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Determinants of Asset Securitization by Non-Financial French Listed Companies

Mounir Jaouadi

Arab Open University, Dammam, Kingdom of Saudi Arabia

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ABSTRACT

This study aimed to examine the determinants of asset securitization in the French context, with particular attention to corporate governance, stock-option incentive and financing constraints. Using panel data comprising 400 firm-year observations from 80 non-financial companies listed on the CAC index over the period 2019-2023, the study found that non-financial French listed companies primarily used asset securitization as an earnings management tool driven by stock option-based compensation, rather than an alternative source of debt financing. Moreover, strong corporate governance mechanisms, including managerial ownership, board independence, institutional investor representation on the board and CEO duality, were associated with a lower use of asset securitization. This study makes three key contributions. First, unlike previous research that used a binary measure, this study operationalized asset securitization using a continuous measure: the "Securitization ratio". Second, whereas most previous studies focused on the banking industry, the study extended the investigation to non-financial firms, where securitization becomes increasingly relevant. Thirdly, while most previous studies largely investigated in the United States context, this study provides the first evidence from the French context that can be considered as an interesting field to examine asset securitization because of its specific corporate governance system and accounting regulation.

^{2*}Mounir Jaouadi. E-mail address: mounir.jaouadi1234@gmail.com

1. INTRODUCTION

Asset securitization is a financing technique that involves the issuing securities backed by financial assets, such as receivables arising from loan agreements, lease agreements, or the sale of goods and services. It entails transferring assets held by a firm or financial institution to an ad hoc vehicle, commonly a special purpose entity (SPE) which issues tradable securities to investors (Aqdim et al., 2003; Dechow et al., 2010; Dechow and Shakespeare, 2009, Karaoglu, 2005; Shakespeare, 2003). As a financial engineering tool, asset securitization can be used to fund businesses and may be motivated by financing needs when equity capital is insufficient (Stolowy, 2012; Stolowy and De la Baume, 1993) or by seeking for direct access to capital markets. Prior research has argued that asset securitization can be a relatively lower-cost source of financing for shareholders compared with conventional debt financing (James, 1988; Pavel and Phillips, 1987; Bakri et al., 2018; Dechow et al., 2010; Karaoglu, 2005; Lemmon et al., 2014; Rang, 2015; Salhi et al., 2024; Stolowy and De la Baume, 1993).

Nevertheless, this practice- often labelled financial engineering by the media and regulatory bodies- has been considered as a form of accounting manipulations underlying several major financial scandals, including Enron, Worldcom, Tyco, Dygeny, Xerox, Parmalat. Such manipulating is difficult to detect because earnings management through financial engineering tools relies on complex arrangements rather than single transactions or discretionary accounting choices, unlike accrual-based earnings management (Healy and Palepu, 2003; Gillan and Martin, 2002; Newman, 2007).

Earnings management through securitization was first highlighted by media reports and investigations into major U.S. financial scandals (Bakri et al., 2018; Dharan, 2002, 2003; Gillan and Martin, 2002; Catanach and Rhoades-Catanach, 2003; Healy and Palepu, 2003; Batson, 2003), and subsequently corroborated by empirical evidence, primarily in the banking sector (Aqdim et al., 2003; Dechow et al., 2010; Dechow and Shakespeare, 2009, Karaoglu, 2005; Lemmon et al., 2014; Niu and Richardson, 2004; Rupp, 2021; Shakespeare, 2003) as well as in non-financial industries (Rang, 2015; Mohamed Ali Shelih, 2018; Zhao, 2019). Moreover, investors interpreted securitization-related gains as discretionary earnings management (Dechow et al., 2010; Karaoglu, 2005; Shakespeare, 2003).

Accordingly, this study investigated determinants of asset securitization. Specifically, it empirically examined whether the use of asset securitization was positively associated with earnings management incentives and financing objectives, and negatively associated with internal corporate governance mechanisms, similarly to the study of Dechow et al. (2010).

This study makes three key contributions. First, unlike previous research that used a binary measure, the study operationalizes asset securitization using a continuous measure: the “Securitization ratio”. Second, whereas most previous studies focus on banking industry, the study extends the investigation to non-financial firms, where securitization become increasingly relevant. Thirdly, while most previous studies largely investigate United States context, this study provides the first evidence from the French context that can be considered as an interesting field to examine asset securitization because of its specific corporate governance system and accounting regulation.

This paper is organized as follows. Section 2 presents theoretical framework, a literature review and research hypothesis regarding determinants of the use of asset securitization. Section 3 describes empirical methodology, including: sample selection, data collection, variable measurement and econometric models. Section 4 shows empirical results' analysis and discuss. Section 5 concludes.

2. LITERATURE REVIEW & RESEARCH HYPOTHESIS

This section presents a literature review on the financing objectives of asset securitization (2.1), its potential for earnings management in the presence of stock options (2.2), and the influence of corporate governance on the use of asset securitization (2.3).

2.1 Asset Securitization: an Alternative Financing Source.

Asset securitization is a financing technique involving the issuance of securities backed by financial assets, such as loan receivables, lease receivables, or trade receivables arising from the sale of goods and services. It entails transferring cash-flow generating assets from the originating firm to an ad hoc vehicle, commonly special purpose entity (SPE), which issues securities to investors (Aqdim et al., 2003; Dechow et al., 2010; Dechow and Shakespeare, 2009, Karaoglu, 2005; Schwarcz, 2002; Shakespeare, 2003).

Originally developed as a financial engineering tool, asset securitization is used to finance businesses. Indeed, corporate financing choices depend on financing constraints, because information asymmetries and agency conflicts increase the cost of external capital and the credit rationing (Jensen and Meckling, 1976). Thus, conflicts between managers and creditors, as well as between controlling and minority shareholders, generate monitoring costs and restrictive lending conditions, particularly for leveraged firms (Jensen, 1986; Stulz, 1990). Securitization, as a financial innovation, can overcome these constraints by transferring cash-flow-generating assets to a SPE, thereby mitigating agency problems caused by debt contracts (Gorton and Souleles, 2007). Stolowy (2012) argued that financing needs- when equity capital is insufficient and free cash-flows are low (Poincelot, 1999)- can motivate the use of creative accounting techniques, particularly including receivables securitization. Accordingly, low free cash-flows may be a primary motivation for securitization.

Securitization also represents an alternative to conventional debt financing. Because agency conflicts increase external financing cost and credit rationing (Jensen and Meckling, 1976), securitization can reduce firm's financing costs, as it provides constrained firms with access to external funding without issuing equity, thereby avoiding adverse selection problems (Cantor and Hu, 2007). Moreover, high corporate debt ratios fostered the development of deconsolidation techniques in the late 1970s, particularly securitization of assets using SPE, which enabled companies to obtain better financing terms through direct access to capital markets. Prior studies have suggested that securitization can be a less costly financing alternative for shareholders (James, 1988; Pavel and Phillips, 1987). It is therefore an alternative to debt. This hypothesis was supported by empirical evidence provided by Bakri et al. (2018), Dechow et al. (2010), Karaoglu (2005), Lemmon et al. (2014), Rang (2015), Salhi et al. (2024) and Stolowy and De la Baume (1993). Accordingly, our study examined whether firms' debt levels influenced their use of asset securitization. Asset securitization is particularly relevant in the French institutional context which is characterized by bank-oriented financial system, concentrated ownership structures, and stringent regulatory and prudential constraints on banks, taken together limiting firms' access to capital markets

(Allen and Gale, 2000; Becker and Ivashina, 2014). In addition, French securitization vehicles, notably fonds communs de créances, provide strong legal protection through effective asset transferring mechanisms, thereby enhancing the credibility of securitized transactions and reinforcing their role as substitutes for traditional financing instruments (Gorton and Metrick, 2012). These institutional features support the hypothesis that financially constrained and/or highly leveraged French firms are more likely to use asset securitization as a source of financing.

Finally, the volume of accounts receivable prior to securitization constitutes a key condition for engaging in securitization. Firms with larger receivables have greater incentive and capacity to securitize part of their assets. Accordingly, the first hypothesis was formulated as follows:

H1: Financing constraints is positively associated to receivables securitization.

As discussed above, financing constraints are captured by three dimensions: firms' financing needs, the pursuit of financing methods that are less costly than conventional debt, and the relative importance of accounts receivable on the balance sheet. Accordingly, our first hypothesis was decomposed into three testable sub-hypotheses as follows:

H1.1: Low free cash-flows is positively associated to receivables securitization.

H1.2: Firm's leverage is positively associated to receivables securitization.

H1.3: The volume of accounts receivable is positively associated to receivables securitization.

2.2. Stock-options as an Earnings Management Incentive & Asset Securitization.

2.2.1. Asset securitization & earnings management

Firstly, from an accounting perspective, securitization is generally treated as a genuine transfer of assets. Consequently, securitized receivables are removed from accounting books and a transfer gain may be recognized. This gain equals the difference between the book value of the securitized assets and the sum of the cash proceeds received and the fair value of the retained residual interests (Dechow et al., 2010, Dechow and Shakespeare, 2009; Shakespeare, 2003). In a securitize transaction, managers have to determine both: the volume of assets to be securitized and the fair value estimation of the retained residual interests. Managers have a certain amount of discretion in making these two choices which, therefore, constitute potential instruments for earnings management (Dechow et al., 2010, Dechow and Shakespeare, 2009; Shakespeare, 2003).

Secondly, in addition to accounting discretion, securitization offers opportunities for real earnings management through its financing objectives. Compared to bond issuance, securitization can reduce financing and credit costs (Bakri et al., 2018). By securitizing highest-rated receivables, firms may obtain refinancing at lower costs than those of public bond market or bank debt. Securitization therefore reduces financial expenses and, in turn, improve reported earnings through real financing transactions rather than accruals. Moreover, securitization can also reduce financing costs by isolating the risk of the transferred assets from the firm's overall risk (Donahoo and Shaffer, 1991; Pavel and Phillips, 1987).

While accounting research has widely associated earnings management with discretionary accruals (Cormier and Martinez, 2006; Healy, 1985), several studies have questioned the effectiveness of accrual-based manipulation. Sloan (1996) and Hochberg et al. (2004) suggested that accruals offset each other over time and are therefore predictable. They argued that accruals do not have a unique effect on earnings.

Managing earnings through real transactions that simultaneously affect reported earnings and operating cash flow does not reverse accruals (Roychowdhury, 2006). Accordingly, managers are incentivized to structure initial transactions so as to avoid accrual reversals or to engage in additional transactions that can disruptor prevent the predictable reversal of operating accruals, such as securitization arrangements (Dharan, 2003).

Such practices are labeled financial engineering by the media and regulatory bodies because of its additional impact on investment and financing cash flows beyond the manipulation of reported earnings. Financial engineering techniques were behind the accounting manipulations that caused several major financial scandals, including Enron, Worldcom, Tyco, Dygeny, Xerox, Parmalat. Unlike accrual-based earnings management, financial engineering techniques typically involved multiple external and complex arrangements to be more difficult to detect (Healy and Palepu, 2003; Gillan and Martin, 2002; Newman, 2007).

Earnings management through securitization was first highlighted by the media and investigations of U.S major financial scandals (Bakri et al., 2018; Batson, 2003; Dharan, 2002, 2003; Gillan and Martin, 2002; Catanach and Rhoades-Catanach, 2003; Healy and Palepu, 2003; Schwarcz, 2002). Subsequently, a growing body of empirical studies has examined this phenomenon. Several studies documented that banks use securitization with earnings management purposes (Aqdim et al., 2003; Dechow et al., 2010; Dechow and Shakespeare, 2009, Karaoglu, 2005; Lemmon et al., 2014; Niu and Richardson, 2004; Rupp, 2021; Shakespeare, 2003) and that investors interpret securitization gains as discretionary and opportunistic (Dechow et al., 2010; Karaoglu, 2005; Shakespeare, 2003). Recently, Chen et al. (2025) argued that banks securitizing more loans or holding more retained interests have lower annual report readability and that this effect is through the channel of earnings management. Moreover, Zhao (2025) examined whether natural disasters affected earnings management channels that banks may employ and provided empirical evidence that affected banks appear to engage in securitization gains to manage earnings.

Furthermore, recent evidence extended the earnings management hypothesis to non-financial firms (Rang, 2015; Mohamed Ali Shelih, 2018; Zhao, 2019). In the same line, Jia et al. (2026) argued that asset securitizations facilitated managers' withholding of bad earnings news, leading to higher crash risk, especially for firms with gain on sales from securitizations. Further findings revealed that nonfinancial firms engaging in asset securitization before SFAS 166/167 conducted more REM real activity-based earnings management after SFAS 166/167. This evidence suggested that firms could continue to hide bad news through alternative channels as substitutes, including asset securitization. These findings supported the hypothesis of earnings management through asset securitization transactions.

Under IFRS, earnings management through asset securitization may be reinforced by the derecognition and consolidation framework established in IFRS 9 (Financial Instruments) and IFRS 10 (Consolidated Financial Statements). The IFRS approach relies on assessment of the transfer of substantially all risks and rewards and on control-based judgment, rather than formal legal structure that relies on managerial judgment in evaluating risk retention, continuing involvement, and control over special purpose vehicles. From the Agency Theory perspective, this judgment-based regime expanded managerial discretion and created opportunities for earnings management through transaction structuring, valuation of retained interests, and the timing of derecognition (Jensen and Meckling, 1976). Specifically, under IFRS 9, gains arising from securitization, including gains on derecognition or asset transferring and measurement of retained components at fair value, depend heavily on internal valuation models and assumptions,

embedding earnings management incentives within firm's valuation and performance measurement systems (Healy and Wahlen, 1999; Dechow et al., 2010). The mandatory adoption of IFRS in 2005 within the French institutional context further amplified these effects, offering listed firms the opportunity to manage earnings through receivables securitization (Jeanjean and Stolowy, 2008). Consequently, French firms engaging in asset securitization were more likely to exhibit earnings management behavior, consistent with opportunistic managerial incentives predicted by the Agency Theory and the discretion embedded in IFRS derecognition and consolidation judgments.

Finally, consistent with the accounting literature, earnings management is typically linked to managerial incentives that motivate discretionary behavior. This study focused specifically on equity-based compensation- the stock-options- as a driver of earnings management through asset securitization.

2.2.2. Stocks-options, Earnings Management & Asset Securitization

According to the Positive Accounting Theory (Watts, 1977; Watts and Zimmerman, 1978, 1986, and 1990), combined with the Agency Theory (Jensen and Meckling, 1976), earnings management can be explained by the opportunistic behavior of managers who seek to obtain private gains through discretion in the external financial reporting (Schipper, 1989). Prior research models viewed managers' accounting decisions as a function of incentives that encourage them to manage earnings (Schipper, 1989; Watts and Zimmerman, 1990).

Consequently, the accounting literature devoted particular attention to executive compensation, particularly stock-based incentives, as a key determinant of accounting and financial disclosure decisions. A large body of empirical evidence documented a positive association between stock option compensation and earnings management (Arlita and Gede, 2018; Bergstresser and Philippon, 2006; Burns and Kedia, 2006; Chen et al., 2015; Choi et al., 2023; Safdar, 2003; Wei, 2004; Yermack, 1997). However, He et al. (2003) suggested that executive stock options compensation reduced earnings management by aligning managerial and shareholder interests and thereby resolving agency conflicts. This lack of consensus makes a need to further investigate stock options compensation as a driver of earnings management, particularly when it may involve financial engineering such as asset securitization.

Asset securitization is frequently viewed as a tool that facilitated earnings management which can enhance the value of stock-based compensation awarded to executives.

Accordingly, this study examined whether stock options constituted a key determinant of the use of asset securitization. This hypothesis was supported by Healy and Palepu (2003) who identified stock options as a factor that had motivated Enron to manage earnings and by Dechow et al. (2010) who documented that stock options compensation drove earnings management through asset securitization. Thus, our second hypothesis was formulated as follows:

H2: Stock options executive compensation is positively associated to the use of receivables securitization.

2.3 Corporate Governance & Asset Securitization

The theoretical linkage between earnings management and corporate governance is primarily grounded in the Agency Theory, which posited that the separation of ownership and control implied delegation of decision-making authority and therefore created conflicts along with information asymmetry between managers and shareholders and incentives for managers to engage in opportunistic financial reporting

behavior to maximize personal benefits (Jensen and Meckling, 1976) such as bonus maximization, debt covenant compliance, or reputational concerns potentially, at the expense of reporting quality (Healy and Wahlen, 1999; Jensen and Meckling, 1976; Ross, 1973; Schipper; 1989; Watts and Zimmerman, 1990). Managers exploit information asymmetry, discretion in accounting standards, accounting flexibility and operational decisions to influence reported earnings and manage earnings (Jensen and Meckling, 1976).

Corporate governance system served as monitoring and control tool designed to mitigate agency conflicts, reduce information asymmetry, and limit managerial opportunism. Effective corporate governance enhanced the credibility and transparency of financial reporting, thereby limiting managers' ability to manipulate earnings (Fama and Jensen, 1983; Jeanjean, 2001; Peasnell et al., 2005; Shleifer and Vishny, 1997). From a managerial accounting perspective, strong corporate governance shaped internal reporting, narrow information gaps and encourages high-quality accrual estimation, conservative accounting policies, and transparent internal controls, thereby limiting both accrual-based and real earnings management (Larcker et al., 2007). Conversely, weak governance mechanisms may incentivize managers either to manipulate accruals or to structure operational and financial decisions- such as overproduction, discretionary expenditure cuts, or asset securitization- to manage earnings.

Earnings management through asset securitization can be facilitated by the interaction between managerial accounting discretion, complex off-balance-sheet structures, and organizational control systems. Securitization expanded managerial discretion over asset classification, transfer pricing, consolidation decisions, and timing of cash-flow recognition, which can be strategically used to manage reported earnings (Dechow et al., 2010). Corporate governance mechanisms, including board financial expertise, audit committee oversight, internal control effectiveness, and external audit scrutiny, operated as critical managerial accounting controls that discipline the design, the monitoring and the reporting of transactions (Bushman and Smith, 2001; Lambert, 2001). Effective governance limits opportunistic earnings management by ensuring that securitization decisions are integrated into internal performance measurement systems, reflect economic substance rather than form, and do not distort cost allocation, investment appraisal, or risk assessment processes (Healy and Wahlen, 1999; Merchant and Van der Stede, 2017). Conversely, weak governance facilitates the use of securitization to shift assets or liabilities off the balance sheet, smooth earnings, or meet performance targets (Dechow et al., 1996; Dechow et al., 2010).

Accordingly, this study examined whether the corporate governance system constituted a key determinant- as a constraint- of firm's use of asset securitization.

Regarding ownership structure, prior research has documented that managerial ownership aligned managers' and shareholders' interests, as it was negatively associated with earnings management (Dhaliwal et al., 1982; Klein, 2002; Mansoori and Al-Abdallah, 2024; Warfield et al., 1995). Similarly, institutional investors' ownership reduced earnings management by constraining discretionary accruals (Abdul Jalil & Abdul Rahman, 2010; Chung et al., 2002; Potharla et al., 2021; Touski and Seyfideli, 2024). Garel et al. (2021) also confirmed that distraction of institutional shareholders can allow firms to engage in both accrual-based and real-based earnings management.

Board effectiveness, a core component of corporate governance systems, played a critical role in executive monitoring (Fama and Jensen, 1983) and was generally associated with low levels of earnings management. The literature identified several board and audit committee characteristics that may constrain earnings management, including board size (Sinebe, 2025; Touski and Seyfideli, 2024), board

independence (Adi, 2025; Bojan, 2025; Dechow et al., 2010; Mansoori and Al-Abdallah, 2024; Riana et al., 2024), institutional investors representation on the board (Adi, 2025; Park and Shin, 2004), separation of the CEO and board chair roles (Klein, 2002; Mansoori and Al-Abdallah, 2024), audit committee size (Nikulin et al., 2022; Soliman, 2022; Zadeh et al., 2023), and audit committee independence (Almarayeh, 2024; Bojan, 2025; Nikulin et al., 2022; Peasnell and Young, 2000).

In the context of asset securitization, Dechow et al. (2010) found that although CEO compensation led to earnings management through asset securitization, it was not evident that independent and informed board can constrain such practices. This finding motivated further investigation into the effectiveness of board structure and additional internal governance mechanisms in constraining the use of asset securitization for earnings management.

From a governance perspective, asset securitization may weaken monitoring by reducing transparency and comparability in financial reporting (Dechow et al., 2010), thereby increasing managerial discretion over timing, transaction structuring, and recognition choices (Shleifer and Vishny, 1997). Conversely, firms with strong governance mechanisms were more likely to prioritize transparent financial reporting and reduce managerial incentives to engage in complex off-balance-sheet financing arrangements that lead to earnings management (Denis, 2001). Accordingly, a negative relationship was expected between the intensity of securitization activities and the strength of corporate governance mechanisms.

This issue was particularly interesting to be investigated in French context which was characterized by concentrated ownership, frequent presence of controlling shareholders (families or institutional block holders), and a two-tier or hybrid board structure (AMF, 2023; Faccio and Lang, 2002). In addition to a bank-oriented financial system, these characteristics may intensify conflicts between controlling and minority shareholders and between shareholders and lenders (La Porta et al., 1999). In such a context, asset securitization may be used to reallocate risks and smooth reported performance to extract private benefits, raising the question whether corporate governance is able to limit asset securitization for earnings management.

Thus, this study verified the hypothesis of a negative relationship between asset securitization and corporate governance mechanisms, including managerial ownership, institutional ownership, board size, board independence, institutional investors representation on the board, audit committee size, audit committee independence, and CEO duality. Our third hypothesis was formulated as follows:

H3: Corporate governance effectiveness is negatively associated to receivables securitization.

Our third hypothesis was decomposed into eight testable sub-hypotheses as follows:

H3.1: Managerial ownership is negatively associated to receivables securitization.

H3.2: Institutional investors ownership is negatively associated to receivables securitization.

H3.3: BODs' size is negatively associated to receivables securitization.

H3.4: The independence of the BODs' is negatively associated to receivables securitization.

H3.5: Institutional investors representation is negatively associated to receivables securitization.

H3.6: CEO duality is positively associated to receivables securitization.

H3.7: The size of the audit committee is negatively associated to receivables securitization.

H3.8: The independence of the audit committee is negatively associated to receivables securitization.

3. EMPIRICAL METHODOLOGY

3.1 Sample and Data

Most studies on the determinants of asset securitization were based on U.S. data and a specific corporate governance system. Despite the relevance of the French context, to our knowledge no prior study had examined the determinants of asset securitization in France. This study aimed to fill that gap.

In France, asset securitization involved the use of securitization vehicles known as Fonds communs de créances (FCC) and was governed by Regulations No. 2000-05 and No. 2004-04, which set out the consolidation and combination rules for regulated entities, consistently with IAS/IFRS1 standards as of January 1, 2005. Under this framework, securitizations were governed by IAS 39, as well as IFRS 9 and 10, and treated as asset transfers relying on analysis of the transfer of risks and rewards. In non-recourse securitization, assets were partially removed from the originator books and a disposal loss may be recognized.

In addition, corporate governance system of French listed firms was characterized by strong family ownership presence and a concentrated ownership structure (Barros et al., 2013). Currently, recent regulatory reforms have focused on the appointment of independent directors, the separation of the CEO and chair roles and the establishment of internal governance committees (Barros et al., 2013) to enhance shareholders' protection and transparency. These institutional features provided a relevant context in which to examine whether new governance rules constrained managers' opportunism, especially through complex financial engineering tools such as asset securitization.

This study empirically examined a sample of 80 non-financial firms listed on CAC index over the period 2019 and 2023, yielding 400 firm- year observations. All data, either on financial characteristics or on corporate governance characteristics, were manually collected from firms' annual reports published by the French Financial Markets Authority.

3.2 Measurement of Variables

3.2.1. *Dependent Variable: Asset Securitization*

Prior research on the determinants of asset securitization typically used a binary dependent variable that equals 1 if the company had used at least one securitization transaction during a given year, and 0 otherwise.

This study assumed that securitization can generate the expected effects only when companies securitize a substantial portion of their receivables. Also, the effect on reported earnings, cash flows outcomes, and therefore the benefits to related to executive stock options compensation depended more on the volume of securitization than on the simple decision of asset securitization. Accordingly, the study measured asset securitization using a continuous proxy, the securitization ratio (SECRATIO) as the volume of securitized receivables scaled by gross receivables prior to securitization.

3.2.2. Independent Variables

Our independent variables were organized into three categories. The first represented financing constraints, including free cash flows, leverage, and total accounts receivable prior to securitization. The second represented earnings management incentives associated with executive stock options compensation. Accordingly, the study used two proxies: the decision to grant stock options and the extent to which stock options were exercised, as the executives' opportunistic behavior and the benefit from these options can be seen more clearly at the exercise stage of the options. Managers early exercised their stock-options to seek to lock in realized gain (Murphy and Vance, 2019). The third represented internal governance mechanisms, describing ownership structure and board effectiveness. Detailed definitions and measurement of all independent variables are provided in Table 1 below.

Table 1. Measures of independent variables

Label	Variable	Variable's measure	References
FCF	Free cash-flows	The difference between cash flows from operating activities and payments for fixed assets acquisitions.	Stolowy, 2012; Stolowy and De la Baume, 1993.
DEBT	Debt level	The ratio of total debts on total assets	Bakri et al. (2018), Dechow et al. (2010), Karaoglu (2005), Lemmon et al. (2014), Salhi et al. (2024) and Stolowy and De la Baume (1993).
RECEIV	Accounts receivable	Total of accounts receivable before securitization transactions.	
SKOPAL	Stock-options allocation	A binary variable that takes 1 if the company had granted stock-options compensation for members of the executive team during the year in question, and 0 otherwise.	Murphy and Vance (2019)
SKOPEX	Stock-option exercise	A binary variable that takes 1 if the executive team had exercised stock-options during the year in question, and 0 otherwise.	Murphy and Vance (2019)
MNGOWN	Managerial ownership	The total percentage owned by members of the executive team of the company	Adi, 2025; Klein, 2002; Mansoori and Al-Abdallah, 2024.
INSTOWN	Institutional ownership	The percentage of the company's shares owned by institutional investors such as pension funds, mutual funds, or insurance firms in relation to the total number of shares outstanding within the company.	Abdul Jalil and Abdul Rahman, 2010; Adi, 2025; Chung et al., 2002; Potharla et al., 2021; Touski and Seyfideli, 2024
BODSIZE	BODs' size	Total number of directors of a company, including the Chairman.	Sinebe, 2025; Touski and Seyfideli, 2024

Label	Variable	Variable's measure	References
BODIND	BODs' independence	Number of non-executive directors divided by total number of directors.	Adi, 2025; Bojan, 2025. Dechow et al., 2010; Mansoori and Al-Abdallah, 2024; Riana et al., 2024
INSDIREC	Institutional directors	Number of institutional directors divided by total number of directors.	Adi, 2025; Park and Shin, 2004.
CEODUAL	CEO duality	Dummy variable that equals 1 if the CEO is the chairperson, and 0 otherwise.	Klein, 2002; Mansoori and Al-Abdallah, 2024
ACSIZE	Audit committee's size	Total number of directors in the audit committee	Nikulin et al., 2022; Soliman, 2022; Zadeh et al., 2023
ACIND	Audit committee's independence	Number of non-executive directors in the audit committee divided by audit committee size	Almarayeh, 2024; Bojan, 2025; Nikulin et al., 2022; Peasnell and Young, 2000

3.3 Econometric models

To identify the determinants of asset securitization, the study examined whether the extent of securitization was positively associated with earnings management incentives and financing objectives, and negatively associated with internal governance mechanisms. Accordingly, the study estimated the following multiple linear regression model:

$$\text{SECRATIO}_{i,t} = \beta_0 + \beta_1 \text{FCF}_{i,t} + \beta_2 \text{DEBT}_{i,t} + \beta_3 \text{RECEIV}_{i,t} + \beta_4 \text{SKOPAL}_{i,t} + \beta_5 \text{SKOPEX}_{i,t} + \beta_6 \text{MNGOWN}_{i,t} + \beta_7 \text{INSTOWN}_{i,t} + \beta_8 \text{BODSIZE}_{i,t} + \beta_9 \text{BODIND}_{i,t} + \beta_{10} \text{INSDIREC}_{i,t} + \beta_{11} \text{CEODUAL}_{i,t} + \beta_{12} \text{ACSIZE}_{i,t} + \beta_{13} \text{ACIND}_{i,t} + \varepsilon_{i,t}$$

The study employed panel data estimation to capture unobserved firm-specific heterogeneity, where the index "i" denoted the firm and "t" denoted the year.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 2 below reports descriptive statistics for all variables.

Table 2. Descriptive statistics

	Mean	Median	Max.	Min.	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability
SECRATIO	0.0925481	0	0.602278	0	0.194357	2.167921	9.139211	517.2344	0
CFD	-2,6E+07	31258100	715 E+07	-124E+08	287 E+07	-4.627518	35.25491	9861.185	0

	Mean	Median	Max.	Min.	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability
DEBT	1.94262	0.892158	154.1208	0.00971	9.541728	12.1584	169.4335	239416.2	0
RECEIV	5270000000	614 E+06	4.28E+11	3951646	306 E+08	6.326518	45.35508	16082.65	0
SKOPAL	0.527163	1	1	0	0.712546	-0.627513	1.492817	38.0182	0
SKOPEX	0.561	0	1	0	0.426712	0.03145	1.00246	34.2154	0
MNGOWN	0.019842	0	0.284561	0	0.094215	3.758326	15.346208	1242.246	0
INSTOWN	0.084726	0	0.7856	0	0.24136	2.801275	10.3814	719.2381	0
BODSIZE	11.225	10	19	3	5.326	0.002182	2.224231	5.685123	0.048261
BODIND	0.310284	0.35	0.75	0	0.215482	0.482506	1.201578	19.58217	0.000031
INSDIREC	0.009516	0	0.350128	0	0.062851	4.321586	23.48562	4221.854	0
CEODUAL	0.66	1	1	0	0.525618	-0.495623	1.521782	34.40126	0
ACSIZE	3.245	4	9	0	3.223498	0.643812	3.455216	15.51423	0.00049
ACIND	0.341623	0.310782	1	0	0.297325	0.422618	1.751218	22.54178	0.000028

These statistics highlight the importance of asset securitization in France. Approximately 31% of French listed companies in the sample used this technique. Specifically, 25 out of 80 companies securitized receivables at least once during the sample period. Their average securitization ratio was 9.25%, with a significant dispersion ranging from 0% to 60%.

Regarding the determinants of asset securitization, the sample showed considerable variability in financing-related variables. On average, firms displayed high leverage ratio, with wide dispersion (mean = 1.94; standard deviation = 9.54). Similar variability was displayed by free cash flows (mean = -2,6E+07; standard deviation = 2.87E+09) and volume of receivables prior to securitization (mean = 5.27E+09; standard deviation = 3.06E+10). The heterogeneity in financing needs across companies provided us an empirical setting to examine their influence on securitization decision.

Regarding earnings management incentives, approximately 53% of firms granted stock-options to their executives, with wide variation across observations (standard deviation = 71%). Stock-options were exercised in approximately 56% of the sample, again with significant dispersion (standard deviation = 43%). These statistics suggested that variation in stock options may explain the variation in firms' use of receivables securitization.

Corporate governance mechanisms also displayed significant variability across observations. On average, boards comprised 11 directors (mean = 11.22; median = 10.0), with independent directors representing approximately one-third of board membership (mean = 31%; median = 35%). Audit

committees were moderate-sized (mean = 3.24; Median = 4.0) and similarly composed of one-third independent members (mean = 0.34; Median = 0.31). CEO duality was predominant, with 66% of firms cumulating CEO and chair roles. This wide variability across companies supported their relevance to examine whether they may affect securitization decision.

To assess model adequacy and verify the specification of explanatory variables of asset securitization, the study conducted multicollinearity diagnostic. The Pearson correlation matrix did not indicate any significant collinearity concerns among the exogenous variables. These descriptive findings were further explored through the multivariate regression analysis that followed.

4.2 Regression Results

First, the study had verified the appropriateness of a panel data specification by testing for the individual effects using Fisher's test. The probability associated to Fisher statistic was below the 1% significance level, confirming the presence of individual effects and leading to accept the hypothesis of heterogeneity and to retain the panel structure.

Then, the study has conducted the Hausman test to choose between fixed and random-effects estimators. The Chi-square statistic was significant at the 5% level, leading us to choose fixed effects specification. Heteroscedasticity test confirmed the absence of heteroscedasticity issue. Accordingly, the model was estimated using Pooled Least Square (PLS).

The results of the multiple linear regression are summarized in Table 3 below.

Table 3. Regression results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.082256	0.027419	1.02934	0.3027
FCF	0.568721	0.108912	0.623897	0.4018
DEBT	0.000229	0.001058	0.216412	0.7189
RECEIV	-0.00052	0.262554	0.512368	0.7084
SKOPAL	0.136663	0.016524	4.946231	0.02486**
SKOPEX	0.024217	0.015872	3.258790	0.04326**
MNGOWN	-0.133571	0.025863	2.729510	0.07724***
INSTOWN	-0.126534	0.058792	-2.487312	0.00632*
BODSIZE	-0.008453	0.004257	-2.30185	0.11812
BODIND	-0.042951	0.073259	-0.76102	0.04657**
INSDIREC	-1.623589	0.315796	-3.125988	0.00223*
CEODUAL	0.065982	0.045289	2.659721	0.02589**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACSIZE	0.004956	0.007295	0.947852	0.16825
ACIND	-0.048562	0.023694	-1.592057	0.35698
R-squared	0.292334	F-statistic	3.625813	
Adjusted R-squared	0.234677	Prob(F-statistic)	0.000257 (*)	

(*) Significance level 1% ; (**) Significance level 5% ; (***) Significance level 10%.

Based on the econometric results above, the adjusted R2 implied that explanatory variables could explain 23.47% of variation in the use of asset securitization.

Regarding financing-related variables, none of the financing needs proxies- free cash flows, leverage, and total accounts receivable prior to securitization- exhibited a statistically significant association with the securitization ratio (coefficients of 0.568721; 0.000229; -0.00052, with a p-value of 0.4018; 0.7189; 0.7084, respectively). These results indicated that asset securitization was not used by French companies as an alternative financing source to external debt. Accordingly, hypothesis 1 was not confirmed, contrary to findings of Stolowy (2012), Poincelot (1999), Bakri et al. (2018), Dechow et al. (2010), Karaoglu (2005), Lemmon et al. (2014), Rang (2015), Salhi et al. (2024) and Stolowy and De la Baume (1993). This finding may be viewed as preliminary evidence that French firms used asset securitization to achieve other goals than of financing. This is consistent with the bank-oriented feature of French financial system in which even leveraged companies have opportunity to access to credit, so reducing motivation to securitize receivables to raise funds.

With respect to earnings management variables, Stock option allocation and Stock option exercise showed a statistically significant positive association with the securitization ratio (coefficients of 0.136663 and 0.024217, with a p-value of 0.02486 and 0.04326, respectively). Both variables were significant at the 5% level, leading to confirm Hypothesis 2 that receivables securitization may be motivated by executive stock options compensation, which is consistent with earnings management motivation. These findings corroborate previous studies' findings (Aqdim et al., 2003; Dechow et al., 2010; Dechow and Shakespeare, 2009, Karaoglu, 2005; Lemmon et al., 2014; Niu and Richardson, 2004; Rupp, 2021; Shakespeare, 2003) and extend this evidence beyond the banking sector to non-financial companies, similarly to studies of Rang (2015), Mohamed Ali Shelih (2018) and Zhao (2019). Thus, our findings confirmed the theoretical link between asset securitization and earnings management, as predicted by the Agency Theory, especially in the French context where this link can be encouraged by the derecognition and consolidation framework established in IFRS 9 (Financial Instruments) and IFRS 10 (Consolidated Financial Statements), as discussed in section 2.2.1.

Regarding corporate governance mechanisms, only managerial ownership, institutional ownership, board independence, institutional investors representation on the board, and CEO duality, were significantly associated with the securitization ratio. Board size, audit committee size, audit committee independence were not significant determinants of asset securitization. These results confirmed that ownership structure, through both managerial ownership (H.3.1) and institutional ownership (H.3.2), reduced the use of asset

securitization, similarly to findings of Dechow et al. (2010) in the specific context of earnings management through asset securitization, and earnings management literature (Dhaliwal et al., 1982; Klein, 2002; Mansoori and Al-Abdallah, 2024; Warfield et al., 1995; Abdul Jalil and Abdul Rahman, 2010; Chung et al., 2002; Potharla et al., 2021; Touski and Seyfideli, 2024; Garel et al., 2021). The hypotheses regarding board structure were also confirmed. Specifically, board independence (H.3.4), institutional investors representation on the board (H.3.5) and CEO duality (H.3.6) were significantly associated with the securitization ratio, similarly to findings of previous studies that suggested that board independence reduces earnings management (Adi, 2025; Bojan, 2025; Mansoori and Al-Abdallah, 2024; Riana et al., 2024), even though this hypothesis was not confirmed by the pioneer work on asset securitization performed by Dechow et al. (2010) in the context of USA. Nevertheless, board size (H.3.3) did not show significant association, in contrast to Sinebe (2025) and Touski and Seyfideli (2024). Finally, audit committee characteristics- both size and independence - didnot show significant association with asset securitization. Accordingly, H.3.7 and H.3.8 were rejected, contrary to evidence provided by previous studies (Nikulin et al., 2022; Soliman, 2022; Zadeh et al., 2023; Almarayeh, 2024; Bojan, 2025; Nikulin et al., 2022; Peasnell and Young, 2000).

Overall, and in line with Dechow et al. (2010), our findings implied that specific internal governance mechanisms reduced the use of asset securitization. The lack of significance of board size and audit committee characteristics may be due to French context specificities, where recent regulations specifically focusing on board independent and mandatory audit committee (Barros et al., 2013) may reduce the variability across firms regarding governance features, limiting their explanatory power in our regressions.

5. CONCLUSION

Asset securitization was first developed as a financial engineering tool to facilitate corporate financing and direct access to market capital. Accordingly, it may be motivated by financing needs, when equity is not sufficient. Over time, it has identified as an alternative earnings management tool to accruals management, relying on its complexity, opacity and ability to structure transactions so to affect reported earnings.

This study examined determinants of the use of asset securitization by verifying whether asset securitization is driven by financing needs and earnings management incentives, or constrained by internal governance mechanisms.

The study has empirically tested the association between the securitization ratio, as measured by the volume of securitization relative to the volume of gross receivables prior to securitization, and financing-related constraints, including Free cash flows, debt ratio and total accounts receivable prior to securitization, management compensation as earnings management incentive, including stock options allocation and stock options exercise, and internal governance mechanisms, including managerial ownership, institutional ownership, board size, board independence, institutional investors representation on the board, audit committee size, audit committee independence and CEO duality.

Unlike most studies on the determinants of asset securitization that are based on U.S. data, this study had investigated the French context because its specific governance system in addition to the accounting framework that reinforced the sue of asset securitization. This study empirically examined a sample of 80 non-financial firms listed on CAC index over the period 2019 and 2023, yielding 400 firm- year

observations. All data, either on financial characteristics or on corporate governance characteristics, were manually collected from firms' annual reports published by the French Financial Markets Authority.

Our findings showed that asset securitization was not used by non-financial companies as an alternative financing source to debt, as all financing-related variables (free cash flows, debt ratio, and total accounts receivable before securitization) were not significantly associated with securitization ratio. In contrast, stock option-based compensation was positively associated with the securitization ratio, confirming that managers may engage in asset securitization to manage earnings. Moreover, internal governance mechanisms, including managerial ownership, institutional ownership, board independence, institutional investors representation on the board and separation of CEO and chair roles, significantly reduced asset securitization strategies.

Overall, these findings allowed us to conclude that asset securitization was used by non-financial French listed firms as a tool of earnings management rather than as an alternative financing source to debt and that effective internal governance mechanisms mitigate such practices. This evidence supported the Agency Theory predictions that judgment-based regime expanded managerial discretion and created opportunities for earnings management through selective transaction structuring, valuation of retained interests, and timing of derecognition (Jensen and Meckling, 1976), likely in asset securitization, and that effective governance limited opportunistic behavior regarding securitization decisions.

From a regulatory perspective, these findings support strengthening ownership-based monitoring and board independence to effectively monitor managers' opportunism and discretion over accounting choices and transactions' structuring such as in asset securitization. However, the absence of a significant role of the audit committee characteristics may require from regulators more efforts to enhance audit committee authority, by expanding its responsibilities and scope of monitoring, reinforcing disclosure requirements and increasing oversight of securitization transactions.

This study is subject to some limitations. It had focused exclusively on stock-options as an earnings management incentive while related literature has largely considered additional incentives, including earnings benchmarks, political costs and debt covenants. Future research could investigate alternative incentives and develop measures to capture the discretionary component of asset securitization, particularly by considering securitization-related gains as a proxy for earnings management.

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7. CONFLICT OF INTEREST STATEMENT

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts and declare the absence of conflicting interests with the funders.

8. AUTHORS' CONTRIBUTIONS

This work and manuscript are prepared by a single author.

9. DATA AVAILABILITY/SUPPLEMENTARY MATERIALS

Data sharing is not applicable to this article as no new datasets were generated or analysed during the current study.

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