



IMPACT OF FIXED ASSET REVALUATION PRACTICE ON INVESTOR PERCEPTION IN BANGLADESH STOCK MARKET

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ABSTRACT

This study intends to demonstrate empirical evidence concerning investor perception of fixed asset revaluation (FAR) practices by publicly traded companies in Bangladesh. The sample used in this study consisted of 191 general and institutional investors selected based on the convenience sampling technique. A structured questionnaire containing a five-point Likert scale was used to gather information concerning investor perceptions. A majority (87%) of the respondents believe that the fairly-practiced FAR model is better than the cost model to show the real picture of companies' fixed assets. Respondents reveal their doubts about the motives and fairness of the FAR model in Bangladesh. Around 86% of the respondents agreed that companies resort to FAR mainly to increase their stock prices. Some 90% of the respondents agreed that companies practiced FAR to achieve easy access to loans. A significant number of investors believe that FAR had an active role in creating the stock market bubbles and their subsequent bursts in Bangladesh. The current study's findings provide valuable pointers to investors, regulators, and other stakeholders. Since investors view FAR with suspicion, regulators should enforce relevant statutes to avoid motivated, manipulated, and selective disclosure.

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1. INTRODUCTION

A long-standing debate exists among practitioners, investors, and other users of financial statements about the superiority between the historical cost model and the revaluation model of reporting fixed assets in the balance sheet. The choice between the valuation models is at the discretion of management of concerned companies because both models are allowed in international accounting standard (IAS) 16. The historical cost model has been the dominant practice all over the world and is considered practical and objective from the verifiability viewpoint (Khalil, Asad, and Khan, 2018). The main argument against historical cost, however, is that it lacks relevance and helps conceal information about companies' true financial health (Poerwati et al., 2020; Bae, Lee, and Kim, 2019) because fair values of fixed assets change due to inflation, passage of time, asset use in operations, technological development, or some other reasons. Hence, for trustworthy asset presentation, companies require fixed assets revaluation (FAR) — a formal process of updating the carrying value of fixed assets to their current values (Bae et al., 2019; Sellhorn and Stie, 2019; Yoo, Choi, and Pae, 2018). Fair value information of assets is more relevant to users and it helps them achieve two primary objectives of financial statements—*informativeness* and *managers' stewardship* (Sellhorn and Stie, 2019; Palea, 2014; Barac and Sodan, 2011; Seng and Su, 2011; Ronen, 2008).

Proponents argue that FAR minimizes information asymmetries and opportunistic behavior; and helps combat the problem of equity depletion, borrowing at favorable terms, discovering the actual rate of return, taking more accurate investment decisions, and communicating performance expectations (Rafay, Yasser, and Khalid, 2019; Sellhorn and Stie, 2019; Wali, 2015; Zakaria, Edwards, Holt, and Ramchandran, 2014; Abody, Barth, and Kasznik, 1999; Brown, Izan, and Loh, 1992).

Opponents argue that upward FAR is highly subjective and unreliable and that it allows managers to play the financial numbers game by reporting arbitrary accounting figures and ultimately shake investor confidence in financial reporting (Rahman and Hossain, 2020; Barac and Sodan, 2011; Wang, 2006). Moreover, the application of fair value in emerging markets is susceptible to produce unreliable information and market noise due to improper

compliance with the revaluation regulations (Dudycz and Prażników, 2020; Sellhorn and Stie, 2019; Mohammadrezaei, Mohd-Saleh, and Banimahd, 2015). However, FAR is considered inevitable in some particular circumstances, such as mergers, acquisitions, and IPO preparation (Song and Pae, 2019). If any revaluation enhances property, plant, and equipment (PP&E) value to a significant extent, it abates two significant risks, such as bankruptcy and stock exchange delisting. Besides, any hefty growth of fixed assets through revaluation indicates that the extent of information asymmetry about PP&E was huge, which is expected to be reduced by FAR disclosure (Song and Pae, 2019).

FAR requires an accounting entry that has no direct impact on concerned companies' cash inflows, but the cost of undertaking the revaluations (Kang and Paik, 2020; Brown et al., 1992). Any increment arising from revaluation is directly added to equity, whereas any decrement arising from revaluation is shown in the income statement. Hence, FAR practice in no way accelerates reported current income. It can reduce reported earnings, however, in case of any downward revaluation or through an increased amount of depreciation arising from the upward revaluation of depreciable PP&E (Yoo et al., 2018).

Despite debates and suspicions about FAR fairness and application, as mentioned by Majercakova and Skoda (2015), Rahman, Hossain, and Habibullah (2017), and Rahman and Hossain (2020), many listed companies in Bangladesh have undertaken FAR as an option delineated in IAS 16. As fixed tangible assets generally consist of a large share of a firm's total assets, the valuation method's selection influences the figures in financial statements significantly (Ballas, Panagiotoub, and Tzovasc, 2014). Before IAS 16 was adopted in Bangladesh with effect from January 01, 2007, only a few companies in the country were found to follow the revaluation model. The market observed a growing FAR practice trend after 2007 and found the highest number of companies to follow it during the stock market bubbles before they burst in 2010–11. After the devastating bubble burst, an investigation committee was formed. The committee report indicated FAR as one reason behind formation of the stock market bubble and its subsequent burst (Khaled, 2011). The study of Alam (2014), Hasan, Rahman, and Hossain (2014), and Rahman et al. (2017) also mentioned FAR as responsible for the bubble burst.

None of these studies, however, have uncovered investors' perception toward FAR, specifically FAR motives, the fairness of the practice, and FAR's role in the stock market bubble bursts.

Although many studies on FAR have been conducted in developed countries, the Bangladesh stock market characteristics are distinct in terms of regulatory setting, market environment, saving-investment culture, and the economic value system. For example, the Bangladesh market hosts mostly small investors who lack even the basic stock market knowledge. They trade shares based on rumors or follow big investor trends. Moreover, investors' perceptions towards FAR are also absent in the studies conducted in developed economies. Therefore, analysts, regulators, and academics might have great interest in knowing the investors' perception of FAR practice in Bangladesh.

In the backdrop described before, the study aims at answering some questions, most importantly: what do investors perceive regarding the motive for FAR? Is the objective of applying the FAR model to present the fair value of fixed assets? Do investors believe that FAR is practiced fairly in Bangladesh? Do they consider that FAR was responsible for the stock market bubble and its subsequent burst in 2010–11? Do they rely on FAR disclosures made by the revaluer companies? Do they believe that companies practice FAR to report fixed asset fair value or fulfill some implied motives? Answering these questions requires a thorough investigation of corporate FAR from the perspective of Bangladesh. Thus, this study's specific objective is to measure investor perceptions concerning corporate FAR in Bangladesh. The remaining parts of this paper have been organized as follows: section two depicts the FAR practice in the Bangladesh stock market context; section three reviews the relevant literature and develops the hypothesis; section four explains the methodology used; section five analyzes the data and explains the results, and section six concludes the study.

2. FAR OPERATIONS AND STOCK MARKET IN BANGLADESH

Prior studies, such as Khaled (2011), Hasan et al. (2014), Rahman (2017), and Habibullah and Hossain (2017), have pointed at FAR as one of the causes behind the 2010–11 stock market bubble burst in Bangladesh. Thus, a briefing on the FAR procedure, its disclosures,

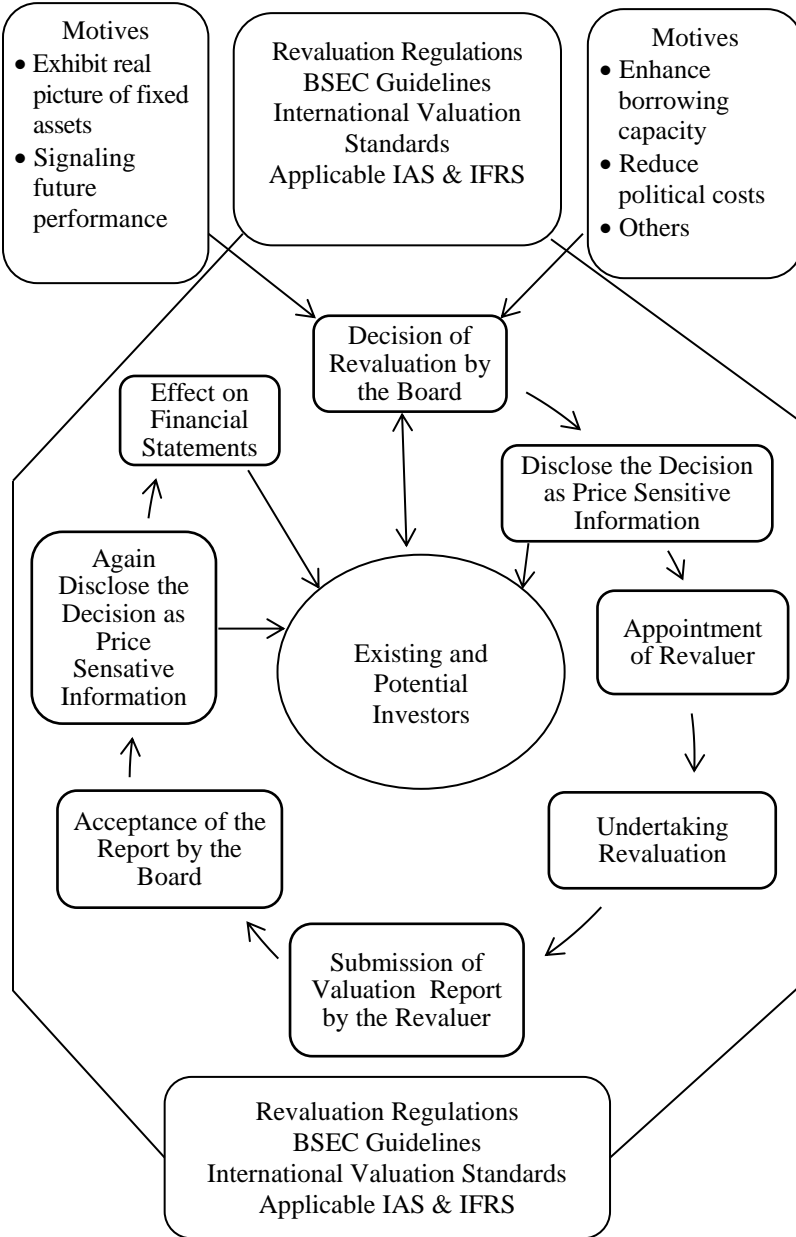
and relation to stock market operations is necessary to understand the context of FAR in the country. As Bangladesh has no separate accounting standards of its own, it adopts IASs and International Financial Reporting Standards (IFRSs) for professional accounting practices. Consequently, IAS 16 has been the basic accounting standard related to the accounting treatment of PP&E and also applicable to FAR regulations in the country.

Before the 2010–11 Bangladesh stock market bubble burst, there was no national guideline concerning FAR. At that time, the international valuation standard (IVS) guidelines concerning FAR were also not compulsory for companies intending to have their fixed assets revalued. All these created an avenue for companies to practice FAR arbitrarily (Rahman and Hossain, 2020). After the bubble burst, the Bangladesh Securities and Exchange Commission (BSEC) felt the necessity for a comprehensive FAR guideline in the country. Consequently, BSEC developed its guideline for FAR, issued it on August 18, 2013, and made it mandatory for publicly traded companies to follow. The BSEC guideline has made it compulsory for companies listed in Bangladesh to follow the applicable IVS provisions. Thus, along with BSEC notification on asset revaluation, IAS 16 and IVS 17 are the key instruments guiding FAR in Bangladesh.

Small investors with a lack of fundamental stock market knowledge, rumor-based trade, inadequate regulatory control, insufficient institutional investors, a weak form of efficiency, and occasional avenue for speculative foreign investors are the typical characteristics of the Bangladesh stock market (Rahman and Hossain, 2020). During its more than sixty years, the market has experienced two devastating bubble bursts. The first one occurred in 1996, and the most devastating one occurred in 2010–11.

The nightmare of the last stock market bubble burst of 2010–11 has increased investor concern about future market shock. In these contexts, mere portfolio diversification is not enough to protect investors. Also, investors, regulators, and other related parties should be aware of the causes of developing bubbles and their subsequent bursts. Besides, investment decisions based on accurate information is imperative for a healthy stock market (Bae et al., 2019).

FIGURE 1
Relationship between FAR Disclosures and Investors



Market reaction to FAR disclosures depends on market efficiency. An inefficient market inspires investors to respond irrationally to FAR disclosures (Bae et al., 2019; Penman, 2007). The Bangladesh stock market being an inefficient one causes concern for stakeholders regarding corporate FAR practices. In this context, exploring investor perception of FAR practice might be of great interest to concerned parties.

3. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The debate among investors, regulators, corporate managers, practitioners, standard setters, and academics concerning the superiority between the revaluation model and the historical cost model has been a burning issue (Christensen and Nikolaev, 2013). Both upward and downward FAR are allowed in many developed, developing, and underdeveloped countries. However, upward FAR is not allowed in some developed countries, such as the USA, Canada, Japan, and Germany (Rahman, 2017; Seng and Su, 2011; Easton, Edey, and Harris, 1993). As in many other countries, FAR is a voluntary accounting policy choice in Bangladesh. A review of relevant studies on FAR from national, regional, and international contexts was made to find out the research gap.

Many studies have been conducted on asset revaluation covering issues, such as the motivation, timing, and effects of FAR. Most FAR studies have been governed by the positive accounting theory (PAT), which has three hypotheses—the debt covenant hypothesis, the signaling hypothesis, and the political cost hypothesis (Gaffikin, 2007). The basis of PAT is that materialistic self-interest or opportunistic behavior underscores every economic activity; hence a driving force behind selection of accounting methods and policies, such as FAR. The debt covenant hypothesis is based on the conflicting relationship between shareholders and debtholders, where it is assumed that managers perform their job for the overall interests of owners and usually try to transfer debtholders' wealth to shareholders. According to this hypothesis, owner-managers are likely to select an accounting procedure that shows more current income or reduces the debt-equity ratio to avoid possible violations of debt covenant or to avoid default cost.

The signaling hypothesis is based on the assumption of information asymmetry occurring when the quantity and quality of available information about a company differ between managers and investors (Chainirun and Narktabtee, 2009). To resolve information asymmetry and to eliminate underinvestment problems, asset revaluation can be utilized to signal future firm performance. According to the political cost hypothesis, size is an important factor for political consideration. Larger firms are consistently monitored by parties, such as trade unions, government, consumer associations, and other community groups (Godfrey, Hodgson, and Scott, 2000). The main focus of those parties remains on the firm's accounting figures, basically the profit. Consequently, management of larger firms apply accounting choices that lessen profit percentages, and thus reduce political visibility cost. FAR is frequently used to escape political costs by reducing a firm's ROE and/or lowering its profit via the increased amount of depreciation expenses.

To explain the motives behind FAR, researchers, such as Jefriyanto and Mulya (2019), Baek and Lee (2016), Yao et al. (2015), Christensen and Nikolaev (2013), Lopes and Walker (2012), Chainirun and Narktabtee (2009), Gaffikin (2007), Jaggi and Tusi (2001) applied one or more of these three hypotheses of PAT. On the other hand, Madison (2014), Palea (2014), Abdel-Khalik (2010), and Ronen (2008) explained FAR decisions with the help of the stewardship theory. According to these researchers, management resorts to FAR to prove their stewardship. Another group of researchers, such as Bae et al. (2019), Jefriyanto and Mulya (2019), Sellhorn and Stie (2019), Song and Pae (2019), Yao et al. (2015), and Zakaria et al. (2014) have explained FAR motives with the help of the agency theory. The agency theory implies that self-interest is the main driving force behind managerial performance; thus, the revaluation model choice.

Although the officially declared general objective of FAR is to present a real picture of fixed assets in the balance sheet, researchers have found diverse implied motives behind the practice. Easton et al. (1993) identified the objective behind FAR is to reduce the debt-to-equity ratio (DER) in Australia; Aboody et al. (1999) have found the motive was to indicate better future performance. Seng and Su (2010) and Cheng and Lin (1999) have affirmed that upward FAR is done to reduce political costs, debt contracting costs, and information asymmetry problems. Missonier-Piera (2007) has found that FAR is to improve creditors' perceptions about the

economic strength of concerned companies and thereby increase their borrowing capacity. On the other hand, Chainirun and Narktabtee (2009) and Gaeremynck and Veugelers (1999) have observed that FAR's motive is to signal investors about a company's status growth opportunities, future performance, and liquidity. Like Missonier-Piera (2007), Barac and Sodan (2011) have found FAR is a trick to improve companies' borrowing capability and reduce borrowing cost in Croatia. Iatridis and Kilirgiotis (2012) have revealed that managers usually practice FAR to capture the highest favorable financial outcomes. Lopes and Walker (2012) have observed that companies pursue FAR to improve their equity position. Zakaria et al. (2014) have accepted several motives of FAR, such as enhance performance-driven financial benefits, decrease debt-contracting costs, reduce political costs, decrease information asymmetry problems, offer value relevance, and signal investors.

3.1 ENTITY SPECIFIC FACTORS, FAR AND FUTURE PERFORMANCE

When investigating entity-specific factors influencing FAR decisions, researchers have found several relevant factors. Brown et al. (1992) have explored the high debt-to-asset ratio (DAR), the high value of fixed asset intensity, and the low amount of reserve and surplus as influential factors behind FAR. Cotter and Zimmer (2003) have found that companies with a declining trend of operating cash flows and an increasing trend of secured debt perform FAR in Australia. Barlev et al. (2007) have found leverage, liquidity, financing sources, financing requirement, capital intensity, capital expenditures, market-to-book ratio, return on asset (ROA), company size, and previous revaluations influencing FAR decision. Missonier-Piera (2007) has explored a new factor, "high export sales," associated with upward FAR. Barac and Sodan (2011) have found that large and profitable companies with low liquidity ratios, poor cash flow ratios and increased debt perform upward FAR. Iatardis and Kilirgiotis (2012), like Seng and Su (2011), have found firm size positively related to FAR. The study has also observed some contrasting views that firms with foreign operations, low intensity of fixed assets, and high debt capital needs are more likely to perform FAR. Lopes and Walker (2012) have found a positive association between FAR and indebtedness and liquidity in Brazilian companies.

They observed that FAR was negatively related to the corporate governance index, future performance, prices, and returns.

Tabari and Adi (2014) have found a significant relationship of FAR with DAR, operating cash flow, total assets, and fixed asset intensity (FAI). Nijam (2018) has found that companies with a high share of land and building in their PP&E and financial leverage apply the revaluation model. The study has not found any effect of firm size, ROA, and return-on-equity on the choice of revaluation model. However, the research has noted a significant positive impact of leverage on the FAR decision. Based on ten years' data, the Pakistani study of Rafay et al. (2019) has found that large companies with high FAI and a low percentage of stock dividends are more likely to adopt FAR. Jefriyanto and Mulya (2019), in their study on the Indonesia context, have found that fixed asset size and intensity positively related to FAR. Contrarily, another Indonesian research conducted by Poerwati et al. (2020) has found no effect of firm size influence on the FAR decision. Instead, they have found a significant effect of FAI and operating cash flow. Few studies have also examined the effects of FAR on future firm performance. Azmi and Ali (2019) have found a positive effect of FAR on future operating income, but no significant impact on cash flows. Abbas, Faisal, Ali, and Fazal (2019) who studied the cement sector in Pakistan, however, found a significant negative impact of FAR on future performance. On the other hand, the South Korean study conducted by Bae et al. (2019) investigated the relationship between FAR and stock price crash risk. The study concluded that FAR improves the timeliness and relevance of information, and ultimately reduces stock price crash risk, and develops a sustainable market.

3.2 STUDIES ON FAR IN BANGLADESH

Few studies exist on FAR in the context of Bangladesh. However, studies, such as Rahman and Hossain (2020), Safiuddin (2018), Rahman (2017), Alam (2014), Hasan et al. (2014), and Khaled (2011) have been found relevant to FAR. All these studies have been conducted after the Bangladesh stock market bubble burst in 2010–11. Khaled's (2011) report, which was the outcome of a committee formed to investigate the 2010–11 stock market crash, has mentioned FAR as one of the market crash causes. Similarly, Hasan et al. (2014) has mentioned corrupt FAR practices as one of the reasons behind the stock market bubble burst. Alam (2014) has conducted a

study on non-financial companies in Bangladesh and found that FAR was unpopular during the period of his study. Rahman (2017) has investigated FAR before IPOs and found a negative relationship between FAR and fixed asset intensity. The study has observed FAR as a widely accepted practice of IPO companies in Bangladesh and found around 73% of newly listed companies have their fixed assets revalued before IPOs. Rahman and Hossain (2020) have found evidence of significant financial numbers game by practicing FAR.

A review of existing literature indicates that FAR has been a very interesting topic to the researchers in accounting and finance from both national and international contexts. Some researchers have proved the link of different theories with FAR practices. On the other hand, others have identified the motivational and company-specific factors influencing FAR. Some have investigated the market reactions of the practice. All the previous researchers have extensively used secondary data collected from stock exchanges and company annual reports. Thus, there is a dearth of primary data-based studies intended to investigate investor perception of FAR. Against this backdrop, exploration of investor perceptions toward FAR could contribute to the existing literature.

3.3 HYPOTHESIS REGARDING FAR DISCLOSURE AND INVESTOR PERCEPTIONS

As in many other countries, FAR is a voluntary accounting practice in Bangladesh and is also considered a creative accounting practice (Safiuddin, 2018). Cotter and Zimmer (2003) have found that managers recognize and disclose FAR information when they think revaluation estimates are more reliable. According to Tay (2009), the main reason behind FAR is to show the fair value of fixed assets in the balance sheets of the respective companies. Tay (2009) and Cotter and Zimmer (2003) have found positive and fair intentions behind FAR. However, by applying the FAR model, companies can increase the monetary amount of assets and shareholder equity, which ultimately reduces their DER and debt costs leading to easier sanction of loans (Kang and Paik, 2020; Baek and Lee, 2016; Lopes and Walker, 2012). The debt covenant hypothesis also supports these. Although FAR has no direct effect on the current year's cash flow, it can help companies meet their working capital needs by easing loan arrangements and reducing borrowing costs. Thus, FAR

can positively influence future net profit after tax and net operating cash flows. This argument has been supported by Azmi and Ali (2019), who have found a positive impact of FAR on future operating income. Moreover, any substantial growth of FAR's fixed assets changes the net asset value (NAV) and the FAI, which are closely monitored by investors and lenders. On the other hand, companies facing negative or very poor NAV may resort to FAR to improve their NAVs. Thus, if the managerial motive behind the FAR decision is to play a financial numbers game, FAR should enhance both NAV and FAI to a significant extent.

Cotter and Zimmer (2003) have stated that the market participants discount disclosure more than recognition. They have argued that reporting of assets in the balance sheet after FAR makes disclosure more relevant, reduces information asymmetry problems, and enhances capital market effectiveness. In applying the FAR model, IFRS requires companies to furnish related information correctly so that investors can make informed decisions. Timely communication of accurate and reliable information also reduces uncertainty about the value of a company's assets and future performance. Consequently, investors of the debt and equity market feel comfortable purchasing shares of respective companies (Choi, Pae, Park, and Song, 2013). Abbas et al. (2019) stated that investors do not perceive FAR practice fair in Pakistan. Although the main objective of financial reporting is to provide decision-useful information to varieties of users, including investors, creditors, and others, accounting standard boards have emphasized capital market participants' needs because investors are the provider of risk capital to firms (Majercakova and Skoda, 2015). Investors also cannot get access to tailor-made information directly from the companies, and thus they rely on financial report information.

Empirical research has found a relationship between fair value accounting and stock returns. Accordingly, Adoby et al. (2001) have found that an accounting figure influences stock price only if the investors consider that the information is measured reliably and relevant in valuing a firm. Similarly, Jaggi and Tusi (2001) have found a significant positive relationship between FAR disclosure and the stock price movement. Gaeremynck and Veugelers (1999) have stated that investors are primarily concerned about the relevance and credibility of disclosed information. Kadous, Koonce, and Thayer (2012) have described relevance as a problematic issue related to fair value. Researchers in this field have opined that fixed asset

revaluation is essential to investors. Prior studies have revealed that FAR could influence related companies' reported value, which is considered a significant indicator by investors.

It is evident that FAR and stock prices are directly related, and thus, upward revaluations increase the stock prices of related companies (Jaggi and Tusi, 2001). However, Barth and Clinch (1998) have argued that FAR information relevance depends on the company's nature and regular revaluation performance, preferably after three-year intervals. If stock prices react favorably to FAR information disclosure, companies may be interested in such disclosure strategically to up-value their stock (Choi et al., 2013). Since stock prices move based on disclosed information about the company, investors consider FAR disclosure necessary in decision making. Song and Pae (2019) have found that voluntary disclosure of FAR information has a significant positive impact on the market reaction. Favorable market reactions are usually observed in companies' stock prices that appoint large and reputed valuation firms, generate handsome revaluation increments, and face financial crises before revaluation. Against this backdrop, we hypothesize that investors may have either a positive or negative perception toward FAR.

4. METHODOLOGY OF THE STUDY

This study is based on survey data collected from January 2019 to June 2019 from sample investors in the Bangladesh share market. Share market investors can be of five types – sponsors/directors, government, institutions, foreigners, and the public (general investors). The population of this study consisted of general and institutional investors. Since the government and foreign investors are not common in most companies, these two groups of investors were excluded from the current study. On the other hand, sponsors/directors are considered the inside parties who make asset revaluation decisions and are responsible for disclosing related information. Thus, measuring their perceptions does not make any sense. To measure the perception of investors on asset revaluation, the sample of this study constituted 191 respondents selected using convenience sampling technique. Since the number of general investors is infinite, a sample size of 191 respondents is quite sufficient (Velmurugan, Selvam, and Nazar, 2015).

Generally, respondents feel bored while responding to a questionnaire containing many questions that may elicit imprudent and hasty responses. Thus, the questionnaire used in the current study was developed in consultation with the academics and stock market experts comprised of a few basic questions divided into two parts. The core questions related to FAR were technically incorporated in the first part (A). The purpose was to capture the concentration of the respondents. Ten questions with a five-point Likert scale response of 5 (strongly agree) to 1 (strongly disagree) under this part were again sub-divided into three sections. The last part (B) of the questionnaire included the basic demographic questions, mostly open-ended. The questionnaire was formatted in both English and Bengali (the national language of Bangladesh) to facilitate the respondents who did not understand English well.

For surveying the questionnaire on general investors, respondents were conveniently chosen from the account holders in 16 brokerage houses located in Dhaka, Rajshahi, and Chittagong divisions of Bangladesh. Selected brokerage houses were visited during the trading hours and available investors were requested to participate in the survey. We assumed no difference in the knowledge level among investors because of their geographical locations or affiliation with brokerage houses. Thus, convenience sampling would not create any problem in interpreting the results. To get institutional investors' opinions, online Google-form questionnaires were sent to the institutions' assigned persons through e-mail. As the rate of response from institutional investors was very poor, physical visits were made to the institutional investors. Managers and senior officers of the brokerage houses were also requested to participate in the questionnaire survey as the agent of institutional investors. Data were primarily collected and recorded with the help of Microsoft Excel. After that, data were put into SPSS worksheets and analyzed by applying the statistical techniques, such as frequency distribution and percentage analysis. Although the use of Cronbach's alpha is commonly used to measure the internal consistency of a set of items and scale reliability in Likert-scale data, the current study has not used the tool because of its very few response items and simplicity of analysis.

5. DATA AND THE RESULTS

This section depicts the analysis of primary data collected from investors through survey questionnaires. From the general investors, respondents who had at least three years' involvement in the stock market were selected for the survey because it was assumed that at least three years' experience was essential for a basic understanding of FAR issues and to respond appropriately. Table 1 summarizes the types of respondents, their number, and their rate of response.

TABLE 1
Summary of the sample respondents

Types of Respondents	No. of Respondents	Questionnaire sent	Response Rate
General Investor	148	200	74.0%
Institutional Investors	43	300	17.2%
Total	191		

The following Table 2 shows the first four statements related to the general perception of investors towards FAR. Narrative 1 intended to know whether the revaluation model was better than the cost model in reporting fixed assets. It is evident that around 88% of the respondents agreed or strongly agreed about the revaluation model's superiority over the cost model. In contrast, only about 8% of the respondents plainly or strongly disagreed with the statement.

The responses to statement 1 reflect investors' belief that asset revaluation (if fairly done) is the best way to present the real picture of a company's fixed assets. In response to narrative 2, most respondents expressed their doubts about the fairness of FAR practices in Bangladesh. It was also evident that more than 60% of the respondents disagreed with the statement "companies in Bangladesh show the appropriate price of their assets through revaluation." The percentage of respondents who strongly or conventionally agreed with the narrative was only 18%, indicating that their perception toward fairness of FAR practices in Bangladesh is negative.

TABLE 2
General Statements on FAR and Corresponding Responses
(in Percentage)

Statement No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	The revaluation model is better than the cost model to show the real picture of companies' fixed assets.	52.4	35.4	6.1	4.3	1.8
2.	Companies in Bangladesh show reasonable prices (no undervaluation or overvaluation) of their assets through revaluation.	6.8	11.5	21.5	38.2	22
3.	FAR information is released in stock exchange updates as price-sensitive information.	29.8	29.8	20.4	14.7	5.2
4.	FAR information is circulated timely and widely.	4.7	14.1	29.3	34.6	17.3

Statement 3 shows the responses of whether stock exchanges disclose FAR-related information as price-sensitive information (PSI). It is evident that around 20% of the respondents either disagreed or strongly disagreed with the statement, and more than 20% were neutral. While the remaining 60% either agreed or strongly agreed with the narrative. This is an indication of investor belief that companies disclose FAR information in the stock exchange as PSI.

Statement 4 expresses investor responses about whether FAR-related information has timely disclosure. A total of 52% of the respondents either strongly disagreed or disagreed with the statement "FAR information was circulated timely and publicly." About 19% of respondents strongly agreed or agreed with the statement, and more than 29% remained neutral. This implies a negative perception about the timeliness of FAR disclosures. During the interview with the respondents who disagreed with the narrative, they stated that a

few market players get FAR information long before the information becomes public or is released by the stock exchanges and concerned companies. Such disparity in disclosure helps market players to take their strategic positions.

TABLE 3
Motives behind Corporate FAR and Corresponding Responses
(in Percentage)

Statement No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5.	The main reason for FAR in Bangladesh is to present the real picture of a company's assets.	19.9	28.3	11.5	26.7	13.6
6.	In most cases, the motive behind FAR is to boost up the stock price of a company.	55.5	29.8	5.8	7.3	1.6
7.	Many companies use FAR to present better asset conditions for getting loans.	54.5	34.6	7.9	1.6	1.6

Table 3 shows the statements 5–7 and their corresponding investors' responses related to motives or objectives behind corporate FAR in Bangladesh. Mixed responses were obtained on statement 5 “The main reason for FAR in Bangladesh is to present the real picture of a company's assets.” It is evident that more than 40% of the respondents either strongly disagreed or disagreed, about 49% of the respondents agreed or strongly agreed with the statement, and around 12% remained neutral. While face-to-face discussions with the respondents who either disagreed or strongly disagreed revealed that presenting the authentic picture of companies' assets was not the main objective of FAR in Bangladesh, there might have been some other evil motives for revaluation.

In response to statement 6, “In most of the cases, the reason for FAR is to boost up the company's stock price,” more than 85% of the respondents either agreed or strongly agreed. More revealing is that around 55% of the respondents strongly agreed with the narrative. In contrast, only about 10% of the respondents either

disagreed or strongly disagreed with the statement. These findings suggest that the respondents had negative perceptions about the motives of FAR. During the face-to-face discussions, the respondents expressed that corporate management in collaboration with large market players applied the FAR model to capture benefits.

Regarding statement 7, “Many companies use FAR for presenting better asset conditions for getting a loan,” around 90% of respondents either strongly agreed or agreed. This indicates investors' belief that the motive behind FAR in Bangladesh is more opportunistic, such as getting loans than to provide the real picture of fixed assets. This finding is congruent with the debt covenant hypothesis and is supported in some previous study findings. Thus, presenting better asset conditions for getting loans or making the loan sanction easier, or boosting share prices might be objectives of FAR instead of presenting the real picture of fixed assets.

As shown in table 4, the last three statements (8–10) are related to investors' opinions about effects of FAR. In response to statement 8, “FAR disclosure influence investment decisions in shares of the related company,” around 88% of the respondents agreed or strongly agreed with the statement; none of them strongly disagreed with it. The responses indicate investors' view that FAR information influences their decisions about companies revaluing assets.

In response to statement 9, “FAR did not influence an unusual increase in stock price before the Bangladesh stock market crash in 2010–11,” around 48% of the respondents disagreed with the statement, and about 30% remained neutral. While the remaining 22% either agreed or strongly agreed with the narrative. Thus, about half of the respondents believe that asset revaluation was a reason for the stock market bubble and its subsequent burst in 2010–11. The findings of Khaled (2011) about FAR align with these survey results.

The study has observed that some publicly traded companies follow the cost model in reporting their fixed assets, and the others follow the revaluation model. Even the variations in models are observed within the same industry. In this context, statement 10 asked respondents whether they face any problem in comparing one company with another. In response, mixed results were found with nearly equal percentage of agreed and disagreed responses. The number of respondents who consider it as a problem is a bit higher than those who do not consider it as a problem; however, the main problem of FAR arises in NAV comparison.

TABLE 4
Effects of Corporate FAR and Corresponding Responses
(in percentage)

Statement No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
8.	FAR disclosures influence investment decisions in shares of the related company.	47.1	40.8	8.9	3.1	0.0
9.	FAR did not influence an unusual increase in stock price before the Bangladesh stock market crash in 2010-11.	12.0	10.5	29.3	23	25.1
10.	Though some companies follow the revaluation method, and some companies follow the cost method, it does not create any problem for investors in comparing one company with another.	12.6	20.9	27.2	24.6	14.7

6. CONCLUSION

Similar to the developed world and regional countries, corporate FAR has been a common practice in Bangladesh. Though downward FAR is not restricted in the existing regulations in Bangladesh, it is rarely practiced. Based on respondents' opinions and related discussions, the revaluation model (if fairly practiced) is better than the cost model to portray actual corporate fixed assets. Investors, however, doubt the enhanced amount of assets originating from FAR. They believe that corporate management collaborated with capital market major players in resorting to the FAR model to meet hidden motives, such as using FAR information to increase stock prices and get easy loans. This is supported by the debt covenant hypothesis.

This study's findings might be interesting to a broad spectrum of stakeholders who interact with the companies practicing FAR. The findings might help regulators and professional bodies understand investor perceptions concerning FAR practice that will ultimately help revamp their respective roles aimed at strengthening the sluggish capital market. The findings will be of special interest to investors. By exploring the investors' perception of FAR, this study contributes to the existing stock of knowledge. Lastly, this study suggests that applying the FAR model through a fair exchange of information among concerned companies, valuers, and auditors can make FAR disclosures trustworthy to investors. This paper is the first of its kind that explores investors' perception of FAR. The originality of the current study opens a new avenue for future researchers. A limitation of this study, however, is that it is based on a survey questionnaire containing a minimal number of questions. Future studies may be carried out by including foreign investors and more response items.

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