



The Role of International Accounting Standard 39 in Disclosing Financial Derivatives/ Financial Instruments in the Financial Statements of Jordanian Banks Listed on the Amman

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Abstract:

This study objective to know the nature of financial derivatives of both types (stocks and bonds) and the role of International Accounting Standard (39) in disclosing them in the financial statements, in addition to identifying their problems, how they are dealt with, and what is the mechanism for disclosing them in accordance with international accounting standards.

The study used the content analysis method to determine the volume of disclosure of financial derivatives in the financial statements of a number of Jordanian banks registered on the Amman Stock Exchange.

The descriptive analytical method was also used in the theoretical aspect

The study showed through the conclusions that the financial reports of Jordanian banks have dealings with financial instruments and that the banks have applied the standard, but only partially and in accordance with the standard (39 Financial Instruments: Recognition and Measurement), which led to a significant improvement in the measurement and disclosure of financial instruments (stocks and bonds). Thus, the auditor is able to give an impartial technical opinion

The study presented several recommendations, the most important of which are: the need to pay attention to applying Accounting Standard 39 completely and not partially for the purpose of being able to compete internationally and not just at the local level through developing and qualifying employees/and resorting to foreign companies specialized in the field of applying international accounting standards.

Keywords: IAS, IFRS, Financial derivatives, forwards, swaps, Commodity.

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Introduction

The tremendous development in all fields, including means of communication, has made the world a small village and made it easy for anyone to invest in any country they wish to work in. This investment is achieved according to controls that regulate work, and these controls that regulate work in the financial and banking sector are international accounting standards. Due to the increase in competition between financial institutions, including banks, and their desire to move from competition at the local level to the international level, they must adhere to applying these standards, which number 25 IAS. 16 IFRS, these standards represent a unified language for all countries of the world and for all investors if they are applied correctly, and one of the most important types of investment is investment in financial instruments (stocks and bonds) or what are recently called financial derivatives, which is one of the areas of

development in the field of investment and finance 16 IFRS, these standards represent a unified language for all countries of the world and for all investors if they are applied correctly, and one of the most important types of investment is investment in financial instruments (stocks and bonds) or what are recently called financial derivatives, which is one of the areas of development in the field of investment and finance if it can Reducing the risks of fluctuations in foreign currency, interest, or commodity prices and increasing investment and financing of economic units if used efficiently or effectively, as dealing in financial derivatives has become an investor's confidence and is the main element for efficient operation in financial markets, and contributes to achieving stability and economic growth by increasing liquidity. Finance in banks, raising the efficiency of their work, and enhancing the chances of success of financial institutions in managing various financial risks.

However, dealing with financial derivatives on a large and exaggerated scale / was one of the reasons for the occurrence of financial collapse, bankruptcy and losses for a large number of companies and banks / and the reason is the lack of fair disclosure by those institutions and giving incorrect information when disclosing financial statements and derivatives.

Therefore, the auditor is also misled, and this leads to giving an incorrect technical opinion and thus causing losses. This led to the International Accounting Standards Board issuing Standard 39 (Financial Instruments: Recognition and Measurement), which regulates and unifies the process of disclosing financial derivatives. Many institutions announced that they I applied this standard, but the application is still partial, and this is not enough, so that the auditor can give his opinion impartially, thus misleading the beneficiaries and causing huge losses.

Study Problem:

Although Jordanian banks announced the implementation of international financial reporting standards, the implementation is still partial, and this causes many problems that can therefore be identified

- 1- How much is the application of Standard 39 regarding financial derivatives and their disclosure?
- 2- Is disclosure and partial application appropriate and useful to the audience of beneficiaries and decision makers?

Study hypothesis:

Despite the application of Accounting Standard 39 by Jordanian banks, the application is still partial and does not meet the purpose for which it was designed.

Research objectives:

- 1- Presenting the importance of applying international accounting standards, especially Standard 39 with regard to financial derivatives, and explaining the risks of using them and how to disclose them.
- 2- How are financial risks managed using financial derivatives.
- 3- The extent to which the public benefits from disclosure of these financial derivatives.

Research importance:

The importance of the topic lies in the importance of dealing with financial derivatives and the danger of dealing with them, especially after the bankruptcies that occurred and the global financial crisis.

It has become necessary to address the effects of potential risks resulting from the use of these tools in daily dealings in the field of investment as a result of the need for modern financing methods and the need for them to be fully and duly disclosed in the financial reports and not partially.

The study advances our understanding of the informational needs of lenders, a significant group of consumers of financial data, and backs up requests from industry for businesses to enhance the way they disclose serious economic risks.

Search tools:

- 1- In the theoretical aspect, books, references, and solid research were used.
- 2- On the practical side, the content analysis method was used for a number of Jordanian banks listed on the Amman Stock Exchange.

Search limits:

- 1- Spatial limits: (Union Bank, Jordan Commercial Bank, Bank of Jordan, Investment Bank, Cairo Amman Bank).
- 2- Temporal limits: Financial reports of the research sample banks for the years 2021 and 2022.

To achieve the objective of the study, it was divided into three sections. The first section included the theoretical aspect, the second section included the practical aspect, and the third section included the conclusion.

The first topic

Financial derivatives and disclosure

Despite the fact that derivative financial instruments are widely used by corporations, their significance, and their frequent linkage with financial scandals, companies have a notoriously hard time summarizing risk management procedures, end-of-period balances, and within-period performance related to derivatives in a clear and concise manner. Although the International Accounting Standards Board (IASB) and its predecessor have spent the majority of the last 25 years working on projects pertaining to financial instruments, there has been growing concern from practice that disclosures are becoming longer while providing less information value and are of low quality (Bean & Irvine, 2015, 1).

Financial contracts with a value contingent on the value of the underlying asset are known as financial derivatives. These are intricate financial instruments that can be used for a variety of speculative activities with the possibility of large rewards, such as hedging and gaining access to new markets and assets (Yang, 2024, 5).

Adherence to disclosure standards to the letter is not a global occurrence. Numerous investigations demonstrate that there is insufficient adherence to derivative disclosure standards. After looking at the disclosure of seven different countries—the United States, the United Kingdom, France, Japan, Sweden, the Netherlands, and West Germany—it was discovered that disclosures in American and British corporations are higher than those in other nations. However, there has been a noticeable improvement in the derivative disclosures since the introduction of statutory regulations on financial instruments. Since its issuance, the necessity of the mandatory accounting and reporting method for derivatives has garnered significant scholarly interest. The studies on the evaluation of derivative disclosures in the accounting literature have split into two categories. First, a subset of research has looked at how listed companies have responded to mandatory disclosure requirements for derivatives in order to assess the quality of derivative disclosures. Another subset of research has focused on how information disclosure affects the performance of

financial market aggregates like stock price, stock returns, and trading volume (Kota & Charumathi, 2018, 64).

Types of derivative financial instruments

1- optional contracts : The application of flexible contracts in finance Banks employ option contracts to protect themselves against market risks, namely interest rate and currency rate risks. It is assumed that a notional value (amount of money or bonds) will be used in the optional contracts that employ the interest rate and the exchange rate as the supporting asset. You can profit from the favorable evolution of the exchange rate and insure against its fluctuations with the flexibility of exercising options. Depending on whether a currency position is long or short and the kind of options utilized (stock or over-the-counter), exchange rate risk coverage varies (Radulescu, et al, 2024,948).

2- forwards: A forward contract is a derivative agreement that can be customized between two parties to purchase or sell an asset at a predetermined price at a later time. Forward contracts can be made to fit a particular commodity, quantity, and delivery window (Lenee & Oki, 2017, 3).

3- futures: Financial contracts known as futures are derivatives that bind the parties to exchange an item at a specific future date and price. Regardless of the market price at the expiration date, the buyer or seller must acquire the underlying asset at the agreed-upon price (Vashishtha, & Kumar, 2010, 19).

4- swaps: A swap is a type of derivative transaction wherein two parties trade the liabilities or cash flows from two distinct financial instruments. Although the security can be nearly anything, most swaps involve cash flows based on a notional principle amount associated with a loan or bond (Gupta, 2017, 16).

5- Commodity Derivatives: Eighteen commodity exchanges spread around the nation sell futures contracts in commodities such as pepper, turmeric, jaggery, jute fabric, jute sacking, castor seed, potato, coffee, cotton, and soybeans, as well as their derivatives. Trading in oilseeds, oil cakes, and other edible oils in futures has been allowed. It is anticipated that futures trading in the new commodities, particularly edible oils, will start soon. The benefits of trading sugar futures contracts are being investigated by the sugar industry (Rao, 2012, 58).

Risk management through financial derivatives

The objective of risk management is to manage risk, not eliminate it. This involves minimizing risks that a company does not want while carefully selecting the risks that it is comfortable with. Financial derivatives were helpful in achieving risk management objectives (Bartram, 2019, 5). Derivatives allow for the efficient unbundling and autonomous management of risks associated with traditional instruments. Derivatives can boost profits and reduce costs when used properly. Financial derivatives can be used to speculate by taking an apprehension in front of a market movement, or they can be used to hedge against undesirable risk (Jarrow & Chatterjea, 2024, 12). These days, businesses can use financial derivatives to actively search for certain risks and make predictions about the direction of movements in interest rates or exchange rates, or they can use derivatives to protect themselves from unfavorable risk (Rao, 2012, 58).

Financial instruments:

In order to improve national economies, one of the most important things to do is to ensure and promote sustainable economic growth. Each state creates an innovative sector and employs various financial tools to achieve this goal. involves assessing how financial innovations and instruments affect the business environment to establish a favorable and productive business climate for foreign investors (Khalatur, et al., 2019, 275).

Financial instruments are assets that can be traded in financial markets, which means that stocks are a type of instrument, as are commodities and bonds. Even cash is considered a type of financial instrument, and in fact, the most traded instruments by market volume are currencies, with the Forex market being the largest trading market in the world. The most popular assets that are not technically classified as instruments are usually commodities, although derivatives on commodities are considered financial instruments. Financial instruments can be physical or virtual, or a combination of the two (Abdullatif & Jasim, 2014,2),(Abdul hammed & homada,2018,289).

Financial instruments are divided into:

1. **Stocks:** Common and preferred stocks are the two categories of stock that can be listed on a stock market. The kind of stock that allows for dividend payments and voting at shareholder meetings is known as common stock. Although preferred stock often does not allow for voting, owners will be entitled to dividends more readily than common stockholders (Mohamed & hantosh,2017,155).

2. **Bonds:** are a way for governments or companies to borrow money from investors usually at a fixed interest rate. When you buy a bond, you are effectively lending money to the issuer of the bond, for a set period of time, known as the term. The interest rate is known as the coupon (Hasan&Abbas,2016,29).

3. **Forex:** The process of converting one currency into another is also referred to as forex trading or foreign exchange trading. With an average daily trading volume of \$2 trillion, it is among the world's most active trading markets (Abdul hammed & homada,2018,289).

4. **Investment funds:** are characterized as financial instruments for investing that pool the capital of several investors and manage it in accordance with a particular investment strategy and goals established by the fund manager to obtain investment advantages that an individual investor cannot obtain on his own given the limited resources at his disposal (Halland et al, 2016,1).

5. **A cash deposit :** is the sum of money that you deposit into your bank. Your money is kept secure by the bank until you choose to take it out. Cash deposits are not limited to just cash; they can also take the form of money transfers or checks deposited into an account. The bank account you use to deposit the funds is liable (Goel & Kumar,2016,73).

6. **Precious metals:** Precious metals act as a buffer against economic collapse, political unpredictability, market volatility, and weak currencies. For thousands of years, gold and silver have been utilized as currency in most parts of the world because of their distinct chemical makeup, physical rarity, and ease of formation (Hammoudeh et al. ,2011,435).

Disclosure and IAS 39

IAS 39 is the only norm for disclosure, measurement, and recognition that is the subject of this work. Thus, it is appropriate to go over its theoretical goals in brief, focusing on the goal of high-quality disclosure. High-quality disclosures should be produced for both financial statement preparers and auditors, according to certain viewpoints. The study will first examine the auditors' argument before moving on to examine matters pertinent to financial statement preparers.

Two categories of financial liabilities and four categories of financial assets are covered individually by International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39). This could change as IAS 39 will be completely replaced by International Financial Reporting Standard 9 Financial Instruments (IFRS 9), which has an early acceptance clause beginning with 2009 year-end financial statements. All financial assets that are presently covered by IAS 39 are classified into two groups under IFRS 9: those measured at amortized cost and those measured at fair value, financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-

maturity investments, financial assets available for sale, and other financial liabilities are the various categories. Depending on the kind of instrument, there are differences in the first recognition, subsequent measurement, and recognition in the Statement of Comprehensive Income. Here are some further definitions of these categories of financial asset and liability along with other pertinent details (Bamber,2011,2).

The Current Framework of the IASB emphasizes the significance of disclosure in guaranteeing compliance with the qualitative attributes of financial data, which include timeliness, relevance, fair representation, comparability, understandability, and verifiability. The quality of disclosure has been singled out and criticized throughout the recent financial crisis for its lack of information utility, despite the IASB's emphasis on the necessity of disclosures (ALAMI & OUEZZANI,2021,1).

Evidence from more recent research revealed that the following factors affected financial instrument disclosures: listing status, size, auditor type, and economic sector. Due to the UK's stringent enforcement, size, multi-nationality, cross-listing, and regulatory supervision, (Bamber,2011,26).

The second topic

Measuring the size of the study sample banks' application of standard 39

In this study, we tried to clarify the extent of transparency in the disclosure of financial derivatives for a number of Jordanian banks and the extent of their compliance with Standard 39. To test this, we used the content analysis method by measuring the requirements of Standard 39 for the disclosure of derivative financial instruments that were actually shown in the financial statements of banks and comparing them with the requirements of Standard 39 to find out The level of disclosure and commitment to applying the standard

The research was applied in a number of Jordanian banks listed on the Amman Stock Exchange for the year 2022, which number (5). Table No. (1) summarizes the results of the analysis.

Table number (1). Disclosure requirements of Standard 39 regarding financial derivatives

N.	Disclosure requirements for Standard 39	Total expected disclosure from banks	Total actual disclosure from banks	Disclosure rate
1	Clearly disclose the mechanism for estimating the fair value of carried financial assets and liabilities	5	1	20 %
2	Disclosure of whether purchases and sales of financial assets have been accounted for on the trade date or the settlement date.	5	3	60 %
3	Disclosure of financial instruments that are considered hedging instruments and their fair value at the balance sheet date	5	4	80 %
4	Disclosure of financial risk management policies, including hedging for each major type of forecasted operation	5	4	80 %
5	Disclosure of the periods during which the forecasted operations are expected to occur and which are not expected to cause profits or losses.	5	4	80 %
6	Disclosure of the nature of the risks being hedged	5	4	80 %
7	Disclosure of financial assets that cannot be measured at fair value	5	4	80 %
8	Disclosure of important items of expenses, revenues, profits and losses resulting from financial assets and liabilities.	5	5	100 %
9	General disclosure of total interest income and expenses on a historical basis	5	4	80 %
10	Disclosure of interest income accrued on loans whose value has decreased and which has not yet been received	5	3	60 %
11	Disclosure of repurchase operations and the remaining undistributed interest from those operations that occur during the financial reporting period	5	4	80 %
12	Disclosure of the reason for reclassifying a financial asset as an asset required to be reported at the amortized cost amount and not the fair value amount.	5	4	80 %
13	Disclose the nature and amount of any impairment loss recognized for a financial asset, separately for each significant class of financial assets.	5	3	60 %
14	Disclosure of exclusion operations	5	1	20 %
15	Disclosure of composite financial instruments	5	0	0 %
16	Disclosure of the conditions of guarantees when a lender	5	5	100 %
17	The bank discloses the fair value of the collateral that has been sold or remortgaged when it is a lender	5	4	80 %
18	Disclosure of the fair value of financial guarantees that have been accepted and are permitted to be sold or remortgaged upon lending.	5	3	60 %
19	Disclosure of the carrying value of financial assets pledged as collateral for obligations in the event of borrowing	5	3	60 %
20	Disclosure of whether profits and losses resulting from changes in the fair value of financial assets prepared for sale are recognized directly in equity until the financial asset is disposed of.	5	3	60 %

We note from the table above that the disclosure requirements for applying Standard 39 were presented. Among these requirements is a description of the nature of the risks that were hedged, as well as the use of fair value and a description of the financial derivatives found within the standard.

We also note that there are two types of disclosure:

A- Descriptive disclosure found in notes, performance reports, and other parts of the annual report

B- Quantitative disclosure found in the financial statements

We note from the table the following:

1. The disclosure of the fair value of financial derivatives by all banks in this study was at a high rate, and this is a good indicator of the policy of consolidating the financial statements, which is aimed at applying international accounting standards.
2. There is a clear impact of measuring financial derivatives and measuring assets and liabilities at fair value, which reflects a more accurate financial position and is beneficial to the users of those financial statements.
3. There is a high rate of disclosure of hedge accounting to avoid the huge losses that occur in banks, and this indicates compliance with Accounting Standard 39.
4. We note from the table that paragraphs (1, 14, 15) have a very weak application. This indicates that the application is partial and banks still need to adhere to applying this standard better.
5. We note that there are no financial derivatives outside the balance sheet, which is required by applying Standard 39.
6. We note that all banks have disclosed purchase and sale transactions or agreements, meaning that they are committed to repurchasing the assets sold at a future date specified in the statement of financial position, such as bonds acquired for trading purposes.
7. We note from the table that paragraphs (8, 16) were fully implemented by all banks.

From the above, we can accept the research hypothesis that says: Despite the application of Accounting Standard 39 by Jordanian banks, the application is still partial and does not meet the purpose for which it was designed.

Conclusion:

We note that the Jordanian banks in the study sample, which are 5 banks, have applied international accounting standards, but when we address the paragraphs of Accounting Standard 39, it becomes clear that there is a partial application and that banks need to have a comprehensive application due to the danger of such a type of partial application, which may cause disasters, including not giving a correct technical opinion to the auditor, and thus wrong decisions are made for the beneficiaries of these disclosures, and thus there are financial collapses and thus losses. Therefore, researchers advise these banks to resort to full application and not partial by resorting to foreign companies specialized in the field of application and not making mistakes that may cause major bankruptcy and sudden major losses, and thus the purpose for which the international accounting standards were designed is achieved.

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