

THE EFFECT OF FAIR VALUE ACCOUNTING ON EARNINGS QUALITY IN JORDANIAN BANKING AND REAL ESTATE SECTORS: CONCEPTUAL PERSPECTIVE

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Abstract: This study aims to explore the concept of Fair Value Accounting (FVA) and its effects on Earnings Quality (EQ) measures within the banking and real estate sectors listed on the Amman Stock Exchange (ASE). The significance of the study is derived from the importance of FVA, as the quality of accounting earnings is a crucial component in measuring the quality of financial reports based on FVA. EQ represents the ability to predict future earnings and the stability of bank earnings through EQ measurements. The introduction of International Financial Reporting Standards (IFRS) has mandated compliance for all listed companies in the banking and real estate sectors in Jordan, presenting a significant challenge for accountants. This challenge arises because the standards emphasize the importance of fair value (FV) on listings at the Amman Stock Exchange, aiming to enhance the genuine and fair representation of financial reports. IFRS has introduced FVA to these companies to evaluate their earnings from assets and liabilities in Jordan, following IFRS recommendations. EQ measures are based on four attributes: persistence, predictability, volatility of earnings, and closeness to cash, as reflected in the companies' income statements. This study anticipates that strict compliance with IFRS standards will significantly improve EQ through enhancements in these measures. Based on the available literature, this conceptual study posits that FVA impacts EQ measures such as persistence, predictability, volatility of earnings, and closeness to cash in the Jordanian banking and real estate sectors. It concludes that poor implementation of FVA adversely affects EQ measurements in these sectors in Jordan.

Keywords: Banks, Earnings Quality, EQ reports, Fair Value Accounting, IFRS

1. Introduction

Fair Value Accounting (FVA) represents a modern approach to measuring and reporting assets and liabilities based on their current market value rather than their historical cost. This shift from traditional historical cost accounting is designed to offer a more accurate and timely reflection of an asset's or liability's value in today's market conditions. Defined by IFRS 13, fair value is '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' (IFRS Foundation, 2011, p. 1). FVA has gained prominence because it enhances the relevance and reliability of financial statements, which, in turn, influences investment decisions and managerial strategies by providing a clearer picture of economic reality (Toluwa & Power, 2019; Altawalbeh, 2020; Menicucci, 2020).

In Jordan, the adoption of FVA, particularly in the banking and real estate sectors, brings to light several challenges. The primary issue is the limited liquidity and active markets for certain assets, such as investment properties and complex financial instruments. This scarcity complicates the application of Level 3 fair value measurements, which rely on subjective estimates rather than observable market prices (Barth et al., 2012). This situation increases the risk of earnings management and potential manipulation, as the flexibility in Level 3 valuations may allow managers to influence reported earnings in their favor.

The reliance on accurate and credible financial statements is critical for Jordanian capital markets, making Earnings Quality (EQ) a significant concern for stakeholders, including investors, managers, auditors, and regulators (Al Dalayeen, 2017; Salloum, 2017). However, EQ remains a complex and poorly defined concept, with various interpretations and no universally accepted measurement methods (AL-Shar & Dongfang, 2017; Odoemelam et al., 2019). This complexity is compounded by the interaction between FVA and EQ, which has not been extensively explored in the context of developing markets like Jordan.

To address these gaps, this study aims to analyze how FVA affects EQ, particularly within Jordan's banking and real estate sectors. Given that these sectors have adopted FVA and base their valuations on earnings, understanding the implications of this accounting practice on EQ is crucial (Levy et al., 2020). By examining the effects of FVA in Jordan, the research seeks to contribute to the accounting literature and provide insights into the practical challenges and benefits of FVA in emerging markets. This inquiry is particularly relevant in light of Jordan's regulations on fair value measurement, established in 2007 and revised in 2011, as it explores the essential question of how FVA impacts EQ in Jordan's banking and real estate sectors.

2. Banks and Real Estate Market in Jordan

2.1 Banks and Financial Market in Jordan

The capital market is one of the most significant contributors to the Jordanian economy, contributing billions to the country's GDP (Assaf et al., 2014; Shatnawi et al., 2019a), with a notable contribution in the first quarter of 2020 pegged at 46.4 billion, accounting for 2.4% of the GDP (Figure 1). Jordan boasts a well-established banking industry; as of 2020, approximately 25 different banks operate in Jordan, including nine foreign banks and three Islamic banks (Nazal & Al-Fasfus, 2018). These banks run businesses through an affiliate network of 518 branches and 100 representative bureaus. Seven of these banks are involved in real estate businesses across Jordan, including Arab Bank, Kuwait National Bank, Citibank, Egyptian Arab Land Bank, National Bank of Abu Dhabi, Bank Audi, and Standard Chartered (Ahmad & Aladwan, 2015). Currently, the ratio of Jordanians to operating bank branches is approximately 15,800 Jordanians per branch on average (Alsufy, 2019; Altawalbeh, 2020). Conversely, as of 2019, Jordanian banks operated 145 branches overseas, including 53 branches and 10 representative bureaus in Palestine. The Arab Bank of Jordan has the highest number of foreign branches and networks. Despite the categorical differences between commercial banks and investment banks, current Jordanian banks typically perform both functions.

Despite continuous volatility, including low oil prices and slow GDP growth, the Jordanian banking sector remains robust, stable, and appealing to stakeholders (Altarawneh et al., 2020). Since 1998, Jordanian banks have been mandated to apply IAS/IFRS in organizing their financial reports, and to have their financial reports audited by audit companies. All Jordanian banks are listed on the Amman Stock Exchange (ASE), which consists of 200 listed

companies. ASE operates under the regulation of a governmental organization, the Jordan Securities Commission (JSC), and is a member of the Union of Arab Stock Exchanges (Al-Othman et al., 2019). Listed companies on ASE are formally categorized into key sectors, including Banking, Insurance, Industrial, and Service. From 2008 to 2019, the banking sector accounted for about 56.5% of the entire capital market, the industrial sector occupied 30%, the services sector 11%, and the insurance sector 2.5%.

The financial reporting system of banks is increasingly incorporating Fair Value Accounting (FVA), prompting numerous studies to evaluate its predictive capabilities regarding banking sector performance. A central point of debate in the literature is whether FVA enhances or detracts from the ability of financial statements to predict future cash flows and operational performance.

Jalal (2019) argues that greater exposure to FVA improves the ability of earnings to forecast cash flows. This perspective aligns with the view that FVA, by reflecting current market conditions, offers more relevant information for predicting future performance. However, Jalal also cautions that the benefits of FVA may be limited under volatile market conditions. Specifically, differences in fair values reported in net income versus other comprehensive income could be transient, reducing FVA's effectiveness in predicting long-term operational performance (Gu, Lee, & Rosett, 2002; Guo, Wang, & Wu, 2011). This suggests a critical limitation of FVA: its predictive reliability can be compromised in unstable markets, where short-term fluctuations may not necessarily reflect future performance accurately.

Further complicating the picture, empirical research has linked FVA to increased earnings volatility. Studies such as those by Barth et al. (1994), Fiechter (2011), and Goncharov (2016) suggest that FVA can amplify earnings volatility, which can undermine the quality and stability of reported earnings. This volatility arises because fair values, which are subject to market conditions and managerial discretion, may introduce significant fluctuations into reported earnings, complicating the interpretation of financial performance.

In the context of Jordan, the situation is exacerbated by the relative lack of market information, leading banks to rely more frequently on mark-to-model valuation methods. This reliance on approximated values, rather than market-based ones, creates an environment where the quality of earnings may be compromised. The limited availability of market data in Jordan could allow for more leeway in earnings management practices, potentially leading to less reliable earnings reporting.

Bratten, Causholli, and Khan (2012, 2016) provide evidence that increased disclosure through FVA improves the forecasting ability of earnings regarding future cash flows and future earnings. However, their findings are not without limitations. The improvements noted are specific to banks with substantial FVA exposure, but the generalizability of these findings may be limited by the specific financial environments of the studied banks.

Moreover, empirical evidence indicates that while FVA might enhance the granularity of financial reporting, it also associates with a reduction in cumulative earnings quality. Banks exhibiting higher FVA exposure tend to show lower combined earnings quality, reflecting concerns about increased earnings volatility and potential manipulation (Guo, Wang, & Wu, 2011; Goncharov, 2016). The findings from Slavko Sodan (2015) reinforce this view, suggesting that a greater reliance on FVA correlates with diminished earnings quality, highlighting a trade-off between the perceived benefits of fair value measurement and its impact on the stability of reported earnings.

In summary, while FVA has the potential to improve the relevance of financial statements by providing up-to-date valuations, it also introduces challenges related to earnings volatility

and the risk of earnings management. The context of Jordan, with its limited market information, further complicates the use of FVA, potentially exacerbating issues related to earnings quality.

2.2 Real Estate Market in Jordan

Jordan has seen unusual growth in the real estate sector during the period from 2004 to 2008, with total investments in this sector projected at over JD 15 billion. Trading in the sector in 2017 was pegged at JD 36 billion, in contrast to JD 6 billion in 2007 (Jordan, 2018). In 2019, the Jordanian real estate price index dropped by 2.4% during the year to Q1 2019 (-2.43% inflation-adjusted), according to the Central Bank of Jordan, compared to drops of 2.4% in Q4 2018, 2% in Q3, and 1.9% in Q2, with a yearly surge of about 0.3% in Q1. The Jordanian real estate market was significantly influenced by political upheaval and economic growth in recent years, alongside the influx of thousands of Iraqis during the second Gulf War, coupled with rising oil prices that created an abundance of liquidity in the Gulf States, encouraging various capital holders to invest in Jordan. The unparalleled activity in trading real estate and property in Jordan, as well as government schemes to boost investment and the relatively low-cost Jordanian labor, attracted local, Arab, and foreign investors, redirecting their investment focus to Jordan. While investment has been extensively used across the nation, the largest portion of investments has been traced back to the capital, Amman, the Dead Sea, and Aqaba (Jordan, 2018).

The real estate sector progressively collapsed from 2018 to 2019, with the total value of real estate trades in Jordan decreasing by 13% to US\$7.4 billion from 2017, following annual drops of 14% in 2017, 9% in 2016, and 2% in 2015 (Petra, 2018). The value of real estate sales in Jordan increased by 17 percent last year, reaching 5.85 billion dinars (\$8.25 billion) compared to the previous year. The real estate market trading report for the end of last year, 2022, showed that 5.85 billion dinars were recorded in real estate transactions during the past year, an increase of 1.2 billion dinars compared to the year 2019, which preceded the Corona pandemic. The trading volume in the real estate market in the Kingdom increased during the year 2021, reaching a value of 5 billion dinars, compared to 3.4 billion dinars in 2020, an increase of 47 percent. The numbers showed that real estate trading increased by 26% by the end of 2022 compared to the end of 2019, reaching 4.6 billion dinars at the end of that year.

Real estate has an unwavering influence in supporting the development of other economic sectors, chiefly the manufacturing sector, which has a ripple effect on other areas of the economy, generating job opportunities and creating demand for other secondary industries such as steel, cement, wood, glass, and aluminum (Ahmad & Aladwan, 2015). It also has a bearing on the financial services sector, with opportunities arising for banks to provide funding to real estate companies and contractors, along with offering retail services in the form of mortgages for the acquisition of land and property.

The major undertakings of the key firms, as described in their financial reports, include trading in various real estate ventures, primarily involving the buying, selling, leasing, and managing of land and houses. These activities also encompass the construction of both private and public structures and projects, either directly or through subcontractors, and the sale of properties in cash or on installment plans, along with managing or leasing properties. The firm has progressively expanded its activities across numerous geographic areas over the last few years. The real estate activities have gradually shifted from an almost exclusive focus on Jordan, accounting for 58% of overall noncurrent assets in 2008 (Galera, López, & Ariza, 2010).

Ahmad & Aladwan (2015) studied Jordanian companies, including 41 real estate firms, listed on the ASE during the 2008–2011 period. Their findings, based on multiple regression analysis, indicate that the financial performance of Jordanian real estate firms is significantly and positively associated with investment properties valued at fair values (FVs). Additionally, they found that the informational content of book value increases is greater than that of net income and the unrecognized gains and losses included in owners' equity, which enhances the explanatory power of the firms' market value models.

In Jordan, the dramatic rise in investment property prices, driven by heightened demand, has placed FVA at the forefront of real estate accounting practices. The application of FVA to these properties has been linked to inflated market valuations for Jordanian real estate firms. Aladwan and Saaydah (2015) explored this issue and found that the implementation of FVA under IAS 40 has significantly impacted market values. Their research underscores that while FVA is intended to provide a current reflection of market conditions, its use in Jordanian real estate has led to inflated property values, suggesting a disconnect between reported fair values and actual market conditions.

However, the study by Aladwan and Saaydah (2015) may be limited by the scope of its analysis. While it highlights the impact of FVA on market valuations, it does not thoroughly address the underlying causes of the valuation discrepancies or the broader implications for financial reporting accuracy and investor decision-making. The study's focus on the immediate effects of FVA may overlook how these inflated valuations could influence long-term market stability and investor confidence.

Further examination by Ahmad and Aladwan (2015) revealed that the net asset values reported by Jordanian real estate companies often diverge from their market capitalizations. This discrepancy, they argue, is due to the inherent limitations in the reliability of FV estimates for investment properties. Their findings indicate that valuation constraints—such as lack of comparable market transactions and subjective estimation techniques—can lead to significant variances between reported fair values and actual market prices.

Despite these insights, Ahmad and Aladwan's (2015) study does not fully address the potential systemic issues associated with FVA. While it acknowledges valuation constraints, it lacks a comprehensive analysis of how these constraints affect overall market behavior and investor perceptions. Additionally, the study does not explore the broader regulatory and market factors that might contribute to the deviations between net asset values and market capitalizations.

The broader implications of FVA in the real estate sector are evident in how financial ratios and indicators are affected. The use of FVA can alter key financial metrics, impacting the decision-making process for stakeholders. For example, inflated asset values can distort profitability ratios and risk assessments, leading to potentially misleading financial statements. The increased complexity of financial statements due to FVA can make it challenging for investors and analysts to accurately assess the true financial health of real estate companies.

It is also crucial to consider other factors influencing equity in real estate companies. For instance, market volatility, economic conditions, and regulatory changes can all affect how FVA impacts financial reporting and equity. While FVA aims to provide a more accurate picture of asset values, its effectiveness can be compromised by external factors and the subjective nature of valuation methods.

In conclusion, while FVA has introduced significant changes to financial reporting in Jordanian real estate, its application has led to both inflated market values and discrepancies between reported and actual asset values. The studies reviewed highlight important issues, such as the impact of valuation constraints and the complexity introduced by FVA. However, they

also reveal gaps in understanding how these factors collectively influence market stability and investor decision-making. A more comprehensive analysis of FVA's effects, including its interaction with broader market and regulatory factors, is needed to fully grasp its impact on real estate financial reporting in Jordan.

3. Fair Value Regulations on Assets in Jordan

The application of Fair Value (FV) accounting under International Financial Reporting Standards (IFRS) has significant implications for earnings quality in Jordan. FV, a central feature of the IASB/FASB conceptual framework, introduces a measurement approach that reflects current market conditions rather than historical costs. This method aims to provide a more relevant and timely valuation of assets, but it also introduces complexities that affect earnings outcomes.

IFRS 13, which governs FV measurement, establishes criteria for determining fair value and provides guidance on how to measure and disclose FV in financial statements (Warren, 2016; Sundgren et al., 2018). While this framework is designed to enhance the transparency and relevance of financial information, its impact on earnings quality (EQ) in Jordan is nuanced.

One major issue is the volatility associated with FV measurements. FV can fluctuate significantly with changes in market conditions, which directly affects the reported earnings of companies. In Jordan, where asset prices, particularly in the real estate sector, have shown substantial variability, these fluctuations can lead to considerable swings in reported earnings. This volatility impacts key earnings metrics such as persistence, predictability, and closeness to cash flows, complicating the assessment of a company's financial performance.

IFRS 13 mandates that investment properties leased as operating leases be accounted for under IAS 17 Leases, while properties used for manufacturing, supplying goods or services, or administrative purposes are covered under IAS 16: Property, Plant, and Equipment. Properties developed for sale in the normal course of business are treated under IAS 2 Inventory (Monea, 2011; Altawalbeh, 2020). In Jordan, the classification of properties and the corresponding accounting treatment can affect the reported earnings. For instance, properties acquired for private use or for capital gain, if classified as investment properties, must be measured at FV according to IAS 40. This measurement includes not just the purchase price but also any costs associated with acquiring the property (Shatnawi et al., 2019a; Eldaia, 2020a, 2020b).

The implications of FV for earnings quality in Jordan are evident in several key areas:

Persistence of Earnings: FV can lead to earnings that are less stable due to market fluctuations. For example, in periods of high market volatility, the fair value of assets can vary widely, causing earnings to reflect these changes rather than the underlying operational performance.

Predictability of Earnings: The ability to predict future earnings can be compromised by the inherent subjectivity in FV measurements. Variations in fair values due to market conditions or valuation models can introduce uncertainty in forecasting future earnings.

Volatility of Earnings: FV measurements are susceptible to fluctuations based on market conditions, which can lead to increased earnings volatility. This volatility makes it challenging for stakeholders to assess the true financial health of a company and can lead to misleading interpretations of financial performance.

Closeness to Cash Flows: FV aims to provide a valuation closer to market value, which ideally should align with cash flows. However, the subjective nature of FV measurements and market volatility can lead to discrepancies between reported fair values and actual cash flows.

Furthermore, under IAS 40, once a property is classified as an investment property and measured at FV, it continues to be measured by FV until disposal. This ongoing measurement approach ensures that the asset's value remains aligned with current market conditions, but it also perpetuates the impact of market fluctuations on reported earnings (Lind & Nordlund, 2019).

In summary, while the FV framework under IFRS 13 aims to improve the relevance of financial statements, its application in Jordanian real estate and other sectors introduces challenges related to earnings volatility, predictability, and the alignment of reported earnings with actual cash flows. The complexities and subjectivities involved in FV measurement can affect the quality of earnings, making it crucial for stakeholders to understand these impacts when interpreting financial statements.

4. Earnings Quality Measurements

Earnings management is measured based on the quality of accruals, as presented in the financial statements (Al-Haddad & Whittington, 2019; Al-Othman & Al-Zoubi, 2019). The adoption of IFRS should provide financial analysts with a more comprehensive understanding of accounting information, reducing earnings prediction error and corporate governance issues (Shatnawi et al., 2019b; Shahwan et al., 2020). In line with this, earnings derived from accounting information and financial statements provide shareholders and accounting users with the crucial information necessary for decision-making about banking and real estate companies in Jordan. This information is essential for accurately measuring the impact of variations in the precision of earnings measurements, which are expected to reflect the quality of the earnings information reported by the banking and real estate companies. This is particularly relevant to the quality of future earnings measurements, which are sensitive to the level of earnings quality (EQ) and the market's response. Orbán & Murányi (2019) indicate that the use of financial statement information to predict companies' earnings in the real estate sector provides suppositional evidence. When measurements are more closely focused on earnings, the implications of how shareholders respond to market information regarding EQ are better understood. The properties of earnings measures supposed to capture EQ reflect changes in the use of earnings information for the decision-making process. This study considers four EQ variables, the measurements for which are detailed below:

4.1 Persistence

This research considers EQ to encompass multi-dimensional concepts utilizing accounting-based metrics. Studies have examined earnings persistence (PR) beyond market intuitions (Li, 2008; AL-Shar & Dongfang, 2017; Al Awawdeh & Nour, 2020). Given the accounting-based attributes, time-series EQ influences the distribution of profits over a period and the numerical properties of the processes that generate earnings (Suk et al., 2020). Earnings persistence is understood to be negatively related to earnings characteristics and typically represents the ability of currently recognized earnings to be sustained in the future (Khasanah & Khafid, 2020). A persistence in earnings measurement is associated with reliability and return on earnings over a specific period (Frankel & Litov, 2009). Persistence is a determinant of EQ, which is calculated as the gradient coefficient of the regression function of a period's earnings

per share (EPS) relative to the previous EPS period (Al Awawdeh & Nour, 2020). An estimate of the gradient coefficient closer to 1 indicates high earnings persistence, whereas an estimate closer to 0 indicates low earnings persistence. Frankel & Litov (2009) adapted this method by replacing EPS with the ratio of earnings before interest and taxes to total assets. According to Afsheena & Santhakumar (2020), earnings persistence is measured as the gradient coefficient derived from the auto-regression model of earnings. DeFond et al. (2020) noted that the effect of FVA is not positively associated with the performance of earnings measurement in banking and real estate firms. Thus, it can be hypothesized that:

H1: FVA has no positive effect on the earnings persistence of the Jordanian banking and real estate firms.

4.2 Predictability

Earnings predictability is a significant measure as it addresses how effectively past earnings can explain current and future earnings (Samih et al., 2020). Quality earnings are defined as the ability of the earnings to predict future earnings and cash flows (Schiemann & Guenther, 2013). Holt (2013) indicated that earnings predictability (PREDi) combined with the modification of earnings shocks results in greater variance, but lower PREDi. This research employs the square root of error modification. Large or small values of PREDi imply less or more predictable earnings, respectively, and correspond to lower or higher earnings quality (EQ) in banking and real estate firms. According to Li et al. (2020), lower PREDi earnings are negatively associated with lower quality earnings. Consistent with this, earnings unpredictability is another characteristic of earnings that reflects the time-series effects of earnings. It is calculated as the standard deviation of earnings (Samih et al., 2020). In line with previous studies (Galera et al., 2010; Assaf et al., 2014), higher prices indicate lower levels of earnings unpredictability, which are assumed to represent lower EQ in Jordanian banking and real estate firms. Therefore, this study hypothesizes that:

H2: FVA has no positive effect on the earnings predictability of the Jordanian banking and real estate firms.

4.3 Volatility

Previous studies have associated high levels of earnings volatility with FVA (Guo, Wang, & Wu, 2011; Goncharov, 2016), especially in the real estate sector. Financial report volatility is not an indication of malfunctioning financial reporting (Guo et al., 2011). It is evident that estimated error volatility results from uncertainties in future cash flows. Estimated error volatility typically decreases when FV is determined using prices from active markets. In contrast, it increases when values are not available in active markets and FV is based on estimated models and subjective assessments. Regarding FV in the Jordanian context; firstly, opponents of FVA argue that it increases the volatility of bank earnings and reduces their predictability (Hayoun, 2019; Al-Jarrah, 2019). Secondly, the transparency of valuation in operation can be unreliable or unclear in illiquid markets or if measurement approaches are applied in specific financial statements (Assaf, Khrais, & Yamin, 2014). Thirdly, FVA can lead to undue leverage in surges and write-downs in downturns, thus triggering procyclicality (Goncharov, 2016). In banking and real estate in Jordan, Al-Sharif (2020) indicated that volatility is measured individually using comprehensive income as well as net income volatility. Higher values of VOL imply greater volatility and lower quality of earnings. Earnings value relevance signifies the ability of earnings to explain variations in market prices

or returns (Alsufy et al., 2020). It is assumed that less volatile earnings in the measurement outcomes are more persistent and predictable. Hence, this study hypothesizes that:

H3: FVA has no positive effect on the volatility of the earnings of the Jordanian banking and real estate firms.

4.4 Closeness to cash

Closeness (CTC) is defined as the degree to which a company's fundamental accounting elements, such as earnings and cash flows, move in sync over time. Financial reports are interpreted as a function of the underlying economic transactions; this function is the accounting system, where the accounting activity records transactions, consolidations, assignments, and generates financial reports. Closeness is measured using cash flows and net income, and is directly related to earnings quality (EQ), particularly in banking and real estate sectors. It is the primary determinant of closeness that is purely accounting-based and is positively affected by fair value (FV) (Rose et al., 2019). The efficient-market hypothesis suggests that in a well-organized and functional market, the market value is generally equal to or close to the FV, as investors react quickly to incorporate new information regarding relative scarcity, value, or potential returns into their assessments (Saleh et al., 2020). The CTC measurement or analysis is designed to determine whether and how FVA impacts the quarterly earnings declarations (QEDs), depending on prior information about earnings and cash flows, especially the extent to which past earnings deviate from previous cash flows. Since accruals represent the difference between earnings and cash flows, the history of total accruals indicates that the 'closeness to cash' attribute is not positively associated with FV in banking and real estate companies in Jordan (Al Dalayeen, 2017). According to Saleh et al. (2020), unanticipated earnings are presumed to be more significant when the time series of earnings indicates that earnings closely align with operating cash flows.

H4: FVA has no positive effect on the earnings closeness to cash of the Jordanian banking and real estate firms.

5. Propositions

Figure 1 illustrates the proposed research framework for analyzing the impact of Fair Value Accounting (FVA) on Earnings Quality (EQ) in Jordanian banking and real estate firms. The figure is designed to map out the relationships between FVA and the four key dimensions of earnings quality: persistence, predictability, volatility, and closeness to cash.

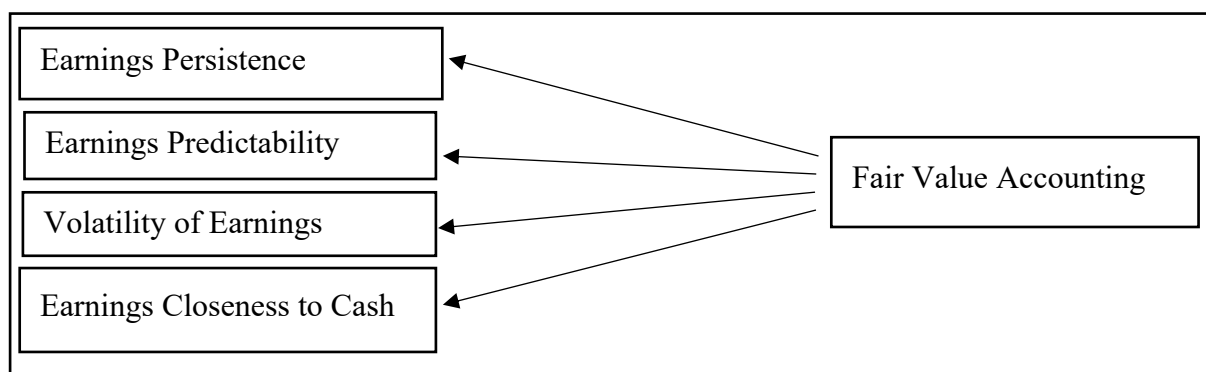


Figure 1. The Conceptual Framework

Persistence of Earnings: This dimension measures the consistency and stability of earnings over time. The hypothesized relationship where FVA is expected to influence the persistence of earnings. The framework suggests that higher exposure to FVA may lead to less stable earnings due to market fluctuations impacting asset valuations.

Predictability of Earnings: Predictability refers to the reliability of earnings as indicators of future performance. proposing that FVA might affect how well past earnings can predict future earnings, potentially introducing variability and uncertainty into forecasts.

Volatility of Earnings: This dimension captures the degree of fluctuations in earnings over time. Figure 1 illustrates how FVA could impact earnings volatility. FVA is sensitivity to market conditions might increase earnings volatility, making it harder for stakeholders to gauge the true financial performance of firms.

Closeness to Cash: Closeness to cash measures how closely earnings reflect actual cash flows. The FVA might influence the extent to which reported earnings align with actual cash flows, potentially leading to discrepancies due to the subjective nature of fair value measurements.

H1: FVA has no positive effect on the earnings persistence of the Jordanian banking and real estate firms.

H2: FVA has no positive effect on the earnings predictability of the Jordanian banking and real estate firms.

H3: FVA has no positive effect on the volatility of the earnings of the Jordanian banking and real estate firms.

H4: FVA has no positive effect on the earnings closeness to cash of the Jordanian banking and real estate firms.

Theories such as "Positive Accounting Theory" and the "Dynamic Theory of Balance Sheet" form a major purpose and the backbone of the current study's hypotheses. Positive Accounting Theory explains a process that uses the capacity, understanding, and information of accounting most suitably for dealing with market/transaction situations in the future. Accounting theory serves as a way to understand financial reporting and how companies use their financial statements through the application of correct methods. A comprehensive examination of accounting theory involves the study of current accounting practices, how they evolved, and their application in contemporary accounting. In the current study, accounting theory is used to analyze the relationship between FVA and EQ in the Jordanian context.

Likewise, the dynamic theory states that "the determination of the annual economic results is the main objective of the balance sheet" (Schmalenbach, 1959). Consequently, proponents of the dynamic theory allocate all the firm's activities into periods or subperiods (i.e., the financial year). Accordingly, the balance sheet is tasked with managing "the suspended posts" (the assets and liabilities) which, apart from the clear payments (expenditures included), are unaffected by the economic transactions on the same date when the inflows and outflows are registered (Graves et al., 1989). In the current study, the dynamic theory is used to examine the relationship between FVA and EQ in the Jordanian context. The hypothesis development for this study in accordance with these theories.

6. Conclusion

This study provides a conceptual analysis of how Fair Value Accounting (FVA) might affect Earnings Quality (EQ) in Jordanian banking and real estate sectors. This study findings but is grounded in theoretical analysis and a review of existing literature.

The primary focus of this conceptual work is to elucidate the potential impact of FVA on various dimensions of earnings quality, specifically persistence, predictability, volatility, and closeness to cash. The conclusions drawn are based on theoretical insights. The study contributes to the understanding of FVA's implications for EQ by exploring how FVA, as outlined by IFRS guidelines, could influence these dimensions of earnings quality in Jordanian firms.

6.1 Theoretical Contributions

Earnings Persistence: The study theorizes that FVA may enhance earnings persistence by reflecting more current market conditions, thereby potentially improving the stability of reported earnings over time. This contribution advances the understanding of how FVA could affect the consistency of earnings from a theoretical perspective.

Earnings Predictability: The framework suggests that FVA might improve earnings predictability by providing more relevant and timely information about asset values. This theoretical contribution highlights how FVA could potentially enhance the ability to forecast future earnings based on current valuations.

Earnings Closeness to Cash: The study posits that FVA could affect the closeness of reported earnings to actual cash flows by aligning asset valuations with market conditions. This contribution underscores the theoretical relationship between fair value measurements and cash flow alignment.

Earnings Volatility: Conversely, the study theorizes that FVA may not necessarily reduce earnings volatility. Instead, it may introduce variability due to market fluctuations affecting fair value measurements. This theoretical insight contributes to understanding how FVA might influence earnings stability and variability.

By developing a conceptual framework, this study offers a theoretical basis for understanding how FVA could impact various aspects of earnings quality. It underscores the need for further empirical research to validate these theoretical insights and explore how adherence to IFRS can enhance the quality of earnings reporting. The study advances theoretical understanding by proposing how FVA might interact with earnings quality measures and provides a foundation for future research into the practical implications of fair value measurements in Jordanian financial reporting.

This conceptual work concludes that FVA impacts EQ measurements among Jordanian banking and real estate companies. This study contributes to the knowledge and understanding of the effects of FVA on EQ in Jordan by improving earnings management in these sectors. The findings indicate that FVA has a positive effect on EQ measures among banking and real estate companies in Jordan, specifically enhancing earnings persistence, earnings predictability, and earnings closeness to cash. However, the findings also show that FVA does not positively affect the volatility of earnings. Additionally, this conceptual work contributes to the Jordanian accounting literature, as FV measurements are highly associated with market values. IFRS has introduced FVA to these companies to appraise their assets and liabilities. This study anticipates that strict compliance with IFRS would significantly improve EQ through enhancements to EQ measures. Based on the available literature, it can be conceptualized that FVA affects EQ measures including persistence, predictability, volatility of earnings, and closeness to cash.

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