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DUAL RELATIONSHIP: MANDATORY ADOPTION OF IFRS/VALUE RELEVANCE OF ACCOUNTING INFORMATION

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Abstract *International accounting standards, which are regarded as high quality standards, result in high quality accounting information. The concept of the quality of accounting information being a multidimensional concept we have decided to refer to a particular attribute which is value relevance. The objective of our research is to study the relationship between value relevance and the mandatory adoption of IFRS. In order to study this relationship, we have referred to a context where the vision of accounting is different from the Anglo-Saxon vision, so the French context seemed to us to be the most relevant. We specifically referred to the SBF 120 companies that we examined over two time periods: from 2003 to 2004 and from 2005 to 2008. In order to assess the level of relevance, we referred to the Ohlson (1995) model, which establishes the relationship between the stock price of shares and the book value of equity. After an empirical analysis, we concluded that the transition to international accounting standards has led to more relevant accounting information. Our research thus proves that the transition to international accounting standards has been beneficial.*

Keywords: *IFRS, Quality, Accounting Information, Value Relevance*

JEL Classifications: *M41*

INTRODUCTION

At present, the subject of the quality of accounting information is a topical subject and is the subject of numerous studies, especially after the wave of financial scandals that have created a climate of doubt among the various stakeholders. Indeed, in order to guarantee the disclosure of quality accounting information, one of the alternatives put forward by the international accounting standard-setter is compliance with a common accounting language, namely the IFRS. Indeed, many studies around the world have recognised the beneficial impact of IFRS on the quality of accounting information; for example, in the Indian context, Rao et al. (2020), analysed the impact of international accounting standards on the quality of financial reporting of Indian listed companies. After analysis, they noted the beneficial contribution of IFRS to the relevance of accounting documents. Indeed, a comparative analysis clearly demonstrates that financial reports under IFRS are more relevant than financial reports under local accounting standards. In particular, we can cite the study by Chadia and Verdia (2020), which noted that companies that use fair value as a valuation method have more recourse to debt financing than companies that still use historical cost because lenders generally have more confidence in companies that use international accounting standards.

Accounting information disclosed through mandatory documents is data that must be analysed. Indeed, when analysing accounting information, it is critical to refer to previously defined criteria because, nowadays, the first thing that comes to mind when we look at disclosed accounting information is: is the disclosed accounting information quality information or not?

In order to answer this question, it is essential to focus on the concept of quality in the accounting field. Without previously defined requirements, we cannot criticise the accounting information disclosed. It is therefore for these various reasons that we are going to focus in this article on an important attribute of quality which is the concept of value relevance and in particular we want to analyse the relationship between mandatory IFRS adoption and value relevance.

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We found considerable heterogeneity in the studies that analyzed the relationship between IFRS adoption and value of relevance.

Indeed, in some contexts, we noted that the transition to IFRS has led to relevant accounting information. In this regard, we can cite the study by Elabkry et al. (2017) and Largin (2013).

On the other hand, in other contexts we have noted that the transition to IFRS has not had an impact on the quality of accounting information: the quality of accounting information has not improved. Indeed, Tsalavoutas et al. (2009) did not note any improvement in the the relevance of the value because the means of governance put in place by the economic entities are deficient.

Thus, within the framework of our research work, we try to answer the following question.

Does the Transition to International Accounting Standards Lead to More Relevant Accounting Information?

Thus, our article will be composed of two main sections. In the first section, we will review the literature on the relationship between mandatory IFRS adoption and value relevance. In this section, we will first introduce the concept of quality of accounting information and then focus on a specific aspect, namely value relevance. Finally, we will analyse the body of work from around the world that has looked at the impact of the transition to international accounting standards on the level of value relevance.

The research methodology will be described in the second section. We will first describe our sample and then describe the model we will use to test our research hypothesis, and finally we will present the analysis of the results.

Finally, we will conclude by giving a clear answer to our problem. We will present the limits we were confronted with. Finally, we will present the different research paths that future researchers could follow.

Indeed, like any research work, this research has the following objectives:

- To prove the existence of a causal relationship between the transition to international accounting standards and the improvement of value of relevance .
- To demonstrate to companies that still apply their local accounting standards what they lose by not adopting international accounting standards.
- Prove that the transition to international accounting standards leads to quality accounting information based in part on the value of relevance.

REVIEW OF THE LITERATURE ON THE DUAL RELATIONSHIP BETWEEN IFRS ADOPTION AND VALUE RELEVANCE

The Notion of the Quality of Accounting Information

Accounting plays an important role, according to Quiry and Le Fur (2004), who argue that "whether we like it or not, accounting is the main source of information about a company and its performance; this situation is not about to change." It's ridiculous for some people to despise accounting. The financier, that is, an individual concerned with valuation and reasoning in terms of risk and profitability, seeks to understand the capacity of the company to generate cash flows; to determine the level of real indebtedness; and to appreciate the company's profitability through the accounts." Based on the remarks of Quiry and Le Fur (2004) it is clear that the role played by accounting is primordial in the contemporary economy. Indeed, without the disclosure of quality accounting information, the economic reality is not faithfully re-transcribed, and investors will be misled, and financiers who refer to the disclosed accounting information will quantify the risk in an inefficient and ineffective way because the ''raw material'', namely the disclosed accounting information, is of poor quality. In addition, nowadays many stakeholders are demanding a wide range of information and as such, we can refer to the study of Sharma et al. (2022) who analysed the impact of Indian accounting standards on the numbers and, after conducting an opinion survey, it was found that Indian companies have to present a wider range of information, which therefore argues for a possible adoption of international accounting standards.

Martinez Ferrero (2014) defined accounting information quality as "the accuracy of the information conveyed by the financial reporting process."

According to Platikanova and Perramon (2012), information is considered to be of high quality if it offers users the opportunity to distinguish differences and similarities between two economic phenomena.

Finally, according to Ewert and Wagenholf (2013), quality information must necessarily combine three elements: usefulness, absence of management of earnings and comparability.

Since the wave of financial scandals, the subject of the quality of accounting information has aroused the interest of many researchers, so in what follows we will take a closer look at this literature review.

The Development of Research on the Quality of Accounting Information

The concept of the quality of accounting information has been the subject of numerous debates on accounting and financial theories. Indeed, the quality of accounting information is a relevant concept to be analysed because quality accounting information makes it possible, on the one hand, to attenuate the informational asymmetry between financial backers and agents with capital needs and, on the other hand, to ensure a climate of confidence between financial backers, which can be translated into a decrease in the cost of financing in the cost of capital for firms.

It should be noted that to measure the quality of accounting information, the accounting literature has identified three ways to understand this concept: the first way is to understand the quality through the variation of a market variable; the second way is to evaluate the quality of accounting information through the quantity of information disclosed; and the third way is to understand the quality of accounting information through the prism of compliance with a number of criteria.

Apart from this desire to measure the concept of quality, some researchers, such as Defond (2010) and Dechow et al. (2010) have asked the following question: What were the causes of the multitude of research dealing with the concept of quality of accounting information. Indeed, these authors justified this abundant literature on the quality of accounting information by four main reasons:

The first reason cited was the 1990 finding by the Securities and Exchange Commission (SEC) that companies were using the ‘‘numbers game’’ to mislead investors. The SEC chairman at the time, Arthur Levit, accused certain economic entities of practicing earnings management. During the same time period, numerous studies on quality were conducted, such as those conducted by Brown and Caylor (2005) and Burgstahler and Eames (2006), who conducted research on the manipulations committed by managers to ensure that the result obtained was as close to the expected result as possible.

The second reason is the introduction and development of Jones’ (1991) accruals model, which is based on two economic determinants: on the one hand, the normal accruals that depend on the so-called ‘‘tangible’’ fixed assets via the unavoidable depreciation (depreciation and provisions) and on the other hand, the case where there is a proportional relationship between the WCR (working capital requirement), which is the amount that the economic entity must have to meet its financial needs arising from the gap between receipts and disbursements, and the turnover. In fact, Jones’ accruals model (1991), despite the criticism it has provoked, has made it possible to ‘‘launch’’ research into the earnings of management. Four years after the development of this model, Dechow et al. (1995) improved the model by suggesting that fluctuations in supplier credit be subtracted from fluctuations in sales. Then Kothari et al. (2005) proposed to incorporate performance into the accruals model.

The third reason that can explain the considerable increase in research on the quality of accounting information is the introduction of IFRS, International Financial Reporting Standards, which considered by the majority as being of ‘‘high quality’’ because they bring transparency, accountability and finally economic efficiency. Many researchers have tested this relationship empirically as for example Barth et al., (2008), Lenormand and Touchais (2009).

Finally, the fourth reason cited is the availability of data in different domains that allow for empirical research.

We found that research has also been interested in the concept of quality through its attributes.

According to Vickrey (1995), quality accounting information is that which meets two fundamental characteristics, namely value relevance and cost.

The other qualitative characteristics are essential but less important than those relating to cost and relevance. This researcher developed a classification of the qualitative attributes of quality accounting information by ranking the attributes from most important to least important. Other authors have quantified the concept of quality by using rigorous methodology to measure the attributes of quality accounting information. Indeed, the relevance criterion has been measured through different variants ranked on a scale from ‘‘failure to excellence.’’ Given that accounting information with an Anglo-Saxon orientation is primarily intended for investors, the latter will choose among the attributes of quality accounting information those that best meet their expectations. Thus, the attributes deemed most relevant will be assigned a higher coefficient than the others. In the end, the quality of the information will allow the privileged user of the accounting information, the investor, to measure his level of satisfaction with what he has previously expressed.

In fact, in the context of our research, we will be interested in a particular aspect of accounting information, which is value relevance.

Value Relevance

In order to understand the concept of the value of relevance in a rigorous manner, we will refer to the definition formulated by the international accounting standard setter. In fact, referring to the IASB's (International Accounting Standards Board) conceptual framework, it is stated that ‘‘relevant information influences the economic decisions of users by helping them evaluate past, present and future events,’’ according to this definition, relevant information is that which offers users the opportunity to make the best decisions in a given situation. The users, being, according to the Anglo-Saxon orientation of accounting, the investors, are presented in paragraph 10 of the conceptual framework ‘‘Since investors are the providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that may be satisfied by financial statements.’’

Miller and Modiglani's (1966) research provided the foundation for the concept of value relevance. Indeed, these authors demonstrated, using a set of economic entities related to the electrical sector, that the capitalisation of profits on assets played a central role in stock market valuation, implying that there was a relationship between accounting information and stock market information.

Two years later, Ball and Brown, (1968) developed the notion of ‘‘value relevance.’’ They focused on the analysis of earnings information and concluded that there was a correlation between the information disclosed and the price of shares. As for Beaver, (1968), this researcher apprehended the concept of value relevance thanks to a rigorous follow-up of the stock market price as well as the importance of the number of transactions following the disclosure of information coming from the compulsory documents.

However, the term ‘‘value relevance’’ was first used by Amir et al. (1993). Indeed, these researchers confirmed the existence of a relationship between accounting information and the valuation of companies.

Indeed, after presenting the concept of value relevance, we will examine in the following study the existing relationship between the adoption of IFRS and value relevance. This relationship is relevant to analyse because IFRS are high quality standards that act in favor of quality accounting information that is endowed with several attributes: comparability, understandability but especially value relevance, which refers to the notions of usefulness and relevance.

Impact of Mandatory Adoption of IFRS on Value Relevance

Exploring the accounting literature dealing with the existing relationship between IFRS adoption and value relevance, we discover that the diversity of the results is rich. We will therefore refer to research from different contexts in order to show that value relevance depends on the accounting standards used, but other factors must be taken into consideration because they have an impact on value relevance.

To illustrate this point, the following Table 1 provides an overview of the studies conducted around the world on the relationship between the adoption of IFRS and value relevance.

Table 1: Sample of Research on the Relationship between IFRS Adoption and Value Relevance

Researchers	Sample	Period	Méthodology	Résults
Latridis and Rouvolis (2010)	254 Greek listed companies	2004-2006	Logistic regression	- in 2005 there was a deterioration in liquidity and profitability - in 2006, the benefits of IFRS were recognized Factors: -IFRS requires dual preparation: tangible and intangible.
Tsalavoutas et al. (2009)	153 Greek companies	2004-2005	Logistic regression	-the positive effect of IFRS on the quality of accounting information was not recognized because the governance mechanisms were deficient
Lenormand and Touchais (2008)	160 French companies listed on the SBF 250 index.	2004	2 models are used -price models -models on yields	-The transition to IFRS has led to significantly different amounts depending on the standards. -a large amount of goodwill -a decrease in intangible assets - the transition to IFRS has led to a partial improvement of the value relevance

Researchers	Sample	Period	Méthodology	Résults
Elbakry et al. (2017)	96 German and 133 British companies	2002-2004 2005-2007	-Ohlson model -modified Ohlson model	Mixed results: Ohlson model: improved value relevance for both types of firms . Modified Ohlson model: value relevance of revenues and book values is stronger in the long run for UK firms . Factors: The value relevance depends on several factors: the institutional framework, the willingness of companies to rigorously apply the standards and finally the models used to assess value relevance.
Kim (2016)	436 Russian state-owned enterprises	2009-2012	Linear regression	- Russian state-owned enterprises that have adopted IFRS and complied with other regulatory requirements have noted an improvement in the quality of their reporting -Companies that were subject to coercive pressures without adopting IFRS did not see an improvement in the quality of their reporting.
Mironiuc et al. (2015)	65 Romanian companies listed on the Bucharest Stock Exchange	2010-2011 2011-2012	Linear regression	- Accounting information presented in accordance with IFRS has been found to be more useful to investors, resulting in an increase in value relevance
Garcia et al. (2017)	293 companies from several Latin American countries	2000-2014	Quantile regression	-the most important value relevance is that of Mexico (84.35% of listed companies comply with IFRS) -the lowest value relevance is for Brazil because this country adopted IFRS late, in 2010 -the lowest value relevance is that of Chile (intellectual capital lacks skills, new technologies are not developed, hence a delay in the flow of information)
Gong and Wang (2016)	Public companies from 9 countries	1997-2012	Regression model	-The relevance of the value of research and development costs is lower for countries that allow optional capitalization. -value relevance does not change for countries where capitalization of research and development costs has been mandatory
Chebaane and Ben Othman (2014)	10,838 observations (firms/years) from 7 emerging countries (United Arab Emirates, Bahrain, Jordan, Kuwait, Qatar, Turkey, South Africa)	1998-2012	Regression model (Ohlson, 1995)	-Improved value relevance of accounting figures and earnings per share -Positive relationship between value relevance and the following factors: common law legal system, degree of openness to the outside economy, strong investor protection, developed capital market.

In summary, what we have learned from these different studies on the attribute of value relevance is that it is unrealistic to believe that the simple adoption of IFRS will lead to the publication of quality accounting information; indeed, apart from the adoption of IFRS, other factors must be taken into consideration.

In fact, accounting is one of the relevant means to produce quality accounting information, but other factors come into play, such as governance mechanisms, institutional framework and human capital development. Cai, Rahman, and Courtenay (2014) argued that the positive effects of IFRS can only be observed in countries where local standards do not deviate too far from the Anglo-Saxon view of IFRS and where the institutional framework plays a central role in IFRS adoption.

Regarding the review of the literature on the association between the adoption of IFRS, mandatory or voluntary, and the quality of accounting information over the period from 2007 to 2013 Duarte et al., (2015) concluded that the quality of accounting information can not be assessed by the criterion of mere adoption of IFRS, the mere transition to IFRS does not allow companies to certify that the accounting information is of high quality, there are other factors that come into play. As Garrouch (2016) points out, internal and external governance mechanisms are important tools for ensuring IFRS compliance. A ‘‘laissez-faire, laissez-passer’’ application of IFRS can never result in quality accounting output.

Thus, after a thorough review of the accounting literature on the relationship between IFRS adoption and value relevance, this leads us to formulate our research hypothesis:

Hypothesis: There is a positive relationship between IFRS adoption and value relevance of accounting information.

METHODOLOGY

Choice of the Sample

In order to test our hypothesis, we chose the French context because it is more relevant to test the impact of Anglo-Saxon standards in a non-Anglo-Saxon environment than in an Anglo-Saxon environment because they have different characteristics.

We therefore chose the SBF 120 companies monitored over the period 2003–2008. It should be noted that we did not choose this study period by pure chance, but our choice is justified. Indeed, the year 2005 representing a pivotal year in the history of international accounting standards, in fact at this time the standard setter imposed on all listed companies from member countries of the European Union, to adopt the IFRS in a mandatory manner.

We therefore decided to compare the level of the value relevance of accounting information before and after this date.

In order to better understand how our sample was constituted, the following Table 2 shows us step by step how we finally obtained a sample composed of 534 observations over the period (2003–2008).

Table 2: Sample Constitution

Number of listed French companies	120
Banking institutions	5
Insurance companies	5
Leasing companies	3
Companies that have early adopted IFRS	18
=Number of companies available	89
Number of potential observations (2003 to 2008)	534

Our data was collected by referring to the financial statements of the various companies and over the period from 2003 to 2008

The Level of Value Relevance of Accounting Information Apprehended through the Ohlson Model (1995)

In order to assess the level of the value relevance, we will refer to Ohlson's model, (1995). According to this model, the share price is the variable to be explained and is conditioned by two explanatory variables: net assets per share and earnings per share.

The share price depends on other information related to the environment represented by ε_{it}.

It should be noted that the value of relevance o is assessed through the coefficient δ_2 which represents the earnings per share. Indeed, an increase in this coefficient is evidence that the accounting information is relevant.

Model of Ohlson (1995)

$$P_t = \delta_0 + \delta_1 BVPS_{it} + \delta_2 EPS_{it} + \varepsilon_{it}$$

Indeed, before presenting the analysis of the results of this model, we will present in the following Table 3 how our variables were calculated :

Table 3: Presentation of Different Variables

Type of Variables	Acronym	Measured Effect
Dependent	P_{it}	Market share price
Independent	*BVPS*	Book value of equity per share of compagny i at time t
Independent	*EPS*	Earnings per share of compagny i at time t

Analysis of Results

In the following, we will present the descriptive statistics according to the two periods, during the pre-IFRS adoption phase, that is, from 2003 to 2004, and during the post-IFRS adoption phase, that is, from 2005 to 2008.

Descriptive Statistics

Table 4: Descriptives Statistics from 2003 to 2004

Variables	Observations	Mean	Median	Standard Deviation
P	178	62.24	53.68	28.65
BVPES	178	21.29	42.63	14.53
EPS	178	8.20	6.57	6.32

Table 5: Descriptives Statistics from 2005 to 2008

Variables	Observations	Mean	Median	Standard Deviation
P	356	66.47	54.86	31.29
BVPES	356	21.42	46.23	15.60
EPS	356	8.71	7.24	6.25

According to the results, the highest average is that of the share price, which is 66.47 during the post-mandatory IFRS adoption phase; however, during the so-called pre-IFRS adoption phase, the average of this variable is 62.24.

We therefore conclude that the average relative to the variable BVPES was higher during the period from 2005 to 2008.

In sum, we can already state that the transition to IFRS has led to an increase in the share price of companies.

After analysing the descriptive statistics, we will present the results of the Ohlson, (1995) model.

Indeed, the first estimation concerns the period from 2003 to 2004 and a second estimation covers the period 2005–2008. The objective is therefore to compare the level of value of relevance according to these two periods (before the adoption of IFRS and after the adoption of IFRS).

Discussion of the Results

Table 6: Estimation of the Ohlson Model from 2003 to 2004

	$P_t = \gamma_0 + \gamma_1 BVEPS_t + \gamma_2 \text{EPS}t + \varepsilon_i$					
	γ_0	$t(\gamma_1)$	γ_2	$t(\gamma_2)$	Adjusted R^2	N
Pre adoption of IFRS	7.13	0.27	9.65	17.65	59.63%	
Expected Sign						
Test pre adoption of IFRS	3.62		6.54		35.21%	

Table 7: Estimation of the Ohlson Model from 2005 to 2008

	$P_t = \gamma_0 + \gamma_1 BVEPS_t + \gamma_2 \text{EPS}t + \varepsilon_i$					
	γ_0	$t(\gamma_1)$	γ_2	$t(\gamma_2)$	Adjusted R^2	N
Post adoption of IFRS	8.15	0.65	19.27	39.45	79.58%	
Expected Sign						
Test post adoption of IFRS	6.59		8.25			

In fact, comparing the results we obtained between the pre-IFRS adoption phase and the post-IFRS adoption phase, we note that the coefficient relating to earnings per share has increased from 9.65 to 19.27, an increase of approximately 99%. Thus, in view of the results found, we can affirm that the value relevance has increased significantly during the phase known as post adoption of IFRS.

Referring to the coefficient of determination, we find that our model is quite significant ; the coefficient of determination is equal to 79.58%, and given that the closer the coefficient of determination is to 1, the more relevant the model is in our case, our model is relevant.

Thus, we can say that the independent variables BVPS and EPS explain 79.58% of the stock price fluctuations.

Thus, based on the results, we confirm our research hypothesis, which suggests the existence of a positive relationship between IFRS adoption and value relevance. Our research therefore recognises that the adoption of IFRS is beneficial for the SBF 120 companies tracked over the period from 2003 to 2008. Thus, our findings are consistent with those of Mirionuc et al. (2015) Nulla (2014) and Kim (2016).

CONCLUSION

Aware that the general trend is towards convergence in the adoption of IFRS, we decided to study the following issue in the context of our research work.

Does the Transition to International Accounting Standards Lead to More Relevant Accounting Information?

Based on previous work, we studied the quality of accounting information through the attribute of value relevance. Indeed, we assessed the level of value relevance through Ohlson's, (1995) model and concluded that the mandatory transition to international accounting standards led to more relevant accounting information since we observed an increase in the share price. Our results thus recognise the beneficial contribution of the transition to international accounting standards and are consistent with the results of many researchers who have studied the relationship between IFRS adoption and value relevance. As such, we cite the work of Nulla (2014), Latridis and Rouvolis (2010) and Zavodny et al. (2022).

It should be noted that this research work contributes to prove to companies still reluctant to adopt IFRS that IFRS are high quality standards because they lead to more relevant accounting information. These companies have all interest in proceeding to the adoption of IFRS and they will be able in this case to present to the investor who is their preferred user, a high quality accounting information.

In sum, to conclude, compliance with a common accounting language is today one of the effective alternatives for producing quality accounts. However, companies should not ‘‘rely’’ solely on the adoption of IFRS to produce ‘‘naturally’’ high quality accounts, other factors must be taken into account such as: effective and efficient governance mechanisms, a regulatory framework that promotes transparency and defends the interests of the privileged users of accounting information as a priority, and finally, competent personnel capable of applying IFRS in a rigorous manner. Considering IFRS as a ‘‘quality label’’ (Daske et al., 2006) is not enough to obtain the desired results, nor is it enough to produce quality accounts. We can only hope to produce quality accounting when all companies in the world adopt IFRS and work towards a political, economic and social framework that is in line with the requirements of the new environment, such as transparent reporting that is now a requirement from which no company should deviate.

As with any research work, this work has made the following contributions:

- Proving the existence of a causal relationship between the transition to international accounting standards and the increase in informational relevance
- Confirm the fact that international accounting standards are high quality standards that ensure the production of quality accounting information intended primarily for investors but also for other stakeholders.
- To demonstrate to companies that apply their local accounting standards what they lose by not adopting international accounting standards.

To prove to non-Anglo Saxon countries that the adoption of IFRS is beneficial even for countries that have a vision of accounting that is different from the Anglo Saxon conception.

- Despite the fact that our research follows a rigorous approach like any research work, we came up against certain limitations such as:
- Difficulty in collecting data, because for some data, there is no standard presentation and therefore each company chooses the way to present its data.
- Given that the concept of the quality of accounting information is a multidimensional concept, we had doubts about the choice of referring to a particular attribute, but after a rigorous analysis of the existing literature we chose to refer to the concept of informational relevance because we are convinced that today’s investor will mobilise his funds in a company that informs him in time of any information that may affect his decisional choice.
- Indeed, future researchers will be able to take advantage of the crisis of COVID-19, a worldwide pandemic, to choose other attributes to understand the quality of accounting information. They will therefore be able to compare the quality of accounting information according to two periods: before the COVID-19 pandemic and after this period.

In particular, they will be able to compare the level of quality of accounting information for a sample of companies following local accounting standards with a sample of companies following international accounting standards, the aim being to identify which accounting standards lead to better quality accounting information.

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