



## Conceptual Stability and Digital Homogeneity of Fair Value Measurement

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### Abstract

*This research aimed to identify the concept of fair value and the conceptual stability in scientific definition, beside identify the digital Homogeneity that resulted from fair value measurement according to IFRS 13 that issued by International Accounting Standards Board(IASB), also, discussing the reality of application of fair value through the empirical study conducted by the researchers, and analyzing the effect of measurement using fair value basis*

*The researchers concluded that there is no conceptual stability in scientific definition, support his opinion by the latest amendments that included in IFRS 13 especially the definition of fair value, this lead to gap in digital Homogeneity relates to items measured by fair value, because of using different approaches, different levels in fair value hierarchy in different markets, the researchers also discover six ratios to analyze the effect of fair value on result of business and its financial position*

*The researchers recommend the necessity of finalizing the conceptual framework of fair value as a basis of accounting measurement, and setting a code of conduct to the accountants that they determine the fair value, beside, revising IFRS 13 specially matters related to markets, level in fair value hierarchy and fair value measurement approaches, and ensuring the necessity of independency of IASB, and finally adoption of proposed financial ratios the can be used to analyze the effects of fair value on business result and its financial position.*

**Key words:** *Fair value, digital Homogeneity, unrealized gains and losses, financial analysis to effects of fair value, IFRS 13.*

## **Introduction**

Fair value concept is considered one of the contemporary accounting concepts that comes as a result of big efforts done by the stakeholders in accounting profession in order to get rid of troubles existed because accounting measurement, especially those relate to use different accounting bases for measurement, that lead to absence of Homogeneity from accounting figures presented in financial statements.

Revolution in accounting measurement started in International Accounting Standards(IAS),the former name of International Financial Reporting Standards(IFRS), by issuing IAS 39 financial instruments : measurement and recognition, where fair value concept adopted as a concept of measurement, in spite of the initial appearance of fair value as a measurement basis was not in this standard, but United State Generally Accepted Accounting Princlples(US GAAP) preceded IFRS in laying fair value concept within its issuances, as it shown in the annex 1(Jaarat & Tabari, 2013).

After that, more attention paid to fair value concept, in order to reach to a fairness measurement basis, but achieving that is not so easy, because of that, fair value as a measurement basis is not included in conceptual framework of financial statements issued by International Accounting Standards Board(IASB), nor in conceptual framework of financial accounting issued by American Financial Accounting Standards Board (FASB), despite the fact that intention of the two boards (IASB, FASB)- as I was told by Mr. Darriel Scott, the member of IASB- to nominate fair value soon as a measurement basis within conceptual frameworks of both boards(WB & IASB, 2015).

Fair value as an important measurement basis appeared during financial crisis 2007-2008, because of many related reasons, such as: recognition of unrecognized gains and losses in profit or loss, or in other comprehensive income, that resulted from subsequent measurement to many assets and liabilities especially financial ones in financial statements, beside to reclassifications of financial instruments and other items, that permitted in US GAAP, and not permitted in IFRSs till financial crisis, but because of EU pressure on IASB, to permit these reclassifications, IASB amended IAS 39 and IFRS 7 and applied the amendments retroactively.

The efforts of IASB concluded to issuance of IFRS 13: fair value measurement, that docked the groundwork of measurement using fair value basis. The issuance of IFRS 13 represents the convergence between IASB and FASB point views about fair value, moreover, IFRS 13 adopted most of FAS 157 that relates to fair value.

IFRS 13 includes all issues related to fair value measurement, also, IFRS 13 considered as a way of assuring the problem of accounting measurement, since the accounting measurement criticized by using different measurement bases, with absolute reaching to different figures represent different levels of earning power, proscribed from achieving Digital Homogeneity, but by issuing IFRS 13, another dimension was added , that is proscribing from achieving Digital Homogeneity by using the same measurement basis, it is fair value, because of what may I called it the Triple Three Dimensions (TTD)that will be discussed later, relate to levels, markets, and approaches, that used to measure fair value according to IFRS 13, these TTD broads gap in accounting measurement instead of narrowing it.

## **Importance and objectives of the study**

Importance of the study derived from the importance of measurement in accounting and considering it as the most important one in the accounting field that must be cinctured, since

accounting figures represent the outcomes of accounting transactions and events, also, represent rights of the entity and claims on it, beside using these figures by stakeholders to make decisions, this may lead to lose confidence from accounting figures if these figures depart from representational faithfulness and exposed to manipulation, change, or replace depending on intentions and temperaments.

The main objectives of the study may be determined as follow:

1. Identification of fair value and conceptual stability in it.
2. Identification of digital homogeneity resulted from fair value measurement according to IFRS 13.
3. Discussing the reality of fair value measurement through adoption of empirical study.
4. Setting relative conclusions and recommendations.

### **Problem of the study and its elements**

The problem of the study focus on the absence of conceptual stability to fair value till now, that leads also to absence of digital homogeneity to values measured at fair value, also, centralize on extent of existence of fair valuers, and reasons why instability in fair value concept between time and time, especially after issuing IFRS 13, that may be interpreted by ambiguity in the concept itself, also, TTD put fair value concept under question relates.

Depending on what aforementioned, main question of the study is: Does fair value characterize by conceptual stability and digital homogeneity as a measurement basis?

Elements of the study problem can be as follow:

1. Is there a scientific and conceptual framework to fair value characterized by clarity, stability and accuracy, or related amendments assured the big gap between accountants in achieving associated understandability to fair value measurement?
2. Is there a digital homogeneity between values of items measured at fair value characterize, or these values in consideration of using different levels in fair value hierarchy, different techniques to determine it, different markets can fair value be determined in, lead to deviances, deviations, and divergences in accounting measurement?
3. Are the items measured at fair value presented in the statement of financial position material? Also, are the recognized and unrecognized gains and losses relate to fair value measurement that recognized in profit or loss, or in other comprehensive income material? so may lead to distortion in representation of statement of financial position to fair financial position, and representation of statement of comprehensive income to fair result of business?

### **Method of the study**

In order to achieve objective of the study, the researchers will use the descriptive analytical approach from one side to discuss the cores of the fair value that included in IFRSs especially IFRS 13, and qualitative approach to examine the questions of the study, through discussing the items that measured at fair value that presented in the financial statements of the entities that constitute the sample.

## **Population and sample**

The most important affected sector in applying fair value accounting, is banking sector, so the researchers will focus on this sector and choose Arab bank that considered the biggest bank in Jordan through a case study, because one of the suspected reasons behind financial crisis 2007-2008 is fair value, that is very obvious from the proposed solutions that may reduce the bad effects of the crisis, such as: adoption of different accounting measurement bases, reclassifications of financial assets from fair value category to cost category.

## **Limitations of the study**

The study will be conducted only in the traditional banks, so Islamic banks out of the scope of the study, also, the study will focus on the financial statements during the periods 2010-2013.

## **Fair value and conceptual stability**

In this part of the study, the researchers will treat with the first question of the study, it is: "Is there a scientific and conceptual framework to fair value characterized by clarity, stability and accuracy, or related amendments assured the big gap between accountants in achieving associated understandability to fair value measurement?"

Fair value concept that included in IFRS 13(IASB, 2015) differs from what mentioned in IFRSs before, the related improvements in the concept of fair value as follow:

1. 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", this definition differs from the previous definition that set by IAS 39 , that is: "Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction".
2. The new definition addressed many fundamental differences in conceptualization of fair value, these differences are:
  - a. "The amount for which an asset could be exchanged" was replaced by " The price that would be received to sell an asset", so the new definition assumes sale of the asset instead of exchange it, but the asset required to be measured at fair value will not be sold or exchanged, both sale or exchange in the two definitions are assumed only, the beside the conceptual difference between sale or exchange, also, difference between price and amount is conceptual one, as I was told by member of IASB, that the council tries to set the concepts not by members of IASB but by a specialized people in linguistics<sup>(3)</sup>, moreover, the one word in most languages has different meanings, that makes IASB in a mass need to full coordination with a formal part specialized in linguistics, and also the same, in all countries apply IFRSs in term of translations.
  - b. "Settlement of liability" replaced by "transferring of liability", there is a big difference between settlement and transfer, since settlement required paying instead of liability, but transfer did not require that, liability may be transferred for example by converted it into equity like convertible bonds.

- c. "Knowledgeable willing parties" replaced by " Participants in the market", the related parties required to be knowledgeable and willing in the former definition, but in the new one, these characteristics are not required, since participants in the market may be obliged to do such transactions, or the participants are monopolists, or not knowledgeable, and other parties that probable to be in the market without stipulating fair as characteristic to the participants, this raise a very important question: are all the participants in the market qualified to determine the fair value since some of them may be unfair, also, who must the fair: value or valuer? Is there unfair value or unfair valuer, so firstly fair need to be conceptualized before, can others than people may be fair or unfair?.
  - d. "Arms length transaction" replaced by " Ordinary transaction", the first one recognizes with real exchange, in spite of inexistence of the transaction, but the concept tries to pear in our minds the existence of arm's length transaction to determine fair value even it was assumed, but IFRS 13 did not determined all related issues to ordinary transaction was not, such as: its characteristics, its assumptions, its limitations and so on, arm's length transaction is more preferable in my mind than ordinary transaction .
  - e. Also, market added in the new definition, that was not mentioned in the previous definition, according to my opinion it is a fundamental addition in determining the place in which fair value determined, in spite of mention more than one market as it will be discussed later.
  - f. Also, another addition in IFRS 13, relates to date of measurement, that was not mentioned in the previous definition, so, determining fair value just in the date of measurement not before or after that.
3. According to aforementioned discussions from the conceptual point view to fair value definition, indicates that there are much matters related exposed the definition of fair value to misunderstanding , misleading , and ambiguity, all of these matters make the concept of fair value not clear, however , the practical and scientific improvements lead to change in basics the fair value depends on, especially after latest financial crisis, it is obvious from accelerations and broad in accounting thinking relates to fair value, and it will be exposed to be amended by time, this can be interpreted as instability in fair value concept, and till now the definition is not generally accepted, at the same time there is no comprehensive, clear, accurate, rounding, and consistent definition to fair value, that leads of course to doubt in reaching to reliable measurement by using fair value, because conceptual change result in change in measurement as fair value is a measurement basis, and it is necessary to the reality of measurement to respond to the reality of conceptual frame work .

### **Digital homogeneity of fair value measurement**

In this part of the study, the researchers will treat with the second question of the study, it is: "Is there a digital homogeneity between values of items measured at fair value characterize, or these values in consideration of using different levels in fair value hierarchy, different techniques to determine it, different markets can fair value be determined in, lead to deviances, deviations, and divergences in accounting measurement?".

In order to enlighten the digital homogeneity, and the extent of achieving it from one side, and the stability of it from other side, researchers can draw the following comments :

1. Digital homogeneity may be defined as using unified way for measuring values and calculating it. However, it is very difficult to achieve digital homogeneity at the level of financial statement because using different measurement bases and valuations techniques , this matter considered as a major criticisms, but, IFRSs assured using these different measurement bases and valuations techniques as the researchers clarify it in table it in annex (2).
2. The strange and unacceptable reality at the level of items included in financial statements, in consideration of using different measurement bases and valuations techniques , but, it becomes more strange and unacceptable when one of these bases may be determined by using different alternatives and techniques, prescribed by standing clear from each others, and depending on various illogic, inaccurate, and predetermined assumptions , such as: determining of cost of inventory and COGS by using different methods of pricing (FIFO, weighted average, and specific identification), these assumptions that used to measure fair value are closely depend on estimation and judgment, not on unchangeable and absolute facts.
3. By prescribing what included in IFRSs in general, and IFRS 13 in particular, researchers can draw the following comments:
  - a. **Three types of markets** used to determine fair value, these markets are:
    - i. **Active market:** A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
    - ii. **Most advantageous market:** The market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.
    - iii. **Principal market:** The market with the greatest volume and level of activity for the asset or liability.
  - b. **Three levels in hierarchy of fair value measurement**, these levels are:
    - i. **Level 1 inputs:** Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available, with limited exceptions. If an entity holds a position in a single asset or liability and the asset or liability is traded in an active market, the fair value of the asset or liability is measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity, even if the market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.
    - ii. **Level 2 inputs:** Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets.
- quoted prices for identical or similar assets or liabilities in markets that are not active.
- inputs other than quoted prices that are observable for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads.
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

**iii. Level 3 inputs:** Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

**c. Three levels of valuation techniques,** these techniques are:

- Market approach:** uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business).
- Cost approach:** reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost).
- Income approach:** converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.
- iv.** In some cases, a single valuation technique will be appropriate, whereas in others multiple valuation techniques will be appropriate.

4. In spite of what mentioned in (3) above about using multitude markets, multitude levels of fair value hierarchy measurement, multitude valuation approach, also multitude sometimes applies on the same market, or that same level, or the same valuation approach as we saw that in what aforementioned, researchers can draw the following comments:

**a. Relate to markets:**

- Other three markets relate to adverse markets of the three mentioned previously, that means in reality there are six markets, these adverse markets are:
  - Inactive market as adverse to active market.
  - less advantageous market as adverse to Most advantageous market.
  - Non principal market as adverse to principal market.

- It is not easy to determine the differences between the markets and its adverse, for example: differences between active and inactive markets are not quantitative differences can be sophisticated clearly and accurately, since active market is very difficult to be achieved because not all of instruments in specific entity whether are equity or debt instruments are outstanding in order not to fall in the trap of significant influence or control, and because of that entities that tends to avoid significant influence, the ceiling of its outstanding shares are less than 20%, but if it tends to avoid control, the ceiling of its outstanding shares are less than 50%, and sometimes entities purchases treasury shares to achieve that .

**b. Relate to levels of fair value hierarchy measurement:**

- The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.
- If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment).
- Sometimes one level includes two types of assets, such as level, includes similar assets and identical assets.
- The most used level is the third one, in spite of the lowest priority belongs to it, it depends on inputs of observations and assumptions without any control to these inputs, so many inputs can be entered in this level to measure fair value.

**c. Relate to valuation techniques :**

- Multitude of bases in every technique, for example in market approach many prices can be used in order to represent fair value. Such as: bedding prices, monopoly prices, and also in cost approach many types of cost can be used in order to represent fair value. Such as historical cost especially at the initial recognition, replacement cost, but in the income approach many other difficulties appear like: estimation of cash flows, the discount rate that can be used, may be the required return by the investor, return in the market, predetermined tax rate, or the return in the industry.
- Depending on what aforementioned, the TTD result in many probabilities to fair value, that lead to impossibility of achieving digital homogeneity of values measured at fair value.

**Stability in financial position and result of business**

Researchers in this part of the study will treat with the third question of the study, it is " Are the items measured at fair value presented in the statement of financial position material ? also, are the recognized and unrecognized gains and losses relate to fair value measurement that recognized in profit or loss, or in other comprehensive income material ? so may lead to distortion in representation of statement of financial position to fair financial position, and representation of statement of comprehensive income to fair result of business?.

In order to assure whether there is a stability in financial position and/or result of business because of using fair value to measure many items recognized at statement of financial position,

or gains and losses recognized at statement of comprehensive income , researchers in this area draw the following comments:

1. It was known that financial crisis that took place during 2007-2008, resulted in collapsing of many international banks, that means the focus of the crisis centralized in banking sector, no one can claimed that related parties to the banks did not analyze the financial statements and do forecasting to the future of banking sector and capital adequacy, but ambiguity and less transparency in information included in financial statements lead to its weak representation to financial position, result of business, and cash flows, so the qualitative characteristic that became very important one after financial crisis is transparency of financial statements and its reliability.
2. Fingers pointed to fair value as a main reason stand behind financial crisis, one of the important solutions to reduce the negative effects of the crisis is amended IAS 39 that set fair value revolution to permit reclassifications of financial instruments that measured at fair value to re measure it at a mortised cost through reclassifications, which resulted in deferring recognized losses.
3. Related to items measured at fair value, it can be classified into two categories, that are<sup>(5)</sup>:
  - a. Held for trading(HFT), that next became one of the financial instruments under main category FVTPL (fair value through profit or loss) in addition to financial instruments designated at FVTPL, the recognized and unrecognized gains or losses attributable to these instruments recognized at profit or loss(statement of profit loss the new name of income statement).
  - b. Available for sale (AFS), that next became the financial instruments under main category FVTOCI (fair value through other comprehensive income ), the recognized and unrecognized gains or losses attributable to these instruments recognized at (OCI) other comprehensive income (statement of comprehensive income).
4. Many troubles related to the two aforementioned categories, that are:
  - a. Holding gains or losses recognized at P/L or OCI, this can be accepted to losses because of following the traditional conservatism, but it is unacceptable to recognize gains because doing that contravenes conservatism.
  - b. These gains or losses can be reversed if the fair values increased or decreased, gains can be reversed to losses and losses can be reversed to gains, that lead to interpenetration between financial periods, and abandonment to independency of financial periods.
  - c. It becomes worst in reclassifications financial assets and liabilities between different categories(IASB, 2015), that lead to change where can gains or losses be recognized, what previously recognized in profit or loss, recognized after reclassification in other comprehensive income and vice versa, or sometimes these gains or losses can be cancelled if reclassification out of financial assets and liabilities measured at fair value.
  - d. Also reclassification includes change in intentions that initial classification depends on, that may be accompanied by intended manipulation by management in order to achieve income smoothing or transferring gains to losses or vice versa, all of these practices lead

to less faithful representation to financial statement to what it should be, and deceiving stakeholders in making their decisions.

- e. Fair value measurement and valuation risks can be indicated by determining the materiality of gains and losses whether recognized or unrecognized by calculating its percentage to profit or loss from operating activities, if it is material, then it may misrepresent the financial position and result of business, lead to negative influences on banking instability .

**Empirical Study (Arab bank group case study) (Arab Bank Group, 2011& 2013)**

The researchers conducted the empirical study on Arab bank group, one the important banks all over the world, new ratios proposed by the researchers to analyze the effect of fair value measurement and valuation on financial position and result of business, the targeted periods are four years, 2010 through 2013, Results of analyzing financial statement as follow:

**1. Gains or losses attributable to fair value to profit or loss for the period**

This ratio can be calculated using the following equation:

**Gains or losses attributable to fair value recognized at profit or loss**

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**Profit or loss for the period**

Table (1) includes the result of calculating this ratio:

Table (1)

Gains / losses	2010	2011	2012	2013
Gains of financial assets in FVTPL	-	(22898)	(61315)	12491
Losses attributable to HFT	(3846)	-	-	-
losses of financial assets designated in FVTPL	(9118)	-	-	-
Cash dividends from financial assets FVTOCI	-	5707	8855	9174
Gains attributable to AFS	69771	-	-	-
Total	56807	(17191)	(52460)	21665
Gains/losses	270758	305944	352050	501856
Ratio	21%	6%	15%	4%

It is very obvious that total gains and losses attributable to fair value is material, in addition, these gains and losses instable and change in a high percentage.

**2. Gains or losses attributable to fair value to other comprehensive income for the period**

This ratio can be calculated using the following equation:

**Gains or losses attributable to fair value recognized at OCI**

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**OCI for the period**

Table (2) includes the result of calculating this ratio

Table (2)

Gains / losses	2010	2011	2012	2013
Net change FV of financial assets in FVTOCI	-	(90208)	(83956)	(118576)
Net change IN FV OF AFS	19831	-	-	-
Total	19831	(90208)	(83956)	(118576)
OCI	27909	(173399)	(96240)	(175601)
Raito	71%	52%	87%	68%

It is also very obvious that most of OCI consists of gains and losses attributable to fair value, in addition, these gains and losses are very high, very material, in stable, and changeful.

### 3. Total Gains or losses attributable to fair value to total comprehensive income for the period

This ratio can be calculated using the following equation:

**Total Gains or losses attributable to fair value recognized at OCI**

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**Total comprehensive income for the period**

Table (3) includes the result of calculating this ratio

Table (3)

Gains / losses	2010	2011	2012	2013
Gains and losses recognized at profit or loss	56807	(17191)	(52460)	21665
Gains and losses recognized at OCI	19831	(90208)	(83956)	(118576)
Total	76638	(107399)	(136416)	(96911)
TCI	298667	132545	255810	326255
Ratio	26%	81%	53%	28%

If results in both table (1) and table (2) totaled, It is also very obvious that gains and losses attributable to fair value is material and constitute a high percentage of total comprehensive income(TCI), and absorbed most of operating profits.

### 4. Assets measured at fair value to total assets

This ratio can be calculated using the following equation:

**Assets measured at fair value**

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**Total assets**

Table (4) includes the result of calculating this ratio:

Table (4)

Gains / losses	2010	2011	2012	2013
Financial assets in FVTPL	-	952545	964486	934370
HFT	397989	-	-	-
Financial assets designated in FVTPL	224927	-	-	-
Financial Derivatives- positive FV	69025	53261	50604	33807
Financial assets in FVTOCI	641581	-	553760	453510
AFS	6015726	-	-	-
Total	7349248	1005806	1568850	1421687
Total assets	4526253 3	45613211	45646524	46399621
Ratio	16.2%	2.2%	3.5%	3.1%

Table (4) shows that Assets measured at fair value very material I 2010, but after that became less material, also absolute number whether represents gains or losses still high, beside difference in type of assets and focusing on specific assets .

#### 5. Allocation of TCI between Assets measured at fair value and total assets

This ratio can be calculated using the following equation:

$$\frac{\text{TCI}}{\text{Total assets}} = \frac{\text{Total gains and losses attributable to FV}}{\text{Assets measured at FV}} + \frac{\text{Residual income}}{\text{other assets}}$$

Table (5) includes the result of calculating this ratio

Table (5)

Gains / losses	2010	2011	2012	2013
Total FV gains and losses	76638	(107399)	(136416)	(96911)
Residual income	222030	239944	392226	423166
TCI	298667	132545	255810	326255
Total assets measured at FV	7349248	1005806	1568850	1421687
Other assets	3791328 5	44607405	44077674	44977934
Total assets	4526253 3	45613211	45646524	46399621
FV gains and losses/FV assets	1.4%	10.68)%(	(8.7)%	(6.82)%
Residual income/other assets	0.06%	0.05%	0.09%	0.09%
TCI/total assets	0.06%	0.03%	0.06%	0.07%

Table (5) shows FV gains and losses as a return on assets measured at FV is relatively high, in comparison with residual income to other assets, and most of return on Assets measured at fair value represents losses as a result in trading by assets measured at fair value.

**6. Weighted materiality of FV gains and losses**

This ratio can be calculated using the following equation:

$$\frac{\text{Total gains and losses attributable to FV}}{\text{TCI}} \times \frac{\text{assets measured at FV}}{\text{Total assets}}$$

Table (6) includes the result of calculating this ratio

Table (6)

		Gains / losses			
		2010	2011	2012	2013
Assets measured at FV	Total FV gains and losses /TCI	26%	81%	53%	28%
	Assets measured at FV	16.2%	2.2%	3.5%	3.1%
	Weighted materiality ratio	4.212%	1.782%	1.855%	0.868%
Other assets	Residual income/other assets	0.06%	0.05%	0.09%	0.09%
	Other assets/total assets	83.8%	97.8%	96.5%	96.9%
	Weighted materiality ratio	0.0503%	0.0489%	0.0869%	0.872%
Comparability	Weighted materiality to assets measured at FV/ Weighted materiality to other assets	84 times	36 times	21 times	10 times

Table (6) shows an accurate and clear image about weighted materiality, according to that, the recognized and unrecognized gains and losses in relation to assets that measured at fair value, and comparing it with return on other assets, it is clear that the weighted materiality to assets measured at fair value very high in comparison with other assets, the highest level -84 times- in 2010, and in the lowest level – 10 times- in 2013.

**Conclusions and Recommendations**

The researchers concluded the following:

1. Fair value may be described by conceptual instability, since till now standards setters and theorists did not finalize the scientific conceptualization of fair value as a measurement basis, that seems to be very obvious in comparing the newest definition of fair value that set by IFRS 13 with other definitions included in others IFRSs, and is expected that other definition will appear in the coming future as a result of big efforts done by standards setters especially IASN and FASB.
2. Also, fair according to the researchers opinion is a characteristic relates to human being, so fair value is an outcome to fair valuer, because of that value cannot be described as unfair as a controverted concept to fair value, all of that lead to focus on human behaviors and manners, if they are unfair then the absolute outcome is unfair value, and vice versa.

3. IASB in issuing IFRS 13 fair value measurement subjected to strong pressures from FASB in their associated project to achieve convergence, it can be indicated by most of the standard reflected FAS 157 related to fair value measurement.
4. Fair value according to opinion of the researchers added another dimension to accounting measurement problem, since using different measurement bases negate digital Homogeneity at the macro level, but the new dimension added is fair value negates achieving digital homogeneity between items that measured by fair value because using different levels in its hierarchy, different techniques for valuation, and in different markets for determining fair value in, all of that considered as challenges to achieve homogeneity in fair value measurement .
5. the researchers proposed six ratios to analyze effect of fair value on business result and financial position, these ratios examined in Arab bank group, one of the biggest banks at the level of Arab region, examination of these ratios assured the existence of deformation in business results because of applying fair value, also, transactions that measured by fair value did not reflect an actual and real transactions in the markets.

### **Recommendations**

Researchers recommend the following:

1. The necessity to finalize the conceptual framework of fair value as an accounting measurement base, and identify a stable definition to it, beside protect this stability by professionals, since the recurring change mislays the importance of the concept.
2. The necessity of set a code of conduct in the accounting profession to those who responsible for measuring fair value, and focus on their behaviors and manners more than focusing on their outcomes.
3. The necessity of reducing accounting alternatives attributable to fair value measurement, that guarantee achieving digital Homogeneity to those items that measured at fair value.
4. Reconsideration the types of markets included in IFRS 13 by IASB, and focus on minimize the gap in places in which fair value determined.
5. Reconsideration the hierarchy of fair value included in IFRS 13 by IASB, and differences in assets that determined in the first and second levels, also control the inputs of the third level.
6. The necessity of assuring the independency of IASB, and working in complete isolation from pressures.
7. Adoption of the six ratios set by the researchers to analyze the effect of fair value on business result and financial position.

## References

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### Annex (1) The chronological of putting fair value

Year	Accounting issuance		Comments
	Subject of issuance	Its number	
1953	Restatement and review of American accounting journal	ARB 43	Mentioned 20 times
1970	Business combination	APB 16	
1975	Accounting for noncash transactions	APB 29	
1975	Accounting for some marketable securities	SFAS 12	Adoption of FV concept
1976	Accounting for leases	SFAS 13	Adoption of FV concept
1982	Revenue recognition	IAS 18	
1983	Accounting for governmental grants and disclosure of governmental assistances	IAS 20	
1985	Accounting for investments	IAS 25	
1991	Disclosure of fair value of financial instruments	FAS 107	Transferable point by using FV, issued FAS 107-1 included increasing of disclosures about FV through interim financial reporting for public trading entities
1995	Financial instruments: presentation and disclosure	IAS 32	
2000	Using cash flows and present	SFAC 7	

	<b>value accounting measurement</b>		
<b>2000</b>	<b>Accounting for derivatives and hedging activities</b>	FAS 133	
<b>2000</b>	<b>Fair value measurement</b>	FAS 157	<b>Set of definition and frame work for fair value measurement, and increase disclosures of items measured at fair value</b>
<b>2000</b>	<b>Disclosures of derivatives and hedging activities</b>	FAS 161	
<b>2011</b>	<b>Fair value measurement</b>	IFRS 13	<b>effective by January of 2013, with encourage earlier application</b>
Currently, included in most IASB and FASB issuances, and will be adopted as a measurement basis			

#### Annex (2)

<b>Accounting measurement bases and valuation techniques as it included in IFRSs</b>	
<b>measurement bases or valuation technique</b>	<b>Example(s) or related standard(s)</b>
<b>Historical Cost(HC)</b>	<b>Conceptual framework for financial statements IAS 16: property, plant and equipment IAS 40: investment property</b>
<b>Current Cost</b>	<b>Conceptual framework for financial statements</b>
<b>Net Realizable Value(NRV)</b>	<b>Conceptual framework for financial statements</b>
<b>Present Value</b>	<b>Conceptual framework for financial statements</b>
<b>Fair value</b>	<b>Most of the standards, for example: IFRS 1: First-time Adoption of International Financial Reporting Standards IAS 39, IAS 32, IFRS 7, AND IFRS 9: Financial Instruments</b>
<b>Deemed cost</b>	<b>IFRS 1: First-time Adoption of International Financial Reporting Standards</b>
<b>Depreciable cost</b>	<b>IFRS 1: First-time Adoption of International Financial Reporting Standards</b>
<b>Amortized Cost</b>	<b>IAS 39, IAS 32, IFRS 7, AND IFRS 9: Financial Instruments</b>
<b>Intrinsic value</b>	<b>IFRS 2: Share-based Payment</b>
<b>Book value</b>	<b>IAS 16: property, plant and equipment</b>
<b>Revaluated amount</b>	<b>IFRS 6: Exploration for and Evaluation of Mineral Assets</b>

<b>Residual Value:</b>	<b>IAS 16: property, plant and equipment</b>
<b>Fair value less costs to sell</b>	<b>IAS 41: agriculture</b>
<b>Recoverable amount</b>	<b>IAS 36: impairment of assets</b>
<b>Value in use</b>	<b>IAS 36: impairment of assets</b>
<b>Standard cost</b>	<b>IAS 2: Inventory</b>
<b>Specific Identification</b>	<b>IAS 2: Inventory</b>
<b>Joint costs</b>	<b>IAS 2: Inventory</b>
<b>Tax base</b>	<b>IAS 12: income taxes</b>
<b>Carrying amount</b>	<b>IAS 16: property, plant and equipment</b>