**محمــد فتحـي الشحات علي - مـدرس بقسم المحاسبة – كلية التجارة – جامعة بنها**

|  |  |
| --- | --- |
| **رقم البحث بالقائمة/ نوعه** | 4 / individual |
| **عنوان البحث** | On the Global Financial Crisis: The Effectiveness of Fair Value Accounting (FVA) as a Tool for Accounting Measurement |
| **النشر** | مجلة الدراسات و البحوث التجارية – كلية التجارة – جامعة بنها – العدد الثاني - 2013 . |

**Abstract**

**(1) Introduction**

The international financial crisis has forced various problems which have a remarkable impact on the financial instruments that reflect on the preparation of financial statements. The measurement of accounting elements makes up one of the most significant factors in preparing financial statements, which fairly present economic activity of an accounting entity. A number of recent studies have discussed the role of Fair Value Accounting (FVA) in the international financial crisis. Beisland (2010) argued that the role of FVA in the financial crisis is controversial; some claims that FVA contributed to the financial crisis, others discharge all such claims and state that accounting's only role was to introduce visible the true values of companies' assets. In addition, FVA has received much attention all over the world as it has been blamed by a number of financial institutions for its role in the financial crisis. Its role was derived from inserting too much financial volatility into financial asset markets and reducing investors' confidence about the solvency of financial institutions.

**Literature review (2)**

**(A) The global financial crisis: Challenge to accounting community**

The global financial crisis has significance influence on accounting, both for practice and for the research community in different areas including financial accounting, auditing, and managerial accounting which shown several difficulties and shortages (Hopwood, 2009). Various recent studies have pointed out the relationship between international financial crisis and the need for improving the accounting practices and theory (Hopwood 2009, Arnold 2009, Sikka 2009, Laux and Leuz 2009, Veron 2008).

**(B) FVA: An overall overview**

FVA has been debated by several recent studies from different perspectives which in turn contribute to raising the importance of this concept and its role in the economic life. In the subsequent discussion, the study tries to cope with FVA from four viewpoints**.**

1) FVA vs. Historical Cost Accounting (HCA)

2) FVA: definitions and comparison

3) FVA and Financial Crisis

4) FVA and the Banking sector

**(3) The Egyptian Banking sector**

The Egyptian banking sector significantly extended in the mid-1970s prompted by the country's so-called open door policy. This policy aimed at outward-looking growth with an active role for the private sector to support economic performance. To support the new policy, a banking law was enacted in 1975 (Law 120/1975) defining the nature and mode of operations for all banks, it identified three types of banks; commercial banks, business and investment banks, and specialized banks**.**

**(4) Research limitations**

Due to the time limit and research resources, this study deals with FVA from four different perspectives; relevance, reliability, comparability, and transparency and investigate to what extent each perspective is adopted and practiced in the selected sample. Consequently, the study will not address the details of FVA standard and the procedures required to develop and progress this standard. In addition, the study will not focus on the organizational aspects governing the application of FVA and regulatory effects arising on that application.

**(5) Research Hypotheses**

* *H1: Reporting different securities on the balance sheet at fair value produces relevant information and reduces the uncertainty associated with decisions.*
* *H2: Estimating assets and liabilities at fair value, resulting in unreliable information due to the fluctuations in the market prices.*
* *H3: Variations in the application of fair value accounting among firms reduces comparability and consistency.*
* *H3: Fair value estimates do not have appropriate evidences for increasing the degree of transparency of the financial statements.*

**(6) Research Methodology**

The study adopts the deductive approach as a research approach with the aim of getting a feel of what was going on together with understanding better the nature of the research problem. So, this approach helps understand to what extent the FVA approach can be applied in the Egyptian banking sector and what is the impact of this application on providing financial statements' users with reliable, relevant, comparable, and transparent information. Moreover, the study depends on a survey as a research strategy that helps create answers to the questions *why*: "why do the Egyptian banks report some assets and liabilities based on FV?" As well as *what*: "what is the relevance, reliability, comparability, and transparency of applying FVA?" and *how* "how can we develop the financial reporting by using FVA?" The survey depends on a questionnaire that was developed to collect data from the selected sample.Therefore, the sample is thirty managers from the Egyptian bank sector which makes up the target respondents: these managers were selected from different departments in the selected sample. In addition to the questionnaire, there are various sources of secondary data including organizations' records), government publications, academics' notes from interviews, banks' reports, and various informal discussions.

**(7) Research Findings and Recommendations**

**(A) The most important findings**

* The outcomes confirmed the importance of reporting assets and liabilities with fair value. in addition, the study pointed out that the firm's stock market value is more associated with FVA than HCA, it is preferable to mandate the reporting of fair values for all financial instruments in addition to some historical cost information because fair value motivates investors and regulators to be updated with the current market expectations when asset prices are declining and risk levels for financial institutions are increasing.
* There is a strong trend within the selected sample towards the difficulty of getting market prices for all assets and liabilities. In addition, this study also found out that the criticism of fair value in terms of low reliability and relevance is related to these people who formerly profited on the increasing prices. Moreover, without reliable estimates of fair value, the likelihood of errors in the financial statements that prepared using fair value measurement will be greater.
* The study found out that evaluating of bank's financial position requires analyzing its financial statements over time and comparing them with competitors. Nonetheless, this study also found out that applying FV involves a degree of subjectivity and bias – to a great extent - in the preparation of financial statements which make the comparison more difficult and invaluable. In addition, the respondents provided less significance regarding the steadiness of valuation methods of assets and liabilities in the market.
* There is a strong trend towards exerting additional efforts from all interested parties to increase the degree of transparency of financial reporting when using FVA. Thus, accounting and reporting based on fair value require extensive and thorough analysis of the methods and assumptions so as to determine values recognized in the financial statements. Sequentially, this will motivate market participants to redesign the existing financial reporting model. The study also proved that, there is an improbability concerning the ability of FVA in increasing the level of transparency of financial reporting.

**(B) The most important recommendations**

* The managers of banks should provide researchers with beneficial and valuable data that support them in developing the research efficacy which results in positive consequences for accounting practice and community.
* The importance of issuing international unified guidelines\regulations concerning the fraud and account misrepresentation which should be visible to all control and management levels. Hence, the punishment will be implemented if somebody will break these rules and regulations.
* The need for studying more FVA characteristics other than that pointed out in the study (*such as*: verification, understandability).
* The need for studying organizational and behavioral values when shifting from HCA to FVA.
* Developing the accounting standard of FVA in order to maximize the benefits of adopting and applying FVA.