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The Relationship between Adoption of Fair Value Accounting Standards and Changes in Stock Prices (An Empirical Study on Amman Stock Exchange)

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Abstract
The study aimed to determine the relationship between the application of fair value accounting standards and changes in stock prices, and researcher seeks to obtain evidence through application on one of the emerging financial markets, where the sample was taken from the banks listed on a stock exchange emerging which is Amman stock exchange ASE, The explanatory power for application of fair value changes in stock prices Accounting Standards have been measure through designing model for this purpose, the research concluded to accept the alternative hypothesis for research, which says: The existence of the explanatory power for fair value changes is related to Changes in stock prices.
Keywords: fair value, markets efficiency, financial instruments, comprehensive income

1. Introduction
Fair value accounting standards especially IFRS 13 determined the levels of fair value measurement according to a hierarchy, these hierarchy depends on source of the information used in measurement into three levels: Level I (1): Input can be observed from quoted prices in active markets, Level II (2): Input can be observed indirectly from quoted prices for items similar to quoted prices in active markets, and level (3): (firm generated) inputs using the values which are not available in the market but are established through analyzing and studying the information available to it and depending on the nature of the asset or liability for the taxable assessment of the development model is reasonable and logical to measure fair value.

2. Literature
A set of papers related to the debate are presented:
(Mercedes, Isabel, 2014) "Assessment the impact of IFRS adoption on earning management: an emerging market perspective", This paper examines whether adaptation of standards to IFRS has converted Mexican GAAP into high quality standards by increasing comparability with US GAAP and reducing earnings management. and whether the differences between earnings reported by Mexican GAAP and US GAAP may be due to the opportunistic interpretation of Mexican standards by managers, rather than to differences between the accounting standards of both countries. The results show that adaptation to IFRS is not associated with lower levels of discretionary accruals. And the study also finds that the choice of accounting method could be driven by opportunistic behavior of managers.

(Ali Alnodel, 2014) "The Effect of the Adoption of International Financial Reporting Standards on Capital Market Integration in the Gulf Cooperation Council Countries", This paper examines the effect of the adoption of International Financial Reporting Standards (IFRS) on the integration of capital market in the Gulf Cooperation Council (GCC) Countries, study finds that the adoption of IFRS by GCC stock markets has no significant impact on the integration of the capital market in the GCC countries.

(Elizabeth Blankespoor, 2013) examined whether using fair values for financial instruments better describe banks' credit risk than less fair-value they assess the extent to which various leverage ratios, which are calculated using financial instruments measured along a fair value continuum, are associated with various measures of credit risk. The study found that leverage measured using the fair values of financial instruments explains significantly more variation in bond yield spreads and bank failure than the other less fair-value-based leverage ratios.

(Gabriele Guggiola, 2010): "IFRS Adoption in the E.U., Accounting Harmonization And Markets Efficiency: A Review" The paper aims at providing an updated description of the process of IFRS adoption in the E.U., pointing out the positive aspects and the main drawbacks and reviews the major contribution provided by the literature during the last years on this subject. The study concluded that market efficiency, in particular, will deserve further attention, and Investors and analysts, are becoming more confident with the new standards, so that the effects of the transition might begin to fully reveal themselves.

(Christopher, et al, 2008) "Market Reaction to the Adoption of IFRS in Europe", this study examined the European stock market reaction to sixteen events associated with the adoption of (IFRS) in Europe. The study found a more positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption. And also found that the reaction is less positive for firms domiciled in code law countries, consistent with investors' concerns over enforcement of IFRS in those countries. Finally, the study found a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption.

(Yazdi and Radmehr, 2003), studied the necessity of reporting such items in separate reports. Their findings indicate that from the respondents' points of view, disclosure of different items of comprehensive income is required in external reporting, but they find it unnecessary to report each item in a separate report.

Previous researches provide contradictory evidence on relation between Fair value accounting standards adoption and efficiency of financial markets; we can say that what distinguishes this study from previous studies that it dealt with Emerging Markets.

3. Hypotheses

For studying the relationship between adoption of Fair value accounting standards and financial markets efficiency, the researcher tests the following hypotheses:
Ho: The existence of the explanatory power for fair value changes is not related to changes in stock prices.
H1: The existence of the explanatory power for fair value changes is related to changes in stock prices.

4. Data and Research Methodology

A sample of banks listed in Amman Stock Exchange for the time period 2008 - 2013 is used, and 9 banks. For purpose of measuring the relationship between adoption of Fair value accounting standards and Changes in stock prices, by doing Regression analyses for the following model:

$$\mathbf{Pit = a0 + \beta 1W + \beta 2\ WA + \varepsilon_{it}}$$

Where:
Pit: is price of common stocks.
W: income included fair value changes of financial instruments.
WA: income without fair value changes of financial instruments.
This model shows the explanatory power for two variables (**W, WA)** to interpret the changes in stocks market prices, the comparison between the coefficients variables to see a which one has larger explanatory power for the Changes in stock prices.

5. Results of hypotheses testing

Table 1: A Sample of **bank share prices Pit** Listed in Amman Stock Exchange, and W: income included fair value changes of financial instruments, and WA: income without fair value changes of financial instruments.

Table 1: Pit : bank share prices Pit

Bank	**Pit : bank share prices Pit**					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
ARAB	15.95	12.15	9.98	7.85	7.25	9.39
ABCO	1.46	1.09	1.15	0.98	1.00	1.24
AJIB	1.8	1.29	1.40	1.31	1.40	2.49
BOJX	2.2	2.15	2.96	2.05	2.30	1.12
CABK	2.52	2.47	3.18	2.77	2.75	2.94
JOIB	3.7	3.17	3.00	2.75	2.81	3.88
JOKB	4.69	3.80	4.32	3.62	3.03	4.05
SGBJ	2.5	1.32	1.08	0.95	0.85	0.89
THBK	8.33	7.15	8.10	8.00	8.25	8.75

Table 2: W: income included fair value changes of financial instruments

W: income included fair value changes of financial instruments					
2008	**2009**	**2010**	**2011**	**2012**	**2013**
353509000	317521000	132545000	255810000	353509000	240103000
11121138	10373479	195000000	224000000	11121138	11867980
11568952	12101655	10892865	14648201	11568952	17591133
26699212	36636325	31648717	36733677	26699212	48096843
29579655	37675682	34508432	34666404	29579655	39940890
3914414	6037349	586003	21549211	3914414	45413218
28028713	28763344	28282068	36634992	28028713	50484560
58195954	53232828	39439154	47389298	58195954	7001701
4278138	4609743	3242354	4738310	4278138	72639387

Table 3: WA: income without fair value changes of financial instruments

WA: income without fair value changes of financial instruments					
2008	**2009**	**2010**	**2011**	**2012**	**2013**
250039000	307877000	305944000	352050000	250039000	346226000
9236879	10358382	270000000	263000000	9236879	11695670
10696659	11834680	11912121	14996931	10696659	16662117
25369137	32115410	36570701	33189566	25369137	36393178
25549038	34748836	36596414	35286174	25549038	40795896
1338383	5149968	1428331	22036184	1338383	45106303
27888946	29093694	28324209	36445903	27888946	47417835
44871942	52213883	39696706	46607908	44871942	7001620
4284388	4603493	3259854	4734560	4284388	106926629

Table 4
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.578[a]	0.334	0.308	2.72799	0.334	12.775	2	51	0.00	2.066

a. Predictors: (Constant), wa, w
b. Dependent Variable: pit

Table 5
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	2.570	0.449		5.722	0.000
w	1.813E-8	0.000	0.497	1.707	0.094
wa	2.852E-9	0.000	0.086	0.296	0.769

a. Dependent Variable: pit

Regression testing of research model shown through tables (1,2) in indicates that the adjusted regression coefficient for (W) is %49,7 which is more than regression coefficient for (WA), that means the relationship between stock prices and income included fair value changes of financial instruments is stronger than relationship between the stock prices and income without fair value changes of financial instruments, and the noted from the tables also that significant of this test module amounted to 0.00% which is less than 5% for each of the two models, which means that the test is trusted by 95% and can be relied upon, This indicates that the application of accounting for changes in fair value according to fair value accounting standards increases the explanatory power of the financial statements and reflect the changes in the prices of the shares for listed banks thus lead to the efficiency of financial markets This results lead the researchers to accept the hypothesis of the research, which says: H1: The existence of the explanatory power for fair value changes is related to efficiency of financial market.

6. Conclusion and recommendations

The results show that relationship between stock prices and income included fair value changes of financial instruments is stronger than relationship between stock prices and income without fair value changes of financial instruments, That leads us to conclude that application of accounting for changes in fair value according to fair value accounting standards increases the explanatory power of the financial statements and reflect the changes in the prices of the shares, so we result accept the hypothesis of research, which says: The existence of the explanatory power for fair value changes is related to efficiency of financial markets.recommend at the end of the study the following: researchers

1. Compliance by terms and requirements of any approach application of determining fair value, according to related international financial reporting standards, to ensure the qualitative characteristics of accounting information produced by banks.
2. when application fair value measurement for financial instruments Banks must taking into account the following to ensure the reliability of the information
3. Internal banks reorganization, allowing existence of a separate section follows up market activity, with a certain degree of autonomy and authority, in order to achieve sustained link to changes in the market prices, to provide information necessary to application the fair value measurement approaches of financial instruments.
4. The need for more studies and research in this field to strengthen the knowledge and practice side of measurement and disclosure of the fair value for financial instruments.

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