 presents assets which have been valued with fair value.

Standards	Conservative option (Historical cost)	Non conservative option (Fair value)	Missing values
IFRS 1	71	19	17
IAS 16	101	4	2
IAS 38	83	0	24
IAS 40	24	9	70

Table 3: Accounting choices / sample = 107 groups of SBF 120 index

Table 3 shows that few groups have chosen the fair value method for the valuation of assets. It can be noticed that the option, given by IFRS 1, of a punctual revaluation of assets at the transition date, has convinced more than fair value option in other standards. Indeed, 18% of the sample has chosen to reevaluate some assets at the transition date. The choice of fair value measurement, as a long term method, is unconventional for property, plant and equipment (IAS 16), only 4 groups apply it for certain class of assets (see Table 3). For the valuation

subsequent to initial recognition of property, plant and equipment, amortized cost method stays the mainstream seeing that 94% have maintained it.

We notice that the possession of property investment is non common. Indeed, many companies communicate on their lack of this type of assets (e.g. Schneider Electric, Thales...) Groups who applied IAS 40 to their property investment have mainly applied the amortized cost method. In effect, on 33 companies which applied IAS 40, 24 have chosen the alternative method *i.e.* the amortized cost. Table 4 shows that several groups had distinguished among type of investment property. IAS 40 considers investment property as one and sole class of asset, so groups have interpreted the standards when they applied it.

All groups have applied IAS 38 in the same way. As a result, the amortized cost has been applied for all measurement subsequent to initial recognition of intangible assets. This can be explained by the complexity of valuate intangibles. Thus, current valuation (each year) by a cash flow actualisation or in report to an, active market seems to be difficult. Besides RICHARD and COLETTE (2005) assert that the IASB has discouraged the fair value valuation for intangible assets. Also, the international standard setter underlines that *“Intangible assets may be carried at a revalued amount (based on fair value) less any subsequent amortisation and impairment losses only if fair value can be determined by reference to an active market. (IAS 38 §75) Such active markets are expected to be uncommon for intangible assets”.* (IAS 38 §78). So face to this global appliance, we have decided to reject the option given by IAS 38 of the study, because all groups have applied the same option.

IFRS 1	Nb	IAS 16	Nb	IAS 40	Nb
Buildings	3	Buildings supports of contracts in Units of Account	1	Investment property	6
Property, plants and equipment	3	Buildings	1	Investment property leaned completely or partially with the passive ones	1
Lands	6	Lands	1	Investment property held by unconsolidated participations classified in AFS or Trading	1
Investment property	5	Vineyard	1	Investment property in the course of refitting	1
Corporate headquarters	2				
Fixed assets from certain activities	2				

Table 4 : Revalued assets at the transition date

Table 4 reveals that groups have mainly chosen fair value measurement for lands and investment property.

The first observation shows that the recourse to fair value measurement is not the main rule and the sample of assets to which it is applied is large. So now, we want to understand what can characterize firms which choose fair value as a punctual or a recurrent method. And are there some proxies common to fair value applicants?

3.4. Statistical method

The statistical method retained is the logistic regression. This choice is due to two main reasons. Firstly, explained variables are qualitative –the choice of a conservative option- that forbids the use of ordinary multiple regressions and as several explanatory variables are qualitative too –presence of bonus-plan, cross listing or not- which rejects the use of a discriminant analysis is rejected too. Secondly, the use of the logit method is common within the positive accounting approach. Indeed RAFFOURNIER (1990) noticed that “*the methodology generally used is the probit or logit analysis which permits to estimate, from characteristic of firm, the probability that a firm chooses one or the other method*”. We use a logistic model because we have to study a dichotomous choice and because our sample, more than 100 groups, is large enough (STONE and RASP (1991)). FIELDS, LYS *and al.* (2001) identify the regression methods -and so the logistic one- as a solving to the issue of accounting choices. Moreover, numerous studies use logistic regression in order to explain accounting choices with proxies such as size, leverage or bonus plan, e.g. : HAND and SKANTZ (1998), DUMONTIER and RAFFOURNIER (1998), MISSONIER-PIERA (2004).

3.4.1. Explanatory variables

Table 5 gives an overview of firm characteristics which are the explanatory variables of our study. Moreover, it gives the predicted sign of the link between proxies and options. A positive sign corresponds to a positive association with explanatory variables and an accounting strategy that cheers fair value adoption.

Explanatory variables	Code	Proxies	Predicted signs on fair value adoption
Size	T	Logarithm of turnover	+
Leverage	L	Financial leverage: liabilities divided by equity	+
CEO's compensation	CO	Dummy variable for stock-option compensation plan coded 1 for yes and 0 for no	+
Ownership structure	INST	Percentage of ordinary shares held by banks, insurance companies and mutual funds	-
Financial sector (bank, insurance, real estate...)	FI	Dummy variable for finance industry coded 1 for finance industry and 0 otherwise	+
Cross listing	CR	Dummy variable for cross-listing coded 1 for cross-listing and 0 otherwise.	-

Table 5: Explanatory variables

Table below shows the descriptive statistics of the explanatory proxies:

Explanatory Variables	T	L	CO	INST	CR	FI
Mean	7,00	0,98	0,93	0,16	0,21	0,15
Median	7,15	0,72	1,00	0,03	0,00	0,00
Minimum	5,15	-4,55	0,00	0,00	0,00	0,00
Maximum	8,52	9,68	1,00	0,86	1,00	1,00
Standard deviation	0,78	1,46	0,26	0,23	0,41	0,36

Table 6: Descriptive statistics

It should be noted the high percentage of firms with a stock-option compensation plan (93%) and the weak percentage of cross-listing (21%).

	T	L	CO	INST	CR	FI
T	1,00					
L	0,09	1,00				
CO	0,28***	0,09	1,00			
INST	0,18*	-0,17*	0,11	1,00		
CR	0,47***	-0,03	0,06	0,11	1,00	
FI	0,09	0,34***	0,12	-0,01	-0,03	1,00

Table 7: Correlations coefficients

(** indicates significance at the 1% level, ** indicates significance at the 5% level and * indicates significance at the 10% level)

We have to notice four significant correlation coefficients:

- Correlation between size and stock-option compensation shows that kind of salary has been primarily established in large firms.
- Correlation between size and cross-listing can be explained by the high cost of cross-listing. Indeed big companies can more readily afford costs due to cross-listing.
- Characteristics of capital structure of financial companies – low equity and high debt – generate high correlation between leverage and finance industry membership.

- Correlation between leverage and institutional is negative. The interaction between leverage and institutional ownership has been strongly studied in literature. Previous empirical research has produced conflicting evidence (FIRTH (1995)).

3.4.2. Dependent variables

Dependent variable is the choice made for each standard. So we have 3 options to explain, made for options from IFRS 1, IAS 16 and IAS 40. We identify the potential choice of fair value as non conservative because it introduces the opportunity of restate assets.

Table 8 summarizes conservative level of each standard's option.

Standards	Options	conservative	Non conservative
IFRS 1 exemption to IAS 16 et 40	Fair value at the opening IFRS balance sheet date		X
IAS 16 (IAS 38) IAS 40	Revaluation model		X
	Cost model	X	

Table 8: conservative choices

Here we test the existence of correlation between observed options:

	IFRS 1	IAS 16	IAS 40
IFRS 1	1,00		
IAS 16	0,166**	1,00	
IAS 40	0,300***	0,473***	1,00

Table 9: correlations coefficients between fair value option

(*** indicates significance at the 1% level, ** indicates significance at the 5% level and *indicates significance at the 10% level)

Table 9 shows that there is a positive correlation between fair value options, the choices of fair value are linked. Strongest link is between IAS 16 and IAS 40 and weakest link between IFRS 1 and IAS 16. Correlation coefficients are statistically significant. We have built the Table 10 to show conditional choices of fair value option. Among 19 firms which have chosen fair value in IFRS1, 1 has chosen fair value for IAS 16 and 5 have chosen fair value for IAS 40. Among 4 firms having chosen fair value in IAS 16, 1 has chosen fair value for IFRS 1 and 2, fair value for IAS 40. Among 9 firms having chosen fair value in IAS 40, 5 has chosen fair value for IFRS 1 and 3 have chosen fair value for IAS 40

If	Then	Then
IFRS 1 = 19	IAS 16 = 1	IAS 40 = 5
IAS 16 = 4	IFRS 1 = 1	IAS 40 = 2
IAS 40 = 9	IFRS 1 = 5	IAS 16 = 3

Table 10: links between options

As we said before the strongest link is between IAS16 and IAS 40. This occurrence may be due to the fact that these options are long term ones when IFRS1 is a short term option.

3.5. Empirical results

The empirical analysis favours univariate and multivariate approach to test the hypotheses related to the fair value adoption. Link between fair value's accounting decision and the characteristic of the firm is tested using the following logit model:

$$\text{Choice} = \beta_0 + \beta_1T + \beta_2L + \beta_3CO + \beta_4INS + + \beta_5CR + \beta_6FI + \varepsilon$$

Where: Choice equals one if firm reports fair value adoption and 0 otherwise.

Three logistic regressions are estimated, one for each option. We must notice that we used the SPSS software for statistics.

3.5.1. Univariate analysis

We perform a Mann-Whitney test to compare for each option the characteristics of adopters and of non adopters.

	IFRS 1			IAS 16			IAS 40			Expected signs
	Adopters	Non Adopters	t	Adopters	Non Adopters	t	Adopters	Non Adopters	t	
Number	19	88		4	103		9	98		
T	6,82	7,04	-1,26	6,94	7,01	-0,18	7,00	7,01	-0,18	+
L	1,42	0,89	1,45**	0,45	1,00	-1,21	1,72	0,92	0,15	+
CO	0,95	0,92	0,40	1,00	0,92	0,57	1,00	0,92	0,89	+
INST	0,16	0,16	-0,05	0,20	0,16	0,92	0,14	0,16	-0,91	-
CR	0,16	0,23	-0,86	0,00	0,22	-1,06	0,22	0,21	0,05	-
FI	0,26	0,13	1,53**	0,75	0,13	3,41***	0,78	0,09	5,49***	+

Table 11: Medians and Mann-Whitney t

Results can be summarized as follows:

1. Expected differences are not systematically observed for T, L, INST and CR,
2. For T, L, INST and CR, when observed sign is in conformity with expected sign, observed differences are not significant except for L and ifrs1,
3. Frequencies of finance industry membership are significantly different for all three options.

We may conclude here that financial industry membership is the main determinant of fair value adoption.

3.5.2. Multivariate analysis: LOGIT method

Table 12 presents the outcome of the three logistic regressions. For each regression, we give the sign of β , the p-value derived from a Wald test and the Cox and Snell R^2 . The Cox-Snell R^2 is an attempt to provide a logistic analogy to R^2 in Ordinary Least Squares Regression.

	Intercept	T	L	CO	INST	CR	FI	R^2 Cox & Snell
Expected signs		+	+	+	-	-	+	
IFRS 1	+	-	+	+	+	+	+	
p-value	0,65	0,19	0,31	0,61	0,73	0,97	0,27	0,046
IAS16	-	+	-	+	+	-	+	
p-value	0,92	0,58	0,36	0,96	0,99	0,88	0,01	0,111
IAS40	-	-	-	+	-	+	+	
p-value	0,92	0,32	0,99	0,87	0,79	0,35	0,02	0,189

Table 12 : Logistic regressions

First regression (IFRS1) points out the negative impact of T and the positive impact of L, CO, INST and FI on fair value option in IFRS. Unfortunately, the p-values are not significant and the R^2 (Cox and Snell) is poor.

Second regression (IAS 16) presents a positive impact of T, CO, INST and FI and a negative impact of L and CR. We must notice that the financial coefficient is statistically significant at 5% level. Coefficients of the other variables are not significant.

Third regression (IAS 40) presents a positive impact of CO, CR and FI and a negative impact of T, L and INST. Here again the financial coefficient is the one statistically significant at 5% level.

Results can be summarized as follows:

- 1 Regressions quality is weak, even if higher for IAS 16 and IAS 40 than for IFRS as R^2 (Cox and Snell) points out;
- 2 Only nine coefficients on eighteen have expected signs;
- 3 Coefficients associated with T, L, CO, INST and CR are non significant;
- 4 For IAS16 and IAS40, coefficients associated with financial are significant.

Conclusions of this multivariate analysis are the same than for univariate analysis. The main factor of fair value adoption is the finance industry membership.

4. Discussion and Conclusion

Results suggest that for this French sample of firms fair value adoption is not linked with size, financial leverage, CEO's compensation, institutional ownership and cross-listing.

Findings show that the majority of French companies maintained historical cost for the valuation of assets, which is the conservative option. French accountants had followed the conservatism principle. So despite introduction of IAS/IFRS standards, which cheer an economic view highlights by the substance over form principle, the traditional conservatism approach stays embedded in French practices.

These results raise the question of ability of the PAT for understanding the permanence of historical cost. We are going to deepen the analysis in two ways.

Our first remarks deals with PAT goals and framework. This theory has two main goals: explaining the information content of accounting numbers and analysing the accounting decisions of firms. The basis of this model is that accounting numbers matter investors and financial market's agents. The PAT supposes that accounting numbers supply information for security markets and affect compensation contracts and debt covenants. Is it true in the French transition to IAS/IFRS context?

It must be noticed that:

- 1 The IAS/IFRS first adoption has no effect on real cash-flows. Under the assumption of efficient markets, FIELDS, LYS *and al.* (2001) "*hypothesize that absent effects on the firm's cash flows imply that investors do not alter their assessment of share prices based on alternative accounting choices*".
- 2 Concern of the IAS/IFRS first adoption is the consolidated and not the individual statements. Here this adoption does not affect nor dividends nor tax.
- 3 The PAT deals with accounting-based contracts. A question may be asked, are CEO compensation and debt covenants linked with IAS/IFRS first adoption choices? If not, there were no contractual motivations behind first-adoption accounting choices.
- 4 Investors are supposed to be able to "see through" alternative accounting practices. We must notice the weak impact of the IAS/IFRS transition disclosure on stock prices. Thus, for only 15% of firms, impacts on stock prices have been more than 2% (Ernst and Young 2005).

Secondly, adopting fair value is a huge rupture with historical cost. Many factors could encourage groups to keep on using historical costs:

- 1 Resistance to change: accounts have used historical cost method for years and the change of treatment is a deep break in practice, so preparers are more tempted to keep on the previous treatment.
- 2 Implementation complexity: many reports on the IAS/IFRS underline the fact that accounts find international standards more complex than the previous national GAAP (MEDEF (2006), ERNST & YOUNG (2006)).
- 3 Uncertainty about fair value effects: the organisational culture may affect accounting choices (THOMAS (1989), DUMONTIER and RAFFOURNIER (1999)). In the sample, there is a positive link between fair value adoption and financial industry membership. This industry is trained to buy and to sell investment properties. This fact could have encouraged her to adopt fair value.

To conclude we can say that the PAT seems not to explain as well as we have expected the accounting choice made by French groups during the first adoption of IAS/IFRS standards. We can attribute these results to the particular context of the French transition which can not be inserted in the classical context of the PAT' research. So we can wonder if another theoretical realm can better explain the transition period? Can we turn our mind to convention economics or institutional background?

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