

Effects of IFRS-13 on relevance of fair value adjusted by credit risk

González, Mariano

*Business Administration Department, School of Economics,
CEU San Pablo University,
Julian Romea, 23. 28003 Madrid (Spain)*

Abstract

Accounting harmonization in Europe by International Accounting Standards adoption is a recurrent object of study in the accounting literature. In this paper the consequences of the adoption of IFRS-13 are analyzed. In particular, we study the effects of financial leverage, own probability default (Debt Value Adjusted) and financial institutions credit risk (Credit Value Adjusted) have on the excess risk of non-financial companies on the market risk, before and after the adoption of the accounting standard on fair value. Our empirical study focuses on member companies of the EUROSTOXX-50 to avoid other risk factors (such as exchange rate or different risk free rate) and at the same time, easily identify the market portfolio. To overcome the problems of endogeneity in the panel data, we use the technique GMM-sys with instrumental variables to estimate the parameters. Our results show that the leverage effect on excess risk does not change after adopting the standard, however, the own and the financial institutions default probabilities become statistically significant. Furthermore, our proposal allows estimate sectorial asset betas and, we obtain in all cases asset betas lower than equity betas and, found an average debt beta of 0.4 for the sample period.

Keywords: fair value, Credit Value Adjust, Debt Value Adjust, volatility.

JEL: D82, G12, G34, M41.

*Corresponding author

Email address: gonsan@ceu.es (González, Mariano)

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