Int Adv Econ Res (2014) 20:123–124
DOI 10.1007/s11294-013-9429-9

RESEARCH NOTE

Financial Reporting Disclosure Practices: Particular Case of Fair Value Measurement

Maria Ionela Damian · Jiří Strouhal · Carmen Giorgiana Bonaci · Razvan V. Mustata

Published online: 19 July 2013
© International Atlantic Economic Society 2013

The financial reporting process involves an extremely complex relationship between accounting, regulators, and markets. As the 2010 International Accounting Standards Board's Conceptual Framework for Financial Reporting emphasizes, the objective of general purpose financial reporting is to provide useful financial information about the reporting entity to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Special status is automatically attributed to investors whose needs, due to their role in providing resources for the entity, must be addressed. The international accounting standard setter therefore admits to putting investors first among users of accounting information. Even when looking at other stakeholders, the purpose of the financial reporting process is to provide information that is useful for the decision making process. The term "accounting information" encompasses both quantitative and qualitative data. Sound corporate governance policies should therefore stimulate companies to present information that is useful when analyzed in relation to users' needs. Despite sounding quite simple, this represents an objective which is not easy to achieve.

M. I. Damian · C. G. Bonaci · R. V. Mustata
Babes-Bolyai University Cluj Napoca, T. Mihali 58-60, 400592 Cluj Napoca, Romania

M. I. Damian
e-mail: maria.damian@econ.ubbcluj.ro

C. G. Bonaci
e-mail: carmen.bonaci@econ.ubbcluj.ro

R. V. Mustata
e-mail: razvan.mustata@econ.ubbcluj.ro

J. Strouhal (✉)
University of Economics Prague, W. Churchill Square 4, 130 67 Prague 3, Czech Republic
e-mail: strouhal@vse.cz

المنارة للاستشارات

It is our argument that a financial reporting process that generates information matching users' needs helps companies become more competitive within both the local and global environments. The paper focuses on a narrower objective of analyzing companies' disclosure practices in relation to fair value measurement. While fair value represents a controversial topic in itself, the recent financial crisis has brought it even further into the spotlight. Furthermore, the financial sector has always been most interested in accounting regulation developments concerning fair value. This is because companies that belong to the financial sector manage financial instruments that often require fair value measurement.

This study analyzes how companies in the financial sector behave in relation to fair value measurements and implicit disclosure, and to what extent these disclosures are influenced by the recent financial crisis. Therefore we selected 20 publicly traded companies from the financial sector. A total of 10 companies were selected from the constituents of the London Stock Exchange index FTSE 100. The other 10 were selected from the constituents of the Frankfurt Stock Exchange DAX and MDAX indices. We analyzed these companies' financial statements for the years 2007, 2008, and 2009. Afterwards, we calculated a firm-based disclosure score called the disclosure index, conducted a descriptive analysis of its evolution in time and space, and searched for possible correlations between this index and the use of fair value for financial reporting valuations.

We concluded that the fair value measurements disclosure index had an upward trend during the study period (average value of 0.5 in 2007 increasing to 0.58 in 2008 and 0.71 in 2009), as given the ambiguity surrounding the presentation and measurement of fair values in financial statements during the recent economic and financial crisis. In this regard, many tried to increase the volume of disclosures regarding fair value measurements for financial information in order to maintain user confidence, especially investors. Taking into consideration the country where each company's headquarters was located, we also observed that the disclosure index space trend indicates that companies from the UK systematically disclosed more about fair value measurements (average value of disclosure index 0.5 in 2007; 0.63 in 2008; and 0.73 in 2009) than those from Germany (average value of disclosure index 0.48 in 2007; 0.48 in 2008; and 0.69 in 2009).

The main limitation of the study is typical to empirical studies, namely the sample size (20 statistical units). Small sample size obviously affects the accuracy of the results, but we believe that does not affect the validity of the conclusions drawn in this study. Future research should expand the sample to a larger number of companies, especially to include companies listed on U.S. stock exchanges, in order to capture differences in the application of rules-based standards (U.S. GAAP) and those based on principles (IFRS). Future studies should also include data spanning a longer period of time to assess the dynamics of financial reporting.

Acknowledgments This paper is one of the research outputs of the project P403/11/0002 registered at Czech Science Foundation (GAČR).

المنارة للاستشارات

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

المنارة للاستشارات

www.manaraa.com