Pre and Post IFRS Loss Avoidance in France and the United Kingdom

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Abstract : This paper analyzes the effect of a single uniform accounting rule on reporting quality by investigating the influence of IFRS on earnings management. This paper examines whether earnings management is reduced after IFRS adoption through the use of "loss avoidance thresholds", a method that has been verified in earlier studies. This paper concentrates on two European countries: one that represents the continental code law tradition with weak protection of investors (France) and one that represents the Anglo-American common law tradition, which typically implies a strong enforcement system (the United Kingdom). The research investigates a sample of 526 companies (6822 firm-year observations) during the years 2000 – 2013. The results are different for the two jurisdictions. This study demonstrates that a single set of accounting standards contributes to better reporting quality and reduces the pervasiveness of earnings management in France. In contrast, there is no evidence that a reduction in earnings management followed the implementation of IFRS in the United Kingdom. Due to the fact that IFRS benefit France but not the United Kingdom, other political and economic factors, such legal system or capital market strength, must play a significant role in influencing the comparability and transparency cross-border companies' financial statements. Overall, the result suggests that IFRS moderately contribute to the accounting quality of reported financial statements and bring benefit for stakeholders, though the role played by other economic factors cannot be discounted.