Measuring the Conservatism Level in the Accounting Policies and Its Effect on the Financial Information Disclosure Quality in the Jordanian Commercial Banks

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Abstract

The objective of this study is to measure the level of conservatism in accounting policies and its effect on disclosure quality in commercial banks in Jordan. The research was implemented on the Jordanian commercial banks listed at Amman Stock Exchange from the period 2005 to 2014. The study population consists (14) banks used as a sample. The total data observations for the last 10 years were (130), (29) of which were dismissed either because missing observation or outlier, leaving a final study sample of (101) observations. The research used the book value-to-market value ratio and the accruals-to-profit (before extraordinary events and discontinued operations) ratio as proxies for conservatism. While the level of compliance with disclosure instructions was used as a proxy for disclosure quality. The study used two hypotheses to achieve its goals. The results showed that there is a good level of conservatism in accounting policies used by Jordanian commercial banks, which is one of the banking sector characteristics. The study showed a significant effect of accounting conservatism measured by using the accruals-to-profit ratio on the disclosure quality, but not when using the book value-to-market value ratio. This difference in results could be referred to the presence of pure accounting factors in the accruals-to-profit ratio, but there are additional environmental factors in the book value-to-market value ratio.

Keywords: conservatism, disclosure quality, disclosure instructions, Book-to-Market ratio, accruals-to-profit ratio

1. Introduction

Generally, the accounting conservatism term means that the minimum values of the assets and revenues shall be as possible acknowledged, as well as the maximum values of expenses and financial commitments. Consequently, the recognition of expenses should be accelerated, while the recognition of revenues should be postponed, thus, it is preferred to evaluate the assets as minimum, and calculating the income in a way that gives the minimum value among other alternatives ways (Xie, Zheng, & Lau, 2012).

As an example of the accounting conservatism, recognition of the research and development expenses as private expenses during the period of spending it, and in comparison with its capitalization, and spread these expenses over many years, in addition to use the accelerating consuming or the minimum evaluation to the economic age of an asset, also making higher allowances for doubtful debts and for warranty liabilities (Penman & Zhang, 2002).

Conservatism in accounting raises a question about the quality of information disclosed by the enterprises in the annual reports; this disclosure plays a major role in information asymmetry between the managers and the shareholders in the enterprise (Xie et al., 2012). In addition to the fact that this can be the way for the management to deliver the information to the current and future investors about the past events and about the future growth opportunities, moreover, the accurate disclosure in the right time will help in proper securities

pricing in the market, as well helps in measuring how open and accurate the communication lines between the management, the current shareholders, the potential investors and the regulatory bodies (Mohan, 2007).

This research will shed the light on the relation between the followed policies of the accounting conservatism, and the quality of the financial statement disclosure, that will be done by conducting an applied study on the Jordanian commercial banks during the period from 2005 to 2014.

2. Problem of the Study

The information contained in the financial report should be carefully prepared with a high degree of disclosure, and that includes the disclosure at the financial statement, and outside the financial statement whether they were financial information or non-financial information, it is worth mentioning that the financially immeasurable information that contained outside the financial statement, has a great current and future effect on shareholders (Salama & Putnam, 2015). The importance of the high quality of disclosure that it decreases the uncertainty state that surrounds many of the involved parties in the enterprise who are connected together by contracts (Glassman, 2003).

Contracts between different parties related to the enterprise as the shareholders, the management, and the loan parties are the main source of the accounting conservatism, as they contain financial and non-financial indicators related to the enterprise and can be used in the contracts between the parties, these indicators might be affected by the conservatism by the management that made the annual report. As a result, the accounting conservatism used in making the annual report may affect the quality of the disclosed information in that report (Cheng & Kung, 2016).

The study problem lies in the attempts to respond to the following questions:

1)   Is the conservatism part of the accounting policies applied in the Jordanian commercial banks?

2)   Does the conservatism level of the followed accounting policies in the Jordanian commercial banks affect the quality of the disclosure of the financial information?

The importance of the Study

The importance of this study lies in its attempts to obtain results that may help the investors to make efficient investing decisions regarding commercial banks, which are considered as one of the most important institutions in terms of the national economics. As the banks sector effectively contributes in pushing the economic wheel, and by providing money to the entrepreneurs, the banks sector forms 35.8% of the total market value of the companies' shares which are listed in Amman Stock Exchange at the end of 2010, as the market value of the banks' shares has reached up to 6 billion JD. Whereas the market value of the total traded shares was 16.8 billion JD, and the credit facilities which granted by the banks for different economic sectors in the kingdom has reached up to 7.74 billion JD; in addition to 13 billion JD of deposits attracted by the bank at the end of 2010 (Association of Banks in Jordan, 2011).

3. Objectives of the Study

All of the profit establishments aim to reveal their financial situation in a way that represent a state of economic stability, and in a way that raise no argument about the financial statements' numbers. From this standpoint the enterprise management-under some certain operational circumstances-may tend to choose among those accounting policies that lead to a kind of accounting conservatism of the enterprise profits and financial situation disclosure. This disclosure is considered one of the essential requirements for the stock market, especially according to the enterprises that are listed in it, and this should be in order to provide the sufficient and high quality information that is ready to be exposed for the investors, loans bodies, analysts, and the research.

Accordingly, this study aims to:

1)   Measure the level of the conservatism of the accounting policies which is followed in the Jordanian commercial banks.

2)   Test the quality of the financial statement disclosure in the presence of the conservatism of the accounting policies in the Jordanian commercial banks.

4. Theoretical Framework and Literature Review

4.1 Accounting Conservatism

The influence of the conservatism of the accounting policies refers to a long and important history, Basu (1997) indicates that the conservatism has influenced the accounting practices for at least five hundred years, and classifies the conservatism as one of the most important principles of the accounting evaluation.

It should be noted that the research outcomes about the importance of the conservatism influence on the accounting practices can be the defense against a lot of opposing appeals for the conservatism, and the long historical existence of the conservatism is the greatest evidence that the critics of this concept overlook its advantages. And if those opponents of the Legislators and standards' framers tried to arbitrarily disregard and cancel the role of the conservatism, then the result would be a punch of distorted and harmful financial reports, in addition those financial reports would be misleading for its users (Watts,2002).

The conservatism in accounting can be defined by "anticipate no profit, but anticipate all losses". Anticipate profit means recognizing the profit before any legal existence of the revenues which generate them, and before being achievable. The conservatism in this case does not mean that all the cash flow should be delivered before the profit recognition—for example, the credit sales are recognized—but this cash flow should be achievable. Practically can be explained as the accountant tends to require a degree of certainty so as to recognize the good news as gains, the same certainty is not required in order to recognize the bad news as losses (Basu, 1997), so the conservatism is a requirement of an asymmetric verification of gains and losses, this explanation allows some degrees of conservatism, thus, the more the difference between verification degree of gains against losses, the more degree of conservatism (Watts, 2003).

On the other hand, (Smith & Skousen, 1987) explanation based on that the accountant prefers the accounting ways that lead to state less values of proprietorships, but the Financial Accounting Standards Board (FASB) turns down this alternative point of view on the conceptual level, showing that the conservatism does not require postponing the recognition of the income until an appropriate evidence appear anymore, or justifying the losses before any evidence as well. In spite of the position of (FASB) and its legitimacy, this point of view didn't cope with the accounting practices, such that the studies have shown that the straight-line method in calculating the assets' depreciation is more used in the American companies than the accelerated depreciation method (Basu, 1997). Regardless the fact that the accelerated depreciation method is more conservative among the other methods, knowing that by using this method, the accumulated depreciation will be greater, so the assets' values will be always less, and as a result the expenses value will be greater which shows conservatism.

Beaver & Rayan (2005) believe that the conservatism is to averagely reduce the carrying value of the net assets relative to their market value, which means stating values are not registered in the books, such that these stated values will be the difference the market value of the equity and the carrying value of the net assets (Yunos, Ismail, & Smith, 2012). Roychowdhury & Watts (2007) believes that the conservatism is reducing the carrying value of the net assets, and goes on explaining that the traditional accounting has focused on measuring the value of the net assets and the changes happen to them in the enterprise, while neglected the changes in the value of the enterprise itself, also neglected the changes that resulted by the difference between the market value of the enterprise and its net assets' value, referring by that to the stating (Mura & Roberto, 2014).

Givoly, Hayn, & Natarajan (2007) indicates that the conservatism has key role in the accounting theory and practice, as it was defined by the Financial Accounting Standards Board (FASB) in the concepts of financial statement No.2 (Statement of Financial Accounting concepts-SFAC No.2) as the rational reaction towards the state of uncertainty, this definition came as an attempt to emphasize that uncertainty and risks inherent in the business have been adequately considered. In any way this definition has not specify the nature of "rational reaction" and has not explained the manner of "reaction" which should prove taking the risks in consideration. Smith & Skousen (1987) indicates that the conservatism is the rule when there is an inherent doubt related to choosing between two or more alternatives of the financial report, then the choice with less effect on the equity should be chosen.

4.2 Financial Disclosure

Because the financial disclosure is wide and broad in its nature, and because it contains all the accounting data and information which are necessary to achieve the benefits to its user such as the decision rationalization -which is considered one of the most important benefits- so the financial disclosure is a relative term, however, it has become necessary not to look at the financial statement as a goal in itself, but as a mean to help the parties to take different decisions (Ji, Lu, & Qu, 2016).

The importance of the disclosure has emerged in the Hashemite Kingdom of Jordan after founding Amman Stock Exchange in 1978. Where the disclosure has founded a great attention from some scientific and professional institution side, that have issued many recommendations and views regarding the information to be disclosed, moreover, the Jordanian Association of Certified Auditors has adopted the international accounting standards, such that the association issued the circular No.45 in 1989, which obligated the accountants and auditors to comply with the international accounting standards starting from 1/1/1990 (Al Khateeb et al., 2003).

Some research have focused on the objective of the disclosure is to clarify the financial information, so they defined it as a deployment of the necessary information to the categories that need them in order to increase the efficiency of the operations performed by the stock market (Rickett, Maggina, & Alam, 2016), as different categories need the information to evaluate the risks that the company is exposed to so they can make the decisions that match their goals and fit the desired degree of the risk (Al Khateeb et al., 2003), and it was defined by others (Abdullah, 1995) as showing the financial statements for all basic information of concern to the external categories so as to help them to make rational decision.

Matar (1993) has explained that the requirements of presenting the information in the financial statements according to the generally accepted accounting principles requires the availability of the appropriate disclosure in these statements, and this should be for all the essential financial matters. The disclosure mentioned here is closely linked to the form and content of the financial statements, the terminology used in them, the notes attached to them, and to the details that gives these statements an advertising value from the perspective of the users.

And there are those who link between the degree of disclosure and decrease of the uncertainty state among the beneficiaries, this can be done by deploying all the economic information that are related to the project, whether they are quantitative or other, which help the investor to make decisions and reduce the uncertainty about the future economic events (Rickett et al., 2016).

As a conclusion; the disclosure includes disclosing the information reached by the company as a report or a statement, by considering that the accounting is an information system, then one of its most important goals is to provide the appropriate information to all who benefit from those reports for the sake of accuracy in making decisions, moreover, the disclosure should include all the financial events, both positive and negative, in addition to all accounting policies.

4.3 The Importance of the Disclosure of the Financial Statements in the Banks Sector

Recently, the issue of controlling and regulating the stock market has occupied a prominent position in the discussions related to the banks sector, the regulating market idea is connected to the extent of the effect of the practices of the shareholders, lenders, employees, and other parties related to the bank on the decisions regarding the investing, operational activities, and considering the risks (Wakil, 2014). The supervisory authorities in the banks think that the market regulating process is a complementary to the legal and supervisory activities, and to control and manage the risks in the banks sector, and in order to increase the efficiency of the market regulating, the participants in the market require sufficient information to evaluate the recent situations and the future aspiration for the bank, this led to emerge a group of suggestions to promote the disclosure of the banks, considering that the expansion of disclosure presents more useful information for the investors and lenders to evaluate the circumstances of the establishment (Hirtle, 2007). Even gender proved to be affected by the interpretation of uncertainty and conservatism (Han, Hellmann, & Lu, 2016).

The prompting of the accounting disclosure leads to strengthen the organizing of the banks sector and make it more reliable, such that the second pillar of Basel courses (Basel II) (Basil Basic Principles No.2) and the Organization for Economic Co-operation and development OECD indicate in (Corporate Governance in Banks) to require a better disclosure in banks so as to enable the market to obtain clearer picture about the bank's situation towards the risks, and to enable all of the involved parties to evaluate and price that bank in a proper way (Huang, 2006).

The disclosure should reduce the information asymmetry between who have the advantage to get the information and the small investors; it also facilitates the effective follow-up, such that the efficient information is crucial for the market's participants to effectively play their roles.

The reliability in the disclosure is considered as an important element in banks sector stability, and promoting the bank disclosure decrease the possibility of a bank crisis, because under a high degree of disclosure, the banks will be less favorable of taking excessive risks, and if any losses happened, they would cost less. Moreover, the reliability in the disclosure is one of the basic components that should be focused on in the banks' reports; also, providing timely data about the disclosure practices facilitate conducting comparisons between the banks on an international level (Hope, 2003).

some prior procedures have been done to standardize the banks' financial statement, not only by the international standards authors like the (International Accounting Standards Board (IASB) an Basel committee, but also by national legislators and that to make the information disclosure more comparable between banks, for example, a new international financial report standard No.7 has been published (IFRS7) as an alternative of the international

accounting standard No.30 (IAS30), such that it requires more detailed disclosure from the financial institutions (Huang, 2006).

The importance of the financial data disclosure in banks has recently increased due to the following reasons:

1) Enact legislations to ensure the rights of the investors and depositors, those who are considered as the main feeding artery to any bank, as there is no justification to escape from information disclosure under the pretext of concerning about protecting the shareholders' interests.

2) Banks commitments towards Basel committee courses that are related to the disclosure, risk management, and the capital sufficiency.

3) The International Accounting Standards Board has issued the International Financial Report standard No.7 which was about the disclosure of the financial data in banks, and has replaced the International Accounting Standard No.58/2014, and has come into force from 30/9/2014.

When reviewing the literatures which are related to the subject of the study, it has been found that there is no studies that directly connect between conservatism and quality of disclosure, so the research has reviewed some studies that use certain measures that are linked to the variables, then those variables has been used to measure other variables that have no relation to the subject of the study, in other words, the research has used the indirect links to express the relation between the two variables; conservatism and quality of disclosure.

LaFond & Watts (2007) has shown that the Financial Accounting Standards Board (FASB) has firmly fought against the principle of conservatism and considered it completely incompatible with Neutrality, but the attempts of (FASB) to cancel the conservatism increase the asymmetry of information according to the investors, which is not consistent with the objectives of the laws by the securities bodies. This study was applied on data of 1073 companies listed in (NYSE) and (AMEX) stock exchange for the period from 1983 to 2001; it concluded that the conservatism reduces the tendency and ability of the managers to manipulate the accounting figures, and consequently reduces the asymmetry of information, which can explain the relation between the accounting conservatism and the quality of disclosure, so that an increase in accounting conservatism lead to increase in the quality of financial data disclosure.

Lobo & Zhou (2006) aimed to examine the change of the management estimations in the financial reports after the issuance of Sarbanes-Oxley Act (SOX) in the USA in 2002. The study used in order to measure the conservatism both the dues measure and the relation between the profits and stocks revenues measure, it also used many of controlling variables which are: the financial year end date, the size of the audit company, the size of the enterprise, the size of indebtedness, and that has be done by reviewing the literatures of the subject. Data used were listed in the COMPUSTAT database the US companies, which were available one or two years before the issuance the SOX law, and one or two years after its issuance, such that the final number of views has reached up to 11960 companies per a year. It was mentioned that the most important goal of (SOX) is to protect the investors through increasing the accuracy and reliability of the disclosure, and increasing the investors' confidence in the financial statements' legitimacy. The study concluded that the (SOX) in addition to the securities bodies requirements have changed the behavior of the management in financial reports estimations to be more conservative.

Langberg & Sivaramakrishnan (2006) aimed to analyze the decisions of the managers in the US companies to voluntary disclose when the financial analysts tend to accurately test the quality of disclosure. This research used the methodology of building and testing a mathematical model, and didn't use the applied method in analyzing. It concluded that the disclosure of the bad news has more accurate informational significance than the disclosure of the good news. Including that the financial analysts are more suspicious regarding the god news disclosure, and their response depends on a high degree of scrutiny and examination. Despite the good news disclosure has less informational significance; it is more related to the stocks' price rising than the bad news disclosure with the decrease of the stocks' prices.

Menash, Song, & Ho (2004) research aimed to test the effect of the conservatism in the followed accounting policies on the ability of the financial analyst to predict the profits in the US companies; and to reach to a consensus about these estimations and predictions. The study concluded that following conservative accounting policies has an effect on the increase in the errors found in the analysts' predictions and estimations of profits, and the increase of the diffusion in prediction, and the same previous results have been obtained by using different means to measure the conservatism.

Paprocki & Stone (2004), which aimed to present the most important US companies' alternatives regarding the critical accounting policies, as well as test the increase of the critical accounting policies disclosure in terms of

quality and quantity, and that after the issuance of the American securities bodies' regulations regarding the disclosure of the critical accounting policies, the study also aimed to test the relationship between the disclosure of the critical accounting policies and the information asymmetry. The study used (Book-to-Market) ratio (BTM) as a measure of information asymmetry, which represent conservatism. The study has found an inverse relation between the quality of the disclosure of the critical accounting policies and the (Book-to-Market) ratio.

Penman & Zhang (2002) carried out a study which aimed to test the relationship between the accounting conservative, the quality of profits, and stocks revenues in the US companies. This research used the data of the US companies in the New York Stock Exchange (NYSE) and the America Exchange (AMEX), and which were available in the (Standard & Poor's) for the financial and statistical data and companies information which is known by (COMPUSTAT), for the period from 1975 to 1997, such that the size of the study sample has reached up to 29796 per a year. The research developed an indicator of conservatism known as the C-Score, which depends in performing calculations on the proportion of hidden reserves which were arise from the use of the conservatism in the balance sheet to the net operational assets, and an indicator of the quality of profits, known as Q-Score, which measures the impact of the use of the conservatism in the income statement. The study has found that the use of the conservatism in accounting with the existence of the growth in investment reduces the profits and the revenues rates, and creates hidden reserves, while curbing the growth in investment frees the hidden reserves and increases the profit and growth rates. This study also referred to existence of low quality profits resulted by the changes in investments with the use of conservatism in accounting. And finally, this study has shown that the stock market can not affect the quality of profits in companies with the use of conservatism in accounting. research is related to the subject of the research, by the fact that the quality of disclosure includes the quality of profits as well, so in case that there is a quality in profit, then this will positively affect the quality of disclosure, and vice versa, as the low quality of profits leads to low quality of disclosure.

And finally, a study conducted by Lobo & Zhou (2001) aimed to test the relationship between the quality of disclosure and the profit management in the US companies. A sample of 1444 Views (company / year) has been used, which was obtained from the database of (Association for Investment Management and Research) (AIMR) for the years from 1990 to 1995, the study used the regression model to test the relationship between the two variables, so that the quality of disclosure has been measured using AIMR classifications for the quality of disclosure, and the profit management has been measured by using the optional dues. In line with the theoretical predictions, the applied study found that there is an inverse relationship with a statistically significance between the quality of disclosure and profits management, such that, the companies with less disclosure tend to manage their profits in a higher tempo. This study is related to the topic of research in the fact that dues scale used to measure the profits management is also used as a measure of the accounting conservatism.

5. Methodology

5.1 Hypotheses

First hypothesis: There is no conservatism in accounting policies applied in the Jordanian Commercial Banks.

Second hypothesis: The conservatism level in accounting policies does not affect the quality of disclosure of the financial statements in the Jordanian Commercial Banks.

The second hypothesis has the following **sub-hypotheses**:

The conservatism level in the accounting policies measured by the book value to market value (Book-to-Market ratio; BTM), does not affect the quality of disclosure of the financial statements in the Jordanian Commercial Banks.

The conservatism level in accounting policies measured by the (dues to profits) ratio before extraordinary events and Discontinued Operations (TACC), does not affect the quality of the disclosure of the financial statements in the Jordanian Commercial Banks.

The expected impact in the second hypothesis is that the higher the level of conservatism in accounting policies, the more decline in the quality of the disclosure of financial data.

5.2 Measuring Variables

The study tests the effect of the conservatism in accounting policies on the quality of disclosure of the financial statements in the Jordanian commercial banks, and therefore this part of the study shows how to measure the quality of each disclosure of financial data and the level of conservatism in accounting policies, as follows:

5.2.1 Measure the Level of Conservatism in Accounting Policies

This study is based on the measurement of the level of conservatism in accounting policies on two measures

which were used in different previous studies, namely: scale depends on the market value (book value relative to the Book-to-Market by market value-BTM), and the measure of earnings (Total Accruals / Profits Before Extra-ordinary Items and Discontinued Operations-TACC). The description for each is as follows (Jain & Rezaee, 2004):

a. Book Value Ratio on the Book-to-Market Ratio Market Value (BTM)

The theoretical framework that has been developed by Beaver & Ryan (2000) and used by Givoly et al. (2007), and by Ahmed et al. (2002) have proposed to use the book value to market value as a measure of the conservatism , which will be the first measure adopted by this study. Book value to market value ratio is used to test the value of shares of the establishment by comparing its book value with its market value, book value is calculated by dividing (total equity then subtracting the carrying amount of preference shares) by the weighted average number of shares subscribed, where the market value per share is closure price of the shares in the market at the end of the year.

The BTM gives an indication whether the shares are evaluated with higher or lower value than it should be; if the ratio is greater than 1 then shares evaluation value is less than fair value, but if the ratio was less than 1 then it is higher than fair value, so it could be concluded that the market value of the stock value may vary from the reality of establishment books, caused by other elements outside of the books (Reilly & Brown, 2003). However, the studies that have used the BTM ratio to measure conservatism level has relied on efficient markets hypothesis, which stipulates that the share price reflects all available information about it at the right time, which means that the market value is fair, and therefore, when the BTM ratio is low, the enterprise has used certain accounting policies trying to apply conservatism by reducing the net assets' values.

By using the data of (14) banks over (10) years from the Securities Commission database, the BTM ratio has been calculated. If this ratio is low (less than 1) that will indicate that the use of biased accounting policies towards accelerating the recognition of expenses and losses, and delaying the recognition of revenues and profits. The decline in this ratio means increasing the level of conservatism, and vice versa, and this result is in alignment with the study of (Jain & Rezaee, 2004), as well as the study of (Beaver & Ryan, 2000) that if this percentages reduced to less than (1) means that there is a conservatism, and that the decline more over a period of time means increasing the level of conservatism (Jain & Rezaee, 2004).

b. Scale Based on Dues (Accrual-Based Measure, TACC)

There are two ways to calculate the dues: the cash flow statement method and balance sheet method, as the study of (Jain & Rezaee, 2004) the total due from the statement of cash flows has been calculated directly as follows:

$$TOTAC_{it} = EBXT_{it} - OCF_{it}$$

Where:

$TOTAC_{it}$: Total dues of the company i in year t.

$EBXT_{it}$: Profit before extraordinary items and discontinued operations of the company i in year t.

OCF_{it} : Operating cash flow for the company i in year t

It is worth mentioning that the extraordinary items and discontinued operations have been excluded in order to exclude the impact of any operational items and not related items to the main and continuous activities of the enterprise. According to (Jain & Rezaee, 2004), the use of the conservatism leads to a continuity of negative dues over a long period of time, because the dues increase income when the positive value of dues is achieved, and decrease the income when it is negative, and with the stability of other factors, the increase in the total negative dues through the period of time is considered as an indicator of increase the level of conservatism.

In this study, a proportion of the total dues to profit before extraordinary events and Discontinued Operations (TACC) as a measure of conservatism has been used, so that whenever this ratio is decreased the level of conservatism is increased and vice versa. The total dues has been divided by the profits before extraordinary events and discontinued operations to keep the statistical probability of occurrence of the problem of multiple variations Heteroskedasticity which arise when there are large differences between the numbers of variables and views mismatch the probability distributions. Using this method will eliminate the problem of the possibility of multiple variations to occur, and basically, the absence of this problem, the method does not result any measurement error (Verbeek, 2004).

5.2.2 Measure the Quality of Disclosure of Financial Data

The quality of disclosure is difficult to measure, and some of the previous studies have used the classifications of

the financial analysts for the quality of disclosure, and other studies have used specific measurable indicators, and merely some studies have used the disclosure of significant accounting policies (Critical Accounting Policies) as an indicator of the quality of disclosure of financial data, while other studies have used the compliance with the instructions of the disclosure as an indicator of the quality of disclosure, such as the study of (Hasan et al., 2007) and the study of (Frost et al., 2006). Other studies have also used the ratings of the quality of disclosure as in the Kaltsnev publication of the Canadian Institute of Chartered Accountants CICA (Labelle, 2002), as well as the scale provided by Standard & Poor's Standard &Poors' for transparency and disclosure in 2002, and which provides an analysis includes a 98-items of disclosure (Mohan, 2006).

Therefore this study has adopted the measure of the quality of disclosure based on measuring the extent of compliance with the instructions of the disclosure method, since the study has been conducted on the banking sector in the Hashemite Kingdom of Jordan, it has been based on the Disclosure Instructions issued by the Securities Commission in the Kingdom, which were issued in accordance with the provisions of Article (12 / q) of the Securities Commission Law (76) of (2002) to measure the extent of compliance with these instructions as an indicator of the quality of disclosure such as the study by (Hasan et al., 2007) and study by (Frost et al., 2005). It is worth mentioning that the disclosure instructions that are used in this study have been adjusted for instructions on disclosure issued in (2005), as two additional paragraphs have been added, the total number of paragraphs was (22) and they have become in the new instructions (24) paragraphs, which has not affected the results of this study.

These instructions have been divided into 24-paragraphs as described in Supplement No. (1), the extent of the application of it measured by a study sample and using ten-years data beginning in (2005) and ending in (2014), the study has used the actual annual reports of the banks to test the instructions Compliance, and has been given a mark (1) to comply with paragraph and a mark (0) for non-compliance with them, these marks has been added together and divided by 24 (the total number of paragraphs) and then multiplied by 5 to give degrees ranges between zero to 5, so that whenever the index is higher the quality of disclosure is higher, this quintet measure has been used in the study of (Paprocki & Stone, 2004).

5.3 Population and Sample

The population represents all the Jordanian commercial banks operating in the Hashemite Kingdom of Jordan which are (14) banks as mentioned in the guide of Jordanian public shareholding companies published on the website of the Amman Stock Exchange in August 2014. Two banks were excluded; the Industrial Development Bank and the Jordan Islamic Bank for Finance and Investment, as they both are different from commercial banks in the nature of their work. Having been back to the goals of the work of each of these banks have shown a significant differences in their work from commercial banks, as the Industrial Development Bank's goal is to support, encourage and finance the industrial, tourist projects and craft initiatives, and work as a mediator in the Amman Stock Exchange and leasing business. The goals of the Jordan Islamic Bank for Finance and Investment are to carry out all the organized banking and finance and investment on the basis of non-usury, while the goals of commercial banks under study are to carry out all banking business inside and outside the Kingdom.

The sample of the study has been considered to be a comprehensive survey of community study so that the sample size is exactly equal to the size of the study population, with the exclusion of the data of the SocieteGenerale Bank because of the lack of the sufficient data about it, and thus the size of the community and sample has become (12) banks, the number of branches and offices inside and outside the Kingdom are (618) branches and offices.

This study used a range of statistical methods that are consistent with its objectives, the study has been used Statistical Package for Social Sciences (SPSS) program the methods and statistical methods used in this study are described below:

1). Arithmetic Mean:

The study used the arithmetic mean as central tendency measurements to describe the data and determine the arithmetic averages to give an overall picture of this data, and determine the overall trend over the life-cycle of the study. As well as the arithmetic mean has been used to test the first hypothesis of this study with its sub-hypotheses.

2). Simple Regression Analysis:

It has been used to model the relationship between the independent and dependent variable, and this relationship is as follows:

$$Y = \alpha + \beta X + \varepsilon$$

Where Y: the dependent variable.

X: the independent variable.

α: constant.

β: inclination, the independent variable coefficient.

ε: random error.

Since the focus of this study is to test the effect of the conservatism in accounting policies, which represents the independent variable on the quality of disclosure, which represents the dependent variable. The linear regression model is the optimal method for use in this case, so the model that is appropriate for the purpose of study has been developed.

6. Result Analyses and Hypotheses Testing

6.1 Descriptive Statistics

6.1.1 The Book Value Relative to the Market Value (BTM)

Table 1 indicates the arithmetic average of the BTM ratio for commercial banks under study over ten years, and it is clear from this table that the ratio is at its lowest point in 2012, reaching 0.268, and is at its highest level in 2009, reaching 1.221, and the previous studies of (Jain & Rezaee, 2004) and (Beaver & Ryan, 2000) suggests that the ratio has to be less than one in the enterprises that use the conservatism in accounting policies. It is noted from the same previous data that the average ratio of BTM did not exceed the one except in 2009, which gives an indication that the banking sector, averagely, used the conservatism in accounting policies during the whole study period. Referring to Figure 1 it can be observed that the BTM has been increased during the study period until it reached its peak in 2009, possibly due to the recession which affected the Jordanian economy, and this reflection is clearly shown through a historical review of the index of the Amman Stock Exchange During the study period, as it is in times of recession BTM is increased because of the lack of demand for stocks and low pay market value for them. Then BTM ratio is returned to decrease to the lowest level in the last three years of the study. It should also be noted that the continued decline in this ratio—as indicated by previous studies—means increasing degree of conservatism in the enterprise's accounting policies, and therefore it is possible to say that the banking sector follows conservative accounting policies.

6.1.2 The Proportion of Dues to Profits before Extraordinary Events and Discontinued Operations

Table 2 shows the arithmetic average of the ratio of dues to profits before extraordinary events and discontinued operations for the sample of the study and over 10 years, and it has been shown that these values are negatives except of 2011 data, which amounted to 0.055, this ratio does not almost affect the general trend of the data, it has been indicated in the studies of (Jain & Rezaee, 2004) and (Lobo & Zhou, 2001) that this percentage emergence of negative indicates a level of conservatism in accounting policies adopted by the enterprise, and that the increase in the negative figure means an increase in the degree of conservatism in the followed accounting policies.

It is noted through Figure 2 that this ratio remained most of the time below zero, as it is volatile and without taking one trend, which indicates the presence of several levels of the conservatism in accounting policies peaked in 2009, when the ratio was negative (-9.765), while The highest positive value of this ratio in 2011 was 0.055, and it can be said that the results shown in Table 2 and Figure 2 indicate the presence of a conservatism in the accounting policies adopted by commercial banks.

It should be noted that there is a contradiction between the results of the two scales where the BTM ratio refers that 2009 is least conservative year, while the dues to profit ratio before extraordinary events and discontinued operations refers that 2009 is the most conservative year, this contradiction in the dues rate can be referred to the fact that the dues calculations depend on the absolute accounting elements as it is calculated by finding the difference between profits and cash flows and then divide it profits. While the BTM ratio is calculated based on the book value, which is an accounting item in the absolute, while the market value is the element affected by economic, political and several social factors, and it is therefore affected by the circumstances and the surrounding environment, so the high BTM ratio may not due to the use of conservatism accounting policies, but it can be due to the low market value of the shares which is a result of mixture of the surrounding circumstances, when a historical review of the index of the Amman Financial Market is made (both general index or the banks index) a marked decline in the value of the index in 2009 has been shown.

Table 1. The arithmetic average of the ratio of book value to market value from 2005–2014

Year	SMA
2014	0.303
2013	0.356
2012	0.268
2011	0.794
2010	0.893
2009	1.221
2008	0.818
2007	0.655
2006	0.416
2005	0.441

Table 2. The arithmetic average of the ratio of benefits to earnings before extraordinary events and discontinued operations from 2005–2014

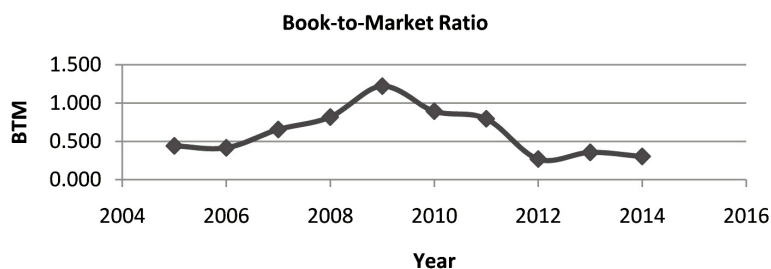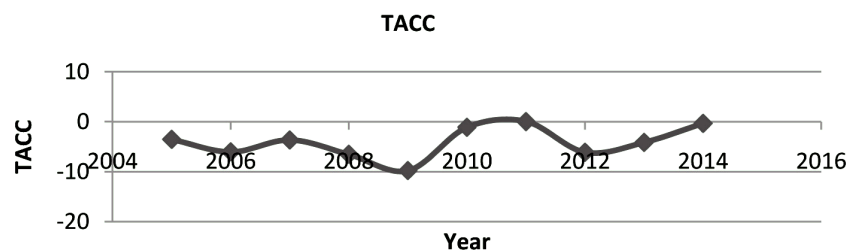| Year	SMA
2014	-0.302
2013	-4.116
2012	-6.095
2011	0.055
2010	-1.097
2009	-9.765
2008	-6.503
2007	-3.632
2006	-6.020
2005	-3.508

Figure 1. The arithmetic averageof the ratio of book value to market value for commercial banks from 2005–2014

Figure 2. The arithmetic average of the ratio of benefits to earnings before extraordinary events and discontinued operations from 2005–2014

6.1.3 The Quality of Disclosure

Disclosure quality has been measured by the degree of commitment of the disclosure instructions issued by the Securities Commission, in line with the previous studies of (Hasan et al., 2007; Frost et al., 2006), which searched in the quality of disclosure.

Table 3 shows the annual arithmetic average of the quality of disclosure in the commercial banks during the study period, and the quality scale is divided into degrees starting from zero to five, so that whenever class is increased on the scale the higher the quality of disclosure is, the quality levels has confined between 1.267 in 2005 and 4.097 in 2014, it has been gradated increasingly during the study period with exception in 2010, where it has slightly fallen to return to the gradual climb. It is worth mentioning that the Jordanian disclosure instructions were issued for the first time in 1998, and was applicable in the 1999 data, but the disclosure items which are contained in these instructions are not totally new or unfamiliar, several of them have been applied on a voluntary basis, however it is observed that the level of commitment to these instructions have increased significantly during the study period, particularly after the issuance of these instructions in recent years in particular.

Figure 3 illustrates the general trend of the quality of disclosure that has taken an upward trend during the study period, and this is a self-evident trend as the rapid developments in the banking legislations and that are consistent with the evolution of accounting legislations as well as legislations of Securities Commission that urges companies to disclose with high level of transparency about their data, which aimed to improve the quality of the information disclosed in the annual reports for the banking sector.

It is noted that the last three years of the study have been experienced the highest levels where the averages recorded were higher by three degrees on the quality scale adopted for the purposes of this study.

It is concluded that the quality of disclosure of the data in the annual reports of commercial banks is high (but not quite) in recent years, perhaps due to the evolution of legislations in order to rapidly improve the information disclosed in the reports in a way that helps the investor to make proper investment decisions.

Table 3. The arithmetic average of the level of quality disclosure of financial statements from 2005–2014

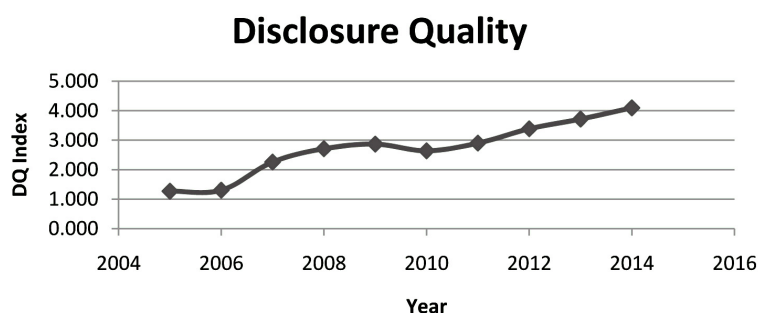| Year	SMA
2014	4.097
2013	3.715
2012	3.385
2011	2.899
2010	2.639
2009	2.865
2008	2.708
2007	2.257
2006	1.302
2005	1.267

Figure 3. The arithmetic average of the level of quality disclosure of financial statements from 2005–2014

6.2 Testing Hypotheses

6.2.1 The First Hypothesis: There Is No Conservatism in Accounting Policies Applied by the Jordanian Commercial Banks

Table 1 shows the arithmetic average of the BTM ratio, it is noted that this ratio has not exceeded 1 throughout the study period, except in 2009 when it is 1.221, which indicates that the commercial banks are using the conservatism in accounting policies, the level of used conservatism by commercial banks has increased up to the maximum level in the last three years of the study. As well as reference to Table 2, which shows the arithmetic

average of the ratio of dues to profits before extraordinary events and discontinued operations, and as has previously shown, this ratio remained most of the study period below zero, which also shows the use of conservatism in accounting policies by the commercial banks.

Despite the contrast level of conservatism in accounting policies for commercial banks which is reflected in each of the two scales used in this study, it can be said that they agree on giving indications of the existence of the level of conservatism, as illustrated in Figures 1 and 2, and therefore the first hypothesis which indicates that there was no conservatism in accounting policies applied by the Jordanian commercial banks is rejected. This conservatism is not surprising from the commercial banks in terms of the nature of their work and the sensitivity of the banking sector as a whole at the level of the national economy.

6.2.2 The Second Hypothesis: The Level of Conservatism in Accounting Policies Does Not Affect the Quality of the Disclosure of the Financial Statements in the Jordanian Commercial Banks

A. BTM ratio does not affect the quality of disclosure of the financial statements of commercial banks:

Table 4 displays the results of the regression analysis to test the effect of BTM ratio on the quality of disclosure for the entire study between 2005 and 2014 period, It is clear from these results that the BTM is not statistically significant as an independent variable which affects the quality of disclosure , as the value of calculated F level of 0.257 and its significance at 0.613, as well as the case for the value of calculated t, amounting to -0.507, and the level of significance of 0.613, indicating a lack of statistical significance of the model or the independent variable used in it. The explanatory power of the model is -0.007 which shows the futility of the independent variable in explaining the change in the dependent variable during the study period.

B. Dues rate to the profits does not affect the quality of disclosure of the financial statements before the extraordinary events and discontinued operations in the commercial banks:

Table 5 shows the results of the regression analysis to illustrate the impact of the relationship between the ratio of dues to profits before extraordinary events and discontinued operations as an independent variable and quality of the disclosure of the financial data as the dependent variable, and the results show that there is a significant statistically impact of the dues to profits ratio before extraordinary events and discontinued operations on the quality of disclosure on the level of significance of 5% as the value of calculated F was 4.43 and significance level was 0.038, while evaluated t was equal to 2.105 and 0.038 level of significance, which is statistically acceptable.

In spite of the presence of statistically significant differences related to the impact of thedues to profits ratio before extraordinary events and discontinued operations on the quality of disclosure, the force of the explanatory model as shown in Table (5) was low, reaching to 0.033, meaning that the change in the independent variable explains only 3.3% of the change in the dependent variable in this model.

Table 4. Results of regression analysis to measure the impact the book valuerelative to market value the quality of the disclosure of the 2005–2014

$DQ_{it} = 2.747 + 0.03TACC_{it} + e_{it}$					
F- test	**Valueof F Calculated**	**The Coefficient Determination R²**	**t-test**	**Valueof t Calculated**	**Variable**
*0.038	4.430	0.033	*0.038	2.105	TACC

Notes. TACC: entitlements relative to earnings before extraordinary events and Discontinued Operations.

DQ: the quality of the disclosure of financial statements.

Results are statistically significantat the 5% level of significance (*).

Table 5. Results of regression analysis to measure the impact of the proportion of entitlements to earnings before extraordinary events and discontinued operationson the quality of disclosurev from 2005–2014

$DQ_{it} = 2.723 - 0.098BTM_{it} + e_{it}$					
Variable	**Value of t Calculated**	**t-test sig.**	**The Coefficient Determination R²**	**F Calculated**	**F-test sig.**
BTM	-0.507	0.613	-0.007	0.257	0.613

Notes. BTM: book valueratio on the market value.

DQ: the quality of the disclosure of financial statements.

7. Results Discussion

This study aimed to measure the level of conservatism in the accounting policies in the Jordanian commercial banks, as well as measure the quality of the disclosure of the financial data level, and then test the effect of the conservatism in accounting policies on the quality of disclosure of financial data.

Therefore, the research has developed a group of hypotheses that aim to achieve the objectives of the study, and has tested these hypotheses, and come up with the following results:

There is a good level of conservatism in accounting policies, based on the fact that the BTM ratio is less than 1 in most of the study period, and this outcome agrees with (Krishnan & Visvanathan, 2007) and (Ahmed & Duellman, 2007) and (Lara, Osma, & Penalva, 2007) and (Ahmed & Duellman, 2005) and (Beaver & Ryan, 2000).

And the same result above is confirmed using the dues to profits ratio before extraordinary events and discontinued operations, this ratio is negative in most of the study period, suggesting a level of conservatism in accounting policies in the Jordanian commercial banks, and agrees with the results of each of (Krishnan & Visvanathan, 2007) and (Ahmed & Duellman, 2007) and (Watts, 2002) and (Givoly et al., 2007).

It is concluded that there is a level of conservatism in accounting policies adopted by the Jordanian commercial banks, and it is believed that this conservatism is a characteristic of the banking sector in Jordan and other countries. The study also found that there is a high level of quality of disclosure in Jordanian commercial banks, especially in recent years of the study, and it is gradually increased over up the life of the study, which is an expected result probably due to the development of the accounting and regulatory legislations through the time, as the Accounting Standards related to disclosure has been continuously evolving and the disclosure regulations issued by the Securities Commission has accompanied this development, looking for the best level of disclosure, which suits the interest of the investors and their need for timely and accurate information about the results of the companies targeted by them as investments.

In regard to test the effect of the conservatism in accounting policies on the quality of disclosure of financial data, the results of the tests has shown lack of a statistically significant effect for the ratio of BTM on the quality of disclosure, while the ratio of dues to profits before extraordinary events and discontinued operations impact has a statistically significance on the quality of disclosure.

8. Recommendations

After the results are extracted and discussed, numbers of recommendations are represented as follows:

1). The necessity to alleviate the use of conservative accounting policies, as the results of the study have shown that the commercial banks adopt conservatism in the accounting policies, especially in the last three years, and this contrasts with the orientations of the International Accounting Standards and other accounting bodies that has started to adopt accounting policies that are limiting the conservatism, because it would lead to a distortion in the accounting data, especially after the issuance of IAS 39 (International Accounting Standard).

2). Conduct studies to test the level of conservatism and its impact on the quality of disclosure in sectors other than the banking sector, and conduct comparisons between the results of the analysis and make interpretations for causes. As well as the impact of the sector, which the enterprise is belonging to, on the level of conservatism in accounting policies adopted by these enterprises.

3). Conduct this study again by using other measures of conservatism, as a measure of C-Score or the measure of the relationship between stock returns and profits which is known as the Basu scale.

4). Develop a long-term database by the Securities Commission, so that the research can easily access the information needed to achieve the objectives of the Commission and for the achievement of transparency, as this study data was collected with great difficulty.

5). Formation of a competent authority in the Securities Commission concerned with issuing a periodic bulletin about the level and quality of disclosure in the companies listed in Amman Stock Exchange, so this body defines the criteria of quality evaluation, either by the extent of compliance with the disclosure, or by determine other criteria after consulting the specialists in this area, taking the experience of the developed countries as an example, as the quality of disclosure is difficult to be measured.

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