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THE EXTENT OF COMPLIANCE WITH THE DISCLOSURE REQUIREMENTS FOR FAIR VALUE MEASUREMENT (IFRS-13): A STUDY ON THE ANNUAL REPORTS OF PALESTINIAN CORPORATIONS

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ABSTRACT: *This is an exploratory study designed to investigate the extent of compliance with the requirements fair value measurement disclosures in the annual reports of the 48 corporates that were listed on the Palestine Exchange (PEX) in 2014, by firstly sketching a guide of best practices and examining the relationship between the disclosure requirements for fair value measurement and the variables which may determine. In order to achieve the objective of our study, we have developed and utilized a disclosure score called unweighted fair value disclosure index (FVDI) to measure the extent of disclosure made by companies in corporate annual reports, and then using a statistical program to run the Correlations test, and Analysis of variance test. This study reports significant differences in levels of disclosures on fair value measurements, as measured by the mean values of the fair value disclosure index in Palestine. The findings show that, there is correlation between the disclosure requirements for fair value measurement and the explanatory variables (the size of the firm, auditor's type), also there are differences in the level of disclosure requirements for fair value measurement of the firms due to the kind of economic sector. However, that the level of disclosure requirements for fair value measurement evidence a statistically did not significant association with the profitability of the firms.*

KEYWORDS: IFRS-13, Fair Value, Disclosure, Unweighted Fair Value Disclosure Index, Annual Report, Palestine Exchange.

INTRODUCTION

In accounting, there are few topics that generate more debates than valuation rules because they directly affect the accounting figures used in investment decisions, assessing responsibility of managers to shareholders (i.e. stewardship) or management of entity's resources. Of course, the fair value - as the standard of value - does not deny this assertion, especially given that the recent brought the issue even more into the spotlight. The debate about the usefulness of fair value accounting was also enhanced in the context of the financial and economic crisis blockage in 2007-2009. Opponents of fair value accounting have insisted that financial statements based on fair value measurements accelerated the financial crisis and significantly enhanced its impact on affected companies (Hughes and Tett, 2008; King, 2009; Veron, 2008). Thus, fair value accounting has been the target of critics who came especially from the banking sector (Matis et al ,2013). Furthermore, accounting theory literature is full of arguments by accounting scholars claiming that historical cost accounting is obsolete and irrelevant to financial decision- making, and therefore needs to be replaced by some form or another of fair value accounting. According to its opponents, main deficiencies associated with historical cost accounting include its irrelevance during inflation periods (Deegan & Unerman, 2006), its failure to recognize unrealized increases in values of assets, and its lack

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of comparability (Riahi-Belkaoui, 2004). Given that, the use of fair values was proposed as an alternative to historical cost measures. In the particular case of financial instruments, fair value has generally been considered as more relevant than historical cost, and in many cases not much less reliable, especially if current market prices are readily available. Fair value measures of financial instruments have been seen as reflecting the market's assessment of the effects of current economic conditions on the financial instrument, not being affected by the past history of the financial instrument or the specific enterprise that holds it (Carroll et al., 2003), and allowing adequate financial statement reflection of asset liability management activities (if fair value accounting is applied to all financial instruments) (Gebhardt et al., 2004). Therefore, fair values can arguably be seen as reflecting value (rather than cost) and true economic substance (Penman, 2007). It was also argued that fair value accounting measures, as compared to historical cost accounting, provides better international accounting harmonization (Barlev & Haddad, 2007). Barth (2006) concludes that the perceived usefulness of fair value accounting by standard-setters has shifted the argument from whether they should be used in financial statements to how they should be used in financial statements. However, the application of fair value accounting has not been without criticism. So, in this paper we study the issue of disclosures on fair value measurements in financial reporting of Palestinian corporations by focusing on the potential determinants. We addressed this issue because, given all the criticism brought to fair value during the recent economic and financial crisis, we wondered if it is possible that the fault in many cases would be the lack of appropriate information for the users of accounting information. Accounting disclosure and determinants analysis has always been a major issue in accounting as documented throughout trade literature.

LITERATURE REWIEW

In accounting theory, fair value is the price of an asset, good, or service that most accurately reflects current and realistic conditions (Previts, Walton, & Wolnizer, 2011). Many empirical studies were undertaken on issues related to fair value accounting, studies covering the value-relevance of fair value accounting, measured by its incremental effect over historical cost accounting on stock prices, have generally found that fair value estimates for investment securities are value-relevant and have significant explanatory power beyond that of historical cost measures (Barth, 1994; Bernard et al., 1995; Barth et al., 1996; Barth and Clinch, 1998). As for earnings computed under fair value accounting, many studies have generally found that fair value earnings, resulting from recognizing unrealized holding gains and losses, are more volatile than those computed under historical cost accounting (Barth et al., 1995; Bernard et al., 1995). Hodder et al. (2006) argue that incremental earning volatility under fair value accounting income is related to elements of risk not captured by historical cost accounting net income or comprehensive income, and that these risks relate more closely to capital market pricing. Such value-relevance of fair value accounting measures has even been found under less efficient circumstances. Carroll et al. (2003) argue that incremental value-relevance of fair value accounting information is not eliminated when an estimation of fair value for thin markets' securities is needed. They found this result for both fair values of securities and fair value-based gains and losses covered in their study of close-end mutual funds. In his survey of many extant fair value accounting studies from the USA, UK and Australia, Landsman (2007) concluded that "disclosed and recognised fair values are informative to investors, but that the level of informativeness is affected by the amount of

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measurement error and source of the estimates- management or external appraisals" (Landsman, 2007, p 19). Some studies analyzed the value-relevance of fair value measurements on the financial performance of some companies. Penman (2007) concludes that book values change considerably when investments are accounted for at fair value, and that the magnitude of this change varies between companies and types of assets. However, only in few cases the difference in valuation leads to a relevant difference in companies' efficiency scores. That is, within the sample the overall rank order of the companies with regard to efficiency and profitability remains largely the same under both valuation bases. These findings seem to indicate that a change from historical cost to fair value accounting for investments would alter analyst perceptions of a limited number of companies but would not have any effect for the majority of them. Consequently, the value-relevance of fair value measures and their effect on stock prices has not always been reported to be a positive issue. Indeed, several studies have found that fair value measures have caused negative stock price reactions. This is generally in the case of banks, given their relatively large proportion of investment securities to total assets, compared to other types of businesses. Muller et al .(2015) examined the pricing differences across recognized and disclosed fair values, by examining two theoretical causes of such differences: lower reliability of the disclosed information, and/or investors' higher related information processing costs. they found a lower association between equity prices and disclosed relative to recognized investment property fair values, reflecting a discount assigned to disclosed fair values. then found that this discount is mitigated by lower information processing costs (proxied via high analyst following), and some support that it is also mitigated by higher reliability (proxied via use of external appraisals).

Lopes and Rodrigues (2007) found that, regarding the disclosure level under IAS 32 and IAS 39, disclosure by Portuguese listed companies is related to size, auditor type, listing status, and economic sector. also, Mert (2013) studying whether the use of fair value accounting is associated with major variations in key financial metrics such as revenue, profit margin, and stock price growth and whether the use of fair value accounting raises investor optimism, by The analysis of Turkish and Romanian companies and investors carried out in this study revealed that the use of fair value accounting was not significantly correlated with variations in revenue, profit, and stock price growth, but was nonetheless encouraging to investors. Ding et al (2004) cover studies such as Healy and Palepu (2001), and also a discussion by Core (2001), providing an overview of the empirical disclosure literature (Ding et al., 2004). They therefore document many researchers analyzing the corporate characteristics that could help forecast the disclosure level of a firm (Ding et al., 2004). Moreover, it seems like the fact is that many firms exceed the disclosure requirements by providing information not required by the existing law or accounting standards (Dumontier and Raffournier, 1999 quoted by Ding et al., 2004). The link between corporate disclosure policy and analyst behaviour has also been investigated (Lang and Lundholm, 1996 quoted by Ding et al., 2004), as well as the relation between the disclosure level and the cost of equity capital (Botosan, 1997; Botosan and Plumlee, 2002 quoted by Ding et al., 2004). Healy and Palepu (2001), Sundgren Et al (2013) discussed the role of auditors in the disclosure process. The authors stated that the fact that stock markets react to earnings announcements (Kothari, 2001quoted by Healy and Palepu, 2001) suggests that overall the accounting information is seen as credible by the investors, but is not clear if the credibility arises from the assurance provided by the auditor or whether there are other sources that influence it. Within our study we also considered the auditor's type as a independent variable in order to test if the volume of disclosure about fair value measurements in the financial statements is influenced by this

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characteristic. Research on the level of compliance with International Accounting Standards began to emerge around the 2000, showing, at that time, a relatively high degree of non compliance (Cairns,1999, El-Gazzar et al., 1999; Street et al., 1999 quoted by Fekete, 2008:296). Further studies focused on the study of several companies listed on stock exchanges, trying to identify whether there are significant differences between companies listed on a U.S. stock exchange and the companies not traded on such exchange. The results indicated a bigger general level of compliance in companies that were also listed on a stock exchange in the USA (Glaum and Street, 2003 quoted by Tiron and Ratiu, 2010:187). As Mustata (2008) also discusses, the capital market represents an important factor when considering companies' financial reporting practices. Street and Gray (2002, quoted by Fekete, Matiş and Lukacs, 2008) makes a more comprehensive study on a sample of 272 international companies, considering factors such as size of the entity, profitability, industry, notes, auditor type and country in order to determine what influences the level of compliance with IFRS, also (Matis et al, 2013) discussed Fair value measurement with related some dependent variables, such as, entity size, Auditor's type, and the county which the company is located, the study was finding that the entity size positively affects the fair value measurements.

Fair Value Definition

The concept of the fair value measurement has been requested in a growing number of IFRS standards within last twenty years. Fair value was firstly defined in 1982 in IAS 20, but within the E.U. directive it has been allowed since 2001. The fair value measurement has not always been used consistently .The defining fair value concept was processed many years. It was necessary to conceptually unify the use of fair value in the various IFRSs and also to unify the approaches to fair value in IFRS and U.S. GAAP (the process of convergence). The FASB issued SFAS 157 in the late 2006, followed by SFAS 159 in early 2007. The result of the convergence process was IASB draft "Fair Value Measurements (Part 1 and Part 2)" in November 2006, having the American standard as a source of inspiration and on 13th May 2011 the IFRS 13 – Fair Value Measurement was adopted (with the effective date 1st January 2013) (Dvorakova, 2013).

Similar to IFRS, [1]AAOIFI (Accounting and Auditing Organization for Islamic Financial Institution) recognized fair value although it doesn't put aside historical cost. In fact, asset recognition in Murabaha is still using historical cost. From Islamic point of view, especially for the computation of zakat, current valuation is obligatory. Therefore, a well-regulated Islamic financial service would meet the requirements of sharia then will be relevant to be practiced. The Islamic accounting regulations also adopted the modern accounting regulatory in order to make it relevant and contribute towards harmonization of accounting practices for Islamic financial institutions similar to non-Islamic institutions in order to provide transparent, truth and clear information, because giving full and true information is a must in Islam values (Latifah et al, 2012),(Aladwan & Saaydah, 2015). The AAOIFI followed a hierarchy that reflects the significance of the input used in measuring fair values: fair value

[1] In other countries, especially in Muslim countries, they might use more than one financial reporting standard. There is a financial reporting standard issued by AAOIFI or Accounting and Auditing Organization for Islamic Financial Institution based on sharia or Islamic law principle. AAOIFI was established on 1990 in order fulfill financial instrument on Islamic worldwide and sharia (Islamic law) requirements. AAOIFI focus on Islamic institution. The countries such as Kingdom of Bahrain, Dubai, Jordan, Lebanon, Qatar, Sudan, and Syria adopt AAOIFI. Indonesia, Malaysia, Pakistan, that are ready convergence their accounting standard with IFRS also adopt AAOIFI.

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measurement using quoted prices in active markets for identical instrument, fair value measurement using directly or indirectly observable inputs, fair value measure using inputs that are not based on observable market data and if information are not available in market data, disclosure shall be made for significant estimates and judgments used in determination of fair value including effect on the valuation due to possible changes in key variables used for valuation (Latifah et al., 2012),(Aladwan & Saaydah, 2015).

IFRS 13 defines fair value as " The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e. an exit price). Also, this definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. (http://www.ifrs.org)

This definition in fact states that fair value should be determined as the exit price, so from the perspective of the seller. This clarification unifies the approaches to fair value determining, but may bring certain risks in some situations. Fair value calculation can be based theoretically either on the entry price or on the exit price. Assuming a perfectly functioning market, these prices shall be - this situation may arise in financial instruments traded in active markets. The prices at the market in which the trader buys and the market in which the trader sells, are different (depending on the gross profit margin). In such case, fair value defined as the entry price will be different from the fair value defined as the exit price. IFRS 13 rather deals with the subsequent measurement at fair value and defines fair value as the exit price. But IFRS 13 applies both to the initial and subsequent measurement. When using the fair value measurement upon initial recognition, it makes sense to base the measurement of nonfinancial assets on the entry price at an (if possible) active, to the entity relevant market. The use of the exit price for non-financial assets would mean to measure including the anticipated sales margin, which is very risky. Currently the use of fair value is required upon initial recognition especially by IFRS and only for financial instruments, biological assets, and agricultural production. (http://www.ifrs.org)

Arguments for the Application of Fair Value Accounting

Accounting theory literature is full of arguments by accounting scholars claiming that historical cost accounting is obsolete and irrelevant to financial decision making, and therefore needs to be replaced by some form or another of fair value accounting. According to its opponents, main deficiencies associated with historical cost accounting include its irrelevance during inflation periods (Deegan & Unerman, 2006), its failure to recognize unrealized increases in values of assets, and its lack of comparability (Riahi-Belkaoui, 2004).

Critics of Fair Value

Critics argue that fair value accounting has created a false short-term visibility in the case of pension funding and hastened the demise of defined benefit schemes. More generally, critics argue that the financial crisis demonstrates the pro-cyclicality of fair values when accounting is tightly coupled to prudential regulatory systems, and the unreliability of marking to model in less than liquid asset markets, especially for assets which are being held for the long term (Power, 2010). They also add that the impact of fair value accounting (FVA) is likely to be more restrictive lending policies, and more demanding loan covenants, than are necessary for sound risk management, together with pricing which will be higher than is economically necessary (Allatt, 2001). Moreover, several commentators remarked on the fictional and imaginary nature of fair value and bemoaned their subjectivity and potential for manipulation

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and bias. Regardless of whether these criticisms have substance, it is also the case that if enough people believe in fictions, then they can play a role in constituting markets (Power, 2010). Many are comfortable with historic cost/realization accounting on the grounds that it is familiar and provide a more stable basis for prediction of future accounting than fair values. They argue that fair value based earnings cannot be predicted in the same way because of the effects of uncertain future events and see this as a significant drawback in being able to prepare budgets, forecasts, etc. and to manage analysts' expectations (Hague, 2002). Nevertheless, many critics of the subjectivity of fair value miss the real point. The very idea of reliability is being reconstructed in front of their eyes by shifting the focus from transactions to economic valuation methods, and by giving these methods a firmer institutional footing. Deep down the fair value debate seems to hinge on fundamentally different conceptions of the basis for reliability in accounting, making it less of a technical dispute and more of the politics of acceptability (Power, 2010).

Proponents of Fair Value

Few will question the relevance of information based on market prices as historical cost information is based on market prices at which assets were initially acquired and liabilities were initially incurred whereas fair value are based on current market prices. Fair value reflects the effects of changes in market conditions and changes in fair value reflect the effect of changes in market conditions when they take place. In contrast, historical cost information reflects only the effects of conditions that existed when the transaction took place, and the effects of price changes are reflected only when they are realized. As fair value incorporate current information about current market conditions and expectations, they are expected to provide a superior basis for prediction than outdated cost figures can since these outdated cost figures reflect an outdated market conditions and expectations (Poon, 2004). Proponents of fair value in accounting often appeal to notions of telling things as they are and of improving transparency. They point to areas such as pension accounting or the savings and loans industry in North America where fair values would have made problems (deficits, poor performing loans) visible much earlier, thereby enabling corrective action. An often heard trope is that one should not shoot the messenger of poor asset quality (Ebling, 2001),(Chea, 2011),(Aladwan & Saaydah ,2015).

In Palestine, All the corporations are listed on the Palestine Exchange (PEX), it is compulsory to adopt the International Financial Reporting Standards (henceforth IFRS).

About Palestine Exchange (PEX):

Palestine Exchange (PEX) was established in 1995 to promote investment in Palestine. The PEX was fully automated upon establishment- a first amongst the Arab Stock Exchanges. The PEX became a public shareholding company in February 2010 responding to principles of transparency and good governance. The PEX was fully automated upon establishment- the first fully-automated stock exchange in the Arab world and the only Arab exchange that is publicly traded and fully owned by the private sector, The PEX operates under the supervision of the Palestinian Capital Market Authority. The PEX strives to provide an enabling environment for trading that is characterized by equity, transparency and competence, serving and maintaining the interest of investors.

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The PEX is very appealing in terms of market capitalization, it is financially sound, and well capitalized to maintain a steady business in a volatile world, as it passed with the minimum level of impact of the global financial crisis compared to other MENA Exchanges.

There are 48 listed companies on PEX as of 15/05/2015 with market capitalization exceeded

$ 3,131 million across five main economic sectors; banking and financial services, insurance, investments, industry, and services. Most of the listed companies are profitable and trade in Jordanian Dinar, while others trade in US Dollars. Only stocks are currently traded on PEX, but there is potential and readiness to trade other securities in the future.(PEX, 2015)

RESEARCH METHODOLOGY

Measuring Fair Value

In this study we attempt to sketch a guide of best practices on disclosures about fair value measurements in financial statements. Thus, we examined the requirements of the International Financial Reporting Standard (13) Fair Value Measurement Disclosures. We have selected the below presented required disclosures (which are included within IFRS 13 Fair Value Measurement) that were considered in developing our study due to their necessity in ensuring a better informing of the users of accounting information. Furthermore, To meet the disclosure objective, the following minimum disclosures are required for each class of assets and liabilities measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition (note these are requirements have been summarized and additional disclosure is required where necessary): (IFRS 13, paragraph 93).

A- *For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs*

require or permit in the statement of financial position in particular circumstances[2] (IFRS 13, paragraph 93(a)).

B- *For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety* (Level 1, 2 or 3) (IFRS 13, paragraph 93(b)).

C-*For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining*

[2] One of these situations is: (when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations because the asset's fair value less costs to sell is lower than its carrying amount).

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when transfers between levels are deemed to have occurred[3] *. Transfers into each level shall be disclosed and discussed separately from transfers out of each level* (IFRS 13, paragraph 93(C) , paragraph 95).

D-*For recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity* (IFRS 13, paragraph 93(D)).

E-*For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:*

- *total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.*
- *total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.*
- *purchases, sales, issues and settlements (each of those types of changes disclosed separately).*
- *the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred . Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3*. (IFRS 13, paragraph 93(e)(f) ,paragraph 95).

F- *For recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity* (IFRS 13, paragraph 93(g)).

G-*For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between*

[3] The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:
(a) the date of the event or change in circumstances that caused the transfer.
(b) the beginning of the reporting period.
(c) the end of the reporting period.

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those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement (IFRS 13, paragraph 93(h-1)).

H-*For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes* (IFRS 13, paragraph 93(h-2)).

I-*For recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use* (IFRS 13, paragraph 93(i)) *

J-*An entity shall present the quantitative disclosures required by this IFRS in a tabular format unless another format is more appropriate* (IFRS 13, paragraph 99).

** In the list above indicates that the disclosure is also applicable to a class of assets or liabilities which is not measured at fair value in the statement of financial position but for which the fair value is disclosed* (IFRS 13, paragraph 97).

In this study we summarizing the above paragraphs in the sketch (Model) to arrive to accurate requirements fair value measurement disclosures, as (Table 1)

Table 1: A summary of paragraphs of the disclosure requirements for fair value measurement (IFRS-13)

Paragraph	Number of paragraph	Value	Symbol of paragraph	Description
a	93	0/1		*For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement.*
b	93	0/1		*For recurring and non-recurring fair value measurements, the level of the fair value hierarchy*
93(c) , 95		0/1		*For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis*
d	93	0/1		*For recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s)*
		0/1		*For recurring fair value measurements categorised within Level 3 of the fair value hierarchy:*

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93(e)(f) , 95		0/1		*-total gains or losses for the period recognised in profit or loss*
		0/1		*-total gains or losses for the period recognised in other comprehensive income*
		0/1		*-purchases, sales, issues and settlements*
		0/1		*-the amounts of any transfers into or out of Level 3 of the fair value hierarchy*
g	93	0/1		*For recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity*
h-1	93	0/1		*For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes*
h-2	93	0/1		*For financial assets and financial liabilities, if changing one or more of the unobservable inputs*
93(i), 97		0/1		*For recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use*
99		0/1		*An entity shall present the quantitative disclosures required*
Total paragraphs of the disclosure requirements for fair value measurement (IFRS-13)				14 paragraphs

Source: By Author

Scoring the volume of disclosures on fair value measurements

There are various approaches available to develop a scoring scheme to determine the disclosure level of corporate annual reports from the works of other researchers. Among the alternative approaches, unweighted disclosure index approach has been used to measure the extent of compliance with the disclosure requirements for fair value measurement(DRFVM), where an item scores one if disclosed and zero if not disclosed (Matis et al ,2013),(Mert, 2013),(Alkababji , 2014),(Vergauwe & Gaeremynck, 2014),(Chung et al, 2014), (Hossain et al, 2006),(Macarulla and Talalwe, 2012), An unweighted fair value measurement index is the ratio of the value of the number of items a company discloses divided by total value that it could disclose. Under an unweighted Fair Value Disclosure Index (FVDI), all items of information in the index are considered equally important to the average user.

In the unweighted fair value disclosure index, disclosure of individual items has been treated as a dichotomous variable. Here, the only consideration is whether or not a company discloses an item of the requirements fair value measurement in its corporate annual report. If a company discloses an item of the requirements fair value measurement in its annual report it will be awarded `1' and if not it will be awarded `0'. The disclosure model for the

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unweighted fair value measurement index, thus measures the total disclosure (TD) score for a company as additive as follows:

$$TD = \sum_{i=1}^{n} d_i$$

Where,

d= 1 if the item d_i is disclosed
0 if the item d_i is not disclosed
n= number of items

After determining the total disclosure index for each company and reporting year, we selected the factors that potentially influenced the evolution of the total disclosure index and made the appropriate statistical tests. The employed research methodology and applied model draws from similar studies being developed in research literature, as discussed in the literature review section.

The Dependent Variables, Explanatory Variables and Hypotheses

The dependent variable used in this study is **Fair Value Disclosure Index (FVDI)** and the disclosure index has been calculated for each of the companies studied. The explanatory variables used in the study have taken into the account previous studies undertaken by other researchers. The corporate attributes considered are Size of the firm (proxied by total sales ,over most recent fiscal year), Profitability (proxied by rate of return on assets-ROA, over most recent fiscal year), The Kind of the economic sector, and Auditor's Type (a dichotomous variable that takes value 1 if financial statements are audited by a Big4 audit firm (Deloitte Touche Tohmatsu ;PricewaterhouseCoopers; Ernst & Young ; KPMG), and 0 otherwise. The following paragraphs provide a rationale for taking into consideration the corporate variables chosen as explanatory variables:

The main measurable and determinant characteristics of a firm include, size of the firm, profitability, the kind of the economic sector, and auditor's type. The internal environment of a firm is made up of non-measurable social, political and ideological factors that determine its particular activities and evolution and include the managers' ethics or beliefs, their cultural background and their attitude towards their stakeholders. Finally, the external influences include key elements of the general political, social and economic environment in which the firm operates such as the activity of NGOs and the media, pressure from competitors, public opinion and globalization. Below will be studied the possible correlation between the level of the components of the **Fair Value Disclosure Index (FVDI)** and the characteristic variables of firms, focusing on those that are measurable.

Size of the firm

We believe that a truly great and hence a vast market exposure will be interested to maintain investor interest by providing accounting information quality. In addition, previous studies (Fekete et. al, 2008),(Matis et al, 2013) confirmed this hypothesis.

Larger companies may be hypothesized to disclose an item of the requirements fair value measurement in their company annual reports than smaller companies for a variety of reasons. According to the Agency Theory, fair value measurement disclosures can be used to

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reduce political costs, which in turn, could reduce wealth of a firm. As the magnitude of political costs is highly dependent on firm size, it is inferred that there will be a positive size and fair value measurement disclosures relationship. There are several measures of size available (e.g., number of employees, total asset value, total sales volume, etc.). However, we discard total assets because it is not comparable between the financial sector and the others given that banks usually have much greater total assets. We will use sales as our proxy to measure size, especially because the banking and insurance sector is the largest in our sample. The hypothesis is as follows:

H1: There is a relationship between the size of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange.

Profitability

Profitability gives the directors of the firms the liberty and flexibility to carry out more disclosure of information's. Most empirical research has found the relation between fair value disclosure and the profitability of the firm to be inconclusive at best (For example, Aladwan & Saaydah (2015),Siam & Abdullatif (2011). A number of investigation have found no association (For example, Mert (2013),Vergauwe & Gaeremynck, (2014)). Again, the results tend to be more intriguing.

Among the methods used to measure corporate profitability, in this study has chosen the ROA. The hypothesis is as follows:

H2: There is a relationship between the profitability of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange.

Kind of the economic sector

Kind of the economic sector has been used by a very few number of researchers as an explanatory variable for differences in disclosure level, (Chung et al, 2014) point out that some firms have a different perception of fair value measurement disclosures to others because of the type of activity that they carry out. The hypothesis is as follows:

H3: There are differences in the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange due to the economic sector.

Auditor's Type

This variable exerts a significant influence on the volume of information disclosed because it determines whether the firm opts for an information policy of transparency, showing its honesty and reliability (Vergauwe & Gaeremynck, 2014), and can afford to do so. Recourse to one of the Big 4 shows this interest and capacity. This variable has received little attention in the Western world because most listed firms are audited by one of the Big 4 group (Chung et al, 2014). However, in many Arab countries, this is not the case because they employ local or smaller auditors. Therefore, the application of this variable to these countries may contribute additional information about its influence on fair value measurement disclosures (Matis et al, 2013).Therefore, we believe that if the company's financial statements are audited by an audit firm from Big4 group, characterized by high professionalism, will strive

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to achieve the highest possible degree of compliance with accounting standards. The hypothesis is as follows:

H4: There is a relationship between the Auditor's Type of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange.

Sample and Data of the Corporations

The initial sample of research was constituted by all the companies that are listed on the Palestine Exchange. The total number at the time we accessed the website (http://www.pex.ps) Accessed: 15/05/2015) were 48 companies, After accessing their websites in order to get and evaluate the items of the requirements fair value measurement in their annual financial reports based on the disclosure requirements for fair value measurement (IFRS-13) for one year (2014), our sample is constituted by 48 companies, that was listed on the Palestine Exchange in the current year. The classification of sectors on the Palestine Exchange is normalized into five sectors see (Table 5).

The researcher seeks to understand and explain the nature of causal relations between to variables. Hence, correlations serve as empirical indications of possible relationships between for quantitative variables. But used the ANOVA test (Analysis Of Variance) because it used to test hypotheses about differences in the average values of some outcome between two groups; thus, ANOVA can be used to examine differences among the means of several different groups at once. More generally, ANOVA is a statistical technique for assessing how nominal independent variables influence a continuous dependent variable.

RESULTS OF THE STUDY

The results of the study are presented in two sections. In the first section, the nature and extent of compliance with the disclosure requirements for fair value measurement (IFRS-13) has been analyzed and discussed. The second section focused on the discussion on Pearson Correlation Co-efficient, and ANOVA (Analysis Of Variance) were used to test the hypotheses of the study.

Disclosure Levels by the Sample Corporations in Palestine

This section focuses on the measurement and analysis of the extent of compliance with the disclosure requirements for fair value measurement in corporate annual reports .In most of the studies reviewed, a disclosure index was prepared in order to measure the extent of compliance with the disclosure requirements for fair value measurement in the annual reports of the companies under study.

The score received by all Corporations in the sample has been made. A summary descriptive statistics of values for the companies are provided in Table 2.

Table 2: Destructive statistics of the fair value disclosure in Palestinian Corporations

Means	5.89
Standard Deviation	4.27
Maximum	11
Minimum	0

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Comparison of fair value disclosure patterns may also be made by comparing the distribution of scores under the disclosure index in the Palestine. Table 3 contains data on the dispersion of the disclosure scores (range as given by the differences between minimum and maximum scores and standard deviation).

Table 3: Disclosure Levels made by the sample Palestinian Corporations

Score Range	**Corporations with disclosure**	
Total number of items in Disclosure index	**No. of Corporations**	**% in the sample**
zero	11	22.91%
1-4	8	16.67%
5-8	6	12.5%
9-12	23	47.92%
13-over	zero	0
Total	48	100%

Table 3 shows the distribution of disclosure performance by expressing the number of items disclosed as percentages of the total of 14 indicators based on paragraphs of the disclosure requirements for fair value measurement (IFRS-13).

Column one of Table 3 distinguishes ranges of disclosure performances in these terms. Table 3 shows the modal disclosure to be less than 13 items made by in Palestinian companies in their corporate annual reports. The distribution shows a skew towards relatively high levels of the disclosure requirements for fair value measurement (IFRS-13) of the sample corporations in Palestine.

After calculating the indices for each company, has carried out analyses that allowed us to observe the behavior of the companies in the sample with respect to the disclosure of fair value measurements. Below, have described the most important results. Table 4 shows the number of firms that do or do not disclose of fair value measurements, disclosure is considered to exist if the company publishes information corresponding.

Table 4 : The number of firms analyzed

Disclosing firms	**No. of Palestinian Corporations**	**Percentage**
Disclosing Firms	37	77.09%
Non-disclosing Firms	11	22.91%
Firms analyzed	48	100%

Table 4 shows the number of companies that do or do not disclose of fair value measurements. Disclosure is considered to exist if the company publishes information corresponding to fair value measurement .In general terms, it can be seen that, in the sample of companies analyzed, the level of disclosure is high. 11 companies out of a total of 48 (22.91%) do not publish the information studied, while the 37 remaining companies (77.09% of the sample) published an items of the requirements for fair value measurement (IFRS-13).

Table 5 shows that most sectors publishing items of the requirements for fair value measurement (IFRS-13), Insurance Sector and then Banks and Financial Services Sector (69.38%) (61.11%) respectively, It is the predictable consequence, due to its extensive dealing with fair value accounting through investment accounting, its clients' use of fair

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value accounting in their financial reporting and the potentially significant effect this issue has on banks' profits and share prices. Also the companies from those sectors the percentage of assets measured at fair value is higher, which is why in the recent economic and financial crisis they have aroused the greatest controversy about the value of financial asset (Siam & Abdullatif, 2011).

Table 5: Volume of disclosures requirements on fair value measurement, level by economic sectors

Sector	Volume of disclosures	Total N. of Corporations
Banks and Financial Services Sector	**61.11%**	9
Industry Sector	27.97%	12
Insurance Sector	**69.38%**	7
Investment Sector	55.35%	8
Service Sector	17.26%	12
Total N. of Corporations		48

Developing the analysis and interpreting results was done by following the hypotheses below:

H1: There is a relationship between the size of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange.

To examine the correlation between two variables, we use Pearson Correlation test.

Table 6 - Correlation between Disclosure requirements for (FVM) and the size of the firm.

Correlations		
		Disclosure requirements for (FVM)
Size(Total sales)	Pearson Correlation	**0.363***
	Sig. (2-tailed)	**0.011**
	N	**48**

Note: Correlation is significant, significant < 0.05.

Table 6 shows that the level of disclosure requirements for fair value measurement (IFRS-13) evidence a statistically significant association with the size of the firm (expressed by the proxy of Total Sales), confirming the results of previous research such as ,(Fekete et. al, 2008),(Matis et al, 2013),(Mert,2013),(Sundgren et al, 2013).The arguments larger firms disclose higher levels of requirements for (FVM) flow from a number of different theoretical perspectives. Agency and positive accounting theories predict that managers use disclosure requirements for fair value measurement as part of their overall strategy to reduce agency costs and in particular political costs. One would expect that larger companies have the incentive to provide higher quality disclosures because of their public exposure.

Growing companies are more likely to need external financing, Based on this, one would expect that growing companies, that may need external financing in the future, have higher quality of their disclosures. We include the growth in sales as a control variable .

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Furthermore, studies suggest the relative importance of financial reports as a medium for communication is smaller if a company has concentrated ownership (e.g. Givoly et al. 2010),(Sundgren et al, 2013).

Other studies document that mandatory disclosure of fair values reduces information asymmetry (e.g., Muller et al. 2011), that information asymmetry and information risk are lower when fair value disclosures are more reliable (Muller and Riedl 2002; Riedl and Serafeim 2011), and that fair value reporting aids analysts in forecasting property firms' net asset values (Liang and Riedl 2014),(Muller et al, 2015).

H2: There is a relationship between the profitability of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange.

To examine the correlation between two variables, we use Pearson Correlation test.

Table 7 - Correlation between Disclosure requirements for (FVM) the profitability of the firm

Correlations		
		Disclosure requirements for (FVM)
Profitability (ROA)	Pearson Correlation	**0.156**
	Sig. (2-tailed)	**0.290**
	N	**48**

Table 7 shows that the level of disclosure requirements for fair value measurement (IFRS-13) evidence a statistically did not significant association with the profitability of the firm (expressed by the proxy of Return on Assets-ROA), Because the results revealed that statistical significance is (0.290) which is larger than (0.05), this means that there is no correlation between Fair value measurement disclosure and ROA. Confirming the results of some previous research such as, (Mert, 2013),(Vergauwe & Gaeremynck, 2014),(Nikolaev, 2008),(Bonacchi et al, 2014). Some previous studies such as, Bonacchi et al (2014) Indicate that profitability is a non-explanatory variable and deduce that firms that obtain a high profitability are not a requirement to apply fair value accounting. Also confirming the results such as, Nikolaev (2008), found how return on assets (ROA) differs between fair value vs. historical cost companies. We found that a lower ROA in the property, plant, and equipment sample among companies that recognize assets at fair value. In the investment property sample, also found, a lower ROA among companies that use fair value accounting.

It is not surprising that fair value accounting for property decreases ROA because while, on average, fair value accounting increase the book value of assets, upward revaluations do not affect the net income. For investment property this effect is smaller because upward revaluations increase both net income and total assets.

H3: There are differences in the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange due to the economic sector.

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We use ANOVA test (Analysis Of Variance); thus, ANOVA can be used to examine differences among the means of several different groups at once.

Table 8 - Differences in disclosure requirements for (FVM) and the kind of the economic sector of the firm

Descriptives			
Disclosure requirements for (FVM)			
Economic Sector	**N**	**Mean**	**Std. Deviation**
1-Banks and Financial Services Sector	9	8.5556	2.55495
2-Industry Sector	12	3.9167	3.98767
3-Insurance Sector	7	9.7143	1.11270
4-Investment Sector	8	7.7500	4.02670
5-Service Sector	12	2.4167	3.36988
Total of Sectors	48	5.8958	4.27382

ANOVA					
Disclosure requirements for (FVM)					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	385.495	4	96.374	8.762	**0.000**
Within Groups	472.984	43	11.000		
Total	858.479	47			

Note: Correlation is significant, significant < 0.05

Multiple Comparisons			
Dependent Variable: Disclosure requirements for (FVM) Tukey HSD			
Variable: Economic Sector	**Variable: Economic Sector**	Mean Difference (I-J)	Sig.
1-Banks and Financial Services Sector	**2-Industry Sector**	4.63889*	**0.022**
	3-Insurance Sector	-1.15873	0.957
	4-Investment Sector	.80556	0.987
	5-Service Sector	6.13889*	**0.001**

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2-Industry Sector	**3-Insurance Sector**	-5.79762*	**0.006**
	4-Investment Sector	-3.83333	0.102
	5-Service Sector	1.50000	0.801
3-Insurance Sector	**4-Investment Sector**	1.96429	0.782
	5-Service Sector	7.29762*	**0.000**
4-Investment Sector	**5-Service Sector**	5.33333*	**0.009**

*. The mean difference is significant at the 0.05 level.

Table 8 shows the main results of the **ANOVA test**. A relationship can be observed between the variable economic sector and the level of disclosure requirements for fair value measurement (IFRS-13). In these cases, as can be seen in the table, the F statistic indicates was significant values(0.000) < 0.05 ,it means there are differences in the level of disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange due to the kind of economic sector, also we use multiple comparisons by **Scheffe test** to disclose the reason for the differences, which are attributed to the Banks and Financial Services Sector and Industry Sector, also Banks and Financial Services Sector and Service Sector, which were statistic indicates that significant values (0.022 and 0.001 < 0.05) respectively, also, Industry Sector and Insurance Sector, also Insurance Sector and Service Sector, Investment Sector and Service Sector which were statistic indicates that significant values (0.006 , 0.000 ,and 0.009 < 0.05) respectively, therefore ,based on the evidence of the ANOVA test, our results suggest that we should not reject H3, This result is in agreement with previous studies such as, (Matis et al, 2013), (Mert, 2013), (Chung et al, 2014).

Moreover, from the above we'll notice that some sectors are profitable but don't disclosure of fair value measurements, this support the result of hypothesis number two that encompasses no correlation between the disclosure requirements for fair value measurement and profitability.

H4: There is a relationship between the Auditor's Type of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange.

To examine the correlation between two variables, we use Pearson Correlation test.

Table 9 - Correlation between Disclosure requirements for (FVM) and the Auditor's Type of the firm.

Correlations		
		Disclosure requirements for (FVM)
The Auditor's Type of the firm.	Pearson Correlation	**0.464****
	Sig. (2-tailed)	**0.001**
	N	**48**

**. Correlation is significant at the 0.01 level (2-tailed).

Table 9 shows that the level of disclosure requirements for fair value measurement (IFRS-13) evidence a statistically significant association with the Auditor's type of the firm, confirming the results of previous research such as,(Sundgren et al, 2013),(Matis et al, 2013),(Muller et

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al, 2015). Prior studies suggest that the large international audit firms conduct higher quality audits than smaller audit firms (see Francis 2004 for a review). A possible consequence of this is that the disclosure quality is higher. We include a Big 4 indicator variable as a control (BIG 4).

Under differential reliability (e.g., Bratten et al. 2013), disclosed information is viewed as containing greater measurement error, owing to greater scrutiny of recognized data by both internal (e.g., management) and external (e.g., auditor) parties.

CONCLUSION, IMPLICATION, FURTHER RESEARCH

Fair value accounting practices for financial reporting have risen in prominence worldwide during the last two decades under pressure from the business community for accounting information that is more relevant and reflective of the market conditions. However, the use of fair value was, and still is, controversial. It is argued that implementing fair value accounting in emerging countries faced a set of problems: for example, the lack of active markets for most assets and liabilities, which means that most fair value measurements are estimates and are highly subjective and potentially unreliable, another problem is the costly information, especially for smaller companies and finally the recognition of profits based on fair values, which mean that unrealized profits or losses from changes in fair value are recognized, which will result in greater volatility and unpredictability (Barth, 2006),(Olsen and Cheng, 2011),(Siam & Abdullatif, 2011),(Aladwan & Saaydah, 2015).also, Low efficiency markets and less transparency combined with mainly closely held businesses (including public listed companies) may lead to different results from applying fair value accounting. These include possible fraud or poor personal judgements regarding the fair value measures or undesired economic consequences (in terms of poor investment decisions). As the absence of active markets for assets, such as financial instruments and investment properties, management must estimate fair value; this estimation can be subject to discretion or manipulation. Driven by the need to increase comparability among the global business community, the International Accounting Standard Board (IASB) has been working hardly in harmonizing accounting standards globally. These efforts resulted in a single set of International Financial Reporting Standards (IFRS) which has been adopted by many countries globally.

This study aimed to provide an additional insight for the applicability of IFRS in emerging economy as it is conducted in the Palestinian environment whose regulators have made a commitment to fully converge with IFRS.

In this paper we addressed the issue of compliance with the disclosure requirements for fair value measurement (IFRS-13) in the financial reports. Thus, we selected a sample of 48 companies listed on the Palestine Exchange (PEX). All the companies selected are activating across five main economic sectors. We analyzed the financial statements of these companies for one year 2014, to identify the extent to which they provide information related to fair value by using unweighted disclosure index approach to measure the extent of compliance with the disclosure requirements for fair value measurement. Following the analysis performed we attempted to determine whether the disclosure index value is influenced by factors such as, the size of the company, profitability, kind of the economic sector, and auditor's type.

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The results of our research are consistent with the larger portion of studies. A positive and significant relationship between the size of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms, we found that there is no correlation between the profitability of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms, confirming the results of some previous research, also we found a significant relationship between the Auditor's Type of the firm and the level of compliance with the disclosure requirements for fair value measurement of the firms, also the results showed there are differences in the level of compliance with the disclosure requirements for fair value measurement of the firms listed on the Palestine Exchange due to the economic sector.

These results leave us with the question of whether fair value accounting should be required worldwide (as is the general case of IFRS) or whether some alternative can be proposed and permitted for financial reporting in less-developed countries, where the full application of fair value accounting may lead to more negative economic consequences since, while in more-developed countries using market prices is generally seen as more relevant and not seriously impairing reliability in many cases, in less-developed countries reliability may be seriously impaired. The findings from this study do not provide conclusive evidence on this, but they highlight issues that international standard setters may find important when considering the application of fair value accounting standards.

Several suggestions for future research on fair value accounting can be developed from the results of this study. These include in-depth studies of the actual practice of fair value accounting by reporting entities in developing countries and studies of the methods of application of personal judgement in the valuation of assets. It is also important to study the effects of fair value reporting in developing countries on security prices and how such an effect may be different from what exists in more-developed contexts. A related issue also worth exploring in developing countries is the use of fair value reported items by users of financial statements and how the presence of fair values may affect the users' decision making. The potential effect of fair value reporting on the auditing function in developing countries and how auditors in these countries adjust their audit practices as a result of that is also worth further exploration. Also, we study a crisis period during which time the market was quite illiquid, and it is unclear whether our results would hold in other periods. Time-series analysis could also shed light on changes in the reliability effects over time.

This study considers the annual reports for a single year. Further research can be undertaken to measure the extent of fair value disclosure longitudinally to determine whether quality of disclosure has improved over time. Such a study would provide additional insights on corporate disclosure practices in Palestine. This study does not concentrate on any particular sector; further research can be undertaken based on particular sector type (e.g., Banks and financial services sector or service sector in Palestine). As always, much more research is needed in the fair value measurement (IFRS-13) and with related the reliability and relevance of financial statements issued by the corporations.

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