ABSTRACT

This paper aims to examine the impact of IFRS / IAS mandatory adoption on the information asymmetry measured by the properties of financial analysts’ forecasts (error and dispersion). It examines also, whether this impact differs from one company to another with regard to its growth opportunities. This study is based on a longitudinal data set (2002 – 2012) obtained from a sample of companies that belong to the CAC all tradable indexes. The results show a significant effect of these international’s standards on financial analysts’ forecasts, which stress the improvement of earnings’ informational content. By focusing on the effect of growth opportunities, the results show also that they don’t moderate significantly the relationship between IFRS and qualities of financial analysts’ forecasts. This allows to conclude that IFRS are able to reflect the true value of the company regardless its growth opportunities.

KEYWORDS

Financial Analysts’ Forecasts, Growth Opportunities, IFRS, Information Asymmetry

INTRODUCTION

The accounting standardization has become necessary due to the increasing internationalization of markets and companies. Indeed, following the failure of the European accounting harmonization efforts, the European Union imposed the adoption of IFRS (International Financial Reporting Standards / International Accounting Standards), international standards of Anglo-Saxon origin, to all its members’ states dice 1 January 2005. The primary objective of this decision is to produce and disclose a better quality of financial information that is understandable, relevant and comparable for all users from different countries.

In fact, the quality of financial information can be apprehended by the level of information asymmetry. That’s why, the IFRS mandatory adoption was considered as one of the means of control that allow to solve the problems of information asymmetry by disclosing high quality of information that reflect the real financial situation of the company and help the stakeholders and specially the investors in decision making.

This study is essentially based on the agency theory dealing with the consequences of the principal-agent relationship. Jensen and Meckling (1976) define this relationship as “a contract by which one
or more persons (the principal) engages another person (the agent) to perform on his behalf any task that involves a delegation of a power decision to the agent”. The asymmetry of information is the fact that leaders who are the company’s managers and accountables, have more information about its financial position, may pursue different interests from those of shareholders which encourages them to serve their interests against those of investors.

According to Philippe Danjou, Chief of Accountant business in the AMF (Financial Markets Authority in France), the adoption of new accounting standards IFRS introduced a new estimation philosophy and upgrading business performance. They have a considerable impact on the companies’ financial reporting, and they change the meaning and the significance of several indicators used by investors. This impact is in terms of quality and quantity of information disclosed. Dicko and Khemakhem (2010) stipulate that the IFRS adoption has been certainly resulting in the increasing of the amount of information disclosed (in terms of frequency and number of published financial statements). But, even if the superiority of IFRS relating to the amount of information disclosed was undeniable, previous work showed two divergent reflections concerning the information disclosed quality. So, some researchers consider that IFRS improves the information content of accounting numbers because they lead companies to disclose more and better information and limit their discretionary accounting choices. However, others consider that IFRS adoption is likely to reduce the information content of accounting numbers because it limits the number of authorized accounting policies.

Indeed, the IFRS standards require high quality, transparent and comparable information in financial statements and other reports to help investors in all global markets and other users to make economic decisions (Epstein & Mirza, 1999). Thus, they are based on an important principle: the fair value instead of historical cost.

The fair value facilitates investors’ decision making who are always looking for latest information (Ball, 2006). According to this author, the market value, because it synthesizes the latest expectations of various economic agents, is incomparably more informative than historical cost. This view is widely defended by Mistral (2003) which states that the principle of fair value is certainly more useful and appropriate to measure assets and liabilities as historical cost.

This principle permits to provide relevant information about financial instruments because it allows to reflect company events and economic conditions timely and to provide a good basis for analysis and forecasting future cash flows. According to the IASB, it offers to users of the financial statements, the ability to appreciate the consequences of investments and funding strategies undertaken by a firm. From then, the principle of fair value used in the preparation of financial statements is expected to increase the quality, and the relevance of the accounting numbers produced.

The adoption of the international accounting standards of an Anglo-Saxon origin has engendered several qualitative and quantitative changes that constitute a revolution in local and especially in continental accounting systems. Ding et al. (2007) Show that France is one of the European countries whose local standards are most different from IFRS. So, the study of this context seems able to give a clear idea about the advantages and disadvantages of adopting IFRS, which constitute a matter of a continuing debate.

This paper represents an empirical study that allows identifying in one hand, the impact of the IFRS mandatory adoption on the information asymmetry and in the other hand the moderating effect of the growth opportunities of the company on the IFRS impact. To do this, information asymmetry was measured in this study by the properties of analysts’ forecasts (error and dispersion).

In fact, the principal role of the financial statement information is to facilitate contracting and investing decision making. The earnings represent one of the most important items used by analysts as reported by the company (Barker & Imam, 2008). As a result, the accuracy and the dispersion of analysts’ forecasts can reflect the relevance of earnings. That’s why, to examine the effect of IFRS mandatory adoption in the information asymmetry, the analysts’ forecasts properties were used.
Services, E-Services, and Nonservices
www.igi-global.com/chapter/services-services-nonservices/6410?camid=4v1a