

IFRS AND CONDITIONAL ACCOUNTING CONSERVATISM: AN EMPIRICAL STUDY OF BANKS IN EGYPT AND THE UAE

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Abstract

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The aim of the study is to explore the determinants of conditional accounting conservatism for banks in Egypt and the UAE over the period 2008-2013. Multiple regression techniques are used to investigate the relationship between conditional accounting conservatism as a dependent variable and the independent variables represented by international financial reporting standards (IFRS), Global financial crisis, level of market competition, bank size and bank age.

The results revealed that IFRS, Global financial crisis, level of market competition, have significant influence but bank size and bank age have no significant influence on conditional accounting conservatism for banks in Egypt and the UAE.

These results are expected to be beneficial for the banking and accounting regulators to recognize the factors which are important in explaining the reasons for the practice of conditional accounting conservatism. This study contributes to the literature on the causes of conditional accounting conservatism in banks at the emerging economies context through investigating whether accounting environment has an impact on conditional accounting conservatism in the banking industry in Egypt with local accounting standards environment compared to the UAE with IFRS environment and this should lead to a better understanding for the role of accounting environment in explaining conditional accounting conservatism.

Keywords: IFRS, Conditional Accounting Conservatism, Banks, Egypt, the UAE

1. INTRODUCTION

Conservatism in accounting is an approach to control the reaction of the management to the good news by not counting for it unless it happened and bad news by counting for it even if it did not happen, aiming to avoid understatement of liabilities and expenses or overstatement of assets and revenues which in turn increase the creditability of the reported financial information (see for instance, Hellman, 2008, Watts, 2003; Basu, 1997).

Previous studies pointed out numerous benefits for accounting conservatism and of these are: Lin et al. (2017) on a sample of all firms listed on the Taiwan Stock Exchange over the period 2006-2014 investigated the influence of conservatism on

the value of cash holdings and the results show that conservatism has a positive impact on the value of cash holdings.

Ettredge et al. (2016) used all class action securities lawsuits filed in federal courts over the period 1996-2011 to study the impact of accounting conservatism on litigation and found that accounting conservatism is a protection from litigation risk.

Khalifa and Othman (2015) on a sample of firms in 13 MENA countries over the period 2004-2007 examined the impact of conservatism on the cost of equity capital and the results revealed that conservatism has a negative impact on the cost of equity capital.

Lee et al. (2015) studied using a sample of all

available firms in the Compustat over the period of 2003-2009 the impact of conditional conservatism on audit fees and found that in the existence of corporate governance quality, there is a positive relationship between conditional accounting conservatism and the audit fees.

Chen and Zhu (2013) using a sample of 45 firms in China over the period 2005-2007 investigated the relationship between conservatism and both of cost of debt and financial cost and found that conservatism is an indicator of high reporting quality which in turn help in reducing the cost of long-term maturity debt and financial cost.

The results of the study of Kim and Pevzner (2010) on a sample of all available firms in the Compustat in 2006 revealed that higher conditional conservatism leads to less future bad news about earnings and dividend. In addition, conditional conservatism has an impact on the shares prices.

The study of the results of Zhang (2008) on a sample of 327 firms in 2003 revealed that lenders tend to offer lower interest rates for the conservative borrowers.

In addition, conservatism is helping in enhancing the quality of earnings, disclosure, and corporate governance (see, for instance, Lara et al., 2007, Paprocki & Stone, 2004, Penman and Zhang, 2002 and Ball, 2001). Moreover, conservatism is useful in resolving the agency problem between management and shareholders and minimizing the income tax liability (see, for instance, Ahmed & Duellman, 2007, Watts 2003 and Watts & Zimmerman, 1986).

The discussion above showed the diverse benefits of accounting conservatism and hence examining the factors which are affecting it is important.

The present study is aiming to investigate the determinants of conditional accounting conservatism for banks in Egypt and the UAE. Previous studies about conditional accounting conservatism can be classified into two groups, one focused on a single country with local accounting standards or IFRS environment and the other concentrated on countries with local accounting standards or/and IFRS environment in non-emerging economies. The uniqueness of this study is the inclusion of both environments for emerging economies represented by Egypt with local accounting standards environment and the UAE with IFRS environment.

The results of this study are expected to be informative to the users of accounting information in Egypt and the UAE because it addresses to what extent the accounting standards might have a role in explaining conditional conservatism through applying the study model in Egypt with local accounting standards and the UAE with IFRS.

The following sections of this study are organized as follows: section two explains the meaning and measuring of conditional accounting conservatism, section three discuss the development of the hypotheses, section four addresses the research methodology, section five presents the results, and section six is the conclusions.

2. LITERATURE REVIEW: MEANING AND MEASURING OF CONDITIONAL ACCOUNTING CONSERVATISM

Several definitions for conservatism have been addressed in the accounting literature and of these are: Bliss, (1924) argued that conservatism is a process to recognize the probable losses rather than probable profits. Watts and Zimmerman, (1986) indicated that conservatism is a process of reporting the lowest value for assets and the highest value for liabilities. Feltham and Ohlson, (1995) referred to the conservatism as an approach to recognize the value of goodwill which is disappeared because of exaggeration of expenses/losses or understatement of revenues/gains.

Unconditional and conditional are two types of accounting conservatism. Unconditional conservatism is an independent method to report unjustifiable conservatism such as treating research and development costs as expenses and accelerating depreciation. Conditional conservatism is a dependent reporting method which is relying on the occurrence of an economic event to report the accounting value. i.e. the lower of cost or net realizable value to report the value of inventory (see for instance Beaver and Ryan, 2000 and Penman & Zhang, 2002).

Conditional conservatism can be defined as an approach to avoid the recognition of inflated values for revenues/gains/assets or deflated values for expenses/losses/liabilities.

Several studies have been conducted to investigate the determinants of accounting conservatism and of these are:

The results of the study of El-Bannany (2017) for a sample of banks in the UAE over the period 2006-2013 about the influence of the performance of intellectual capital, the structure of the market, protection against risk level, the size of bank, and profitability of bank on accounting conservatism and revealed that all factors except bank size have negative impact on accounting conservatism. Bank size has a positive effect on accounting conservatism.

Arabiat and Khamees (2016) investigated the influence of mandatory IFRS adoption on conditional conservatism for listed companies in Jordan over the period 2002-2007 and found that IFRS has a negative influence on the conditional accounting conservatism.

Jans (2016) examined the impact of CFO gender and binding gender quotas on accounting conservatism for a sample of listed IFRS adopted European companies over the period 2011-2014 and found that both female CFO and binding gender quotas have a positive impact on accounting conservatism.

Liao and Radhakrishnan (2016) using a sample of firms in the US explored the impact of the auditor's insurance role on reporting conservatism and found that there a negative relationship between the auditor's insurance role and reporting conservatism.

Khurana and Wang (2015) studied the influence of debt maturity structure on accounting conservatism for a sample of all firms on the

Compustat over the period 1985-2007 and found that term maturity debt has a negative impact accounting conservatism.

Kanagaretnam et al. (2014) examined for a sample of worldwide banks in the BankScope database over the period 2000-2006 impact of national culture represented by individualism and uncertainty avoidance on accounting conservatism and found that both individualism and uncertainty avoidance are negatively associated to conservatism.

Suleiman and Anifowose (2014) investigated the impact of corporate governance mechanism represented by CEO duality, board size, board composition and managerial shareholding on accounting conservatism for listed food and beverages companies in Nigeria over the period 2003-2010. The results showed that influence of board size is significantly negative and influence of board composition is significantly positive in relation to accounting conservatism but the impact of CEO duality and managerial shareholding is insignificant.

Brito, et al. (2013) examined the impact of state ownership on the conditional conservatism for all banks in Brazil for the year 2010 and found that state ownership has a positive influence on accounting conservatism.

Leventis et al. (2013) tested the impact of the level of effectiveness of corporate governance structure on accounting conservatism for a sample of listed US commercial banks over the period 2003-2009 and found that there is a positive relationship between the level of corporate governance structure and accounting conservatism.

Ahmed and Henry (2012) using a sample of listed firms in Australia over the years 1992-2002 studied the impact of voluntary audit committee formation, increasing board independence and decreasing board size on conditional and unconditional accounting conservatism. The results revealed that the impact was negative for conditional accounting conservatism and positive for unconditional accounting conservatism.

Hui, et al. (2012) provide empirical evidence to the contracting explanation for accounting conservatism through investigating the influence of bargaining power of corporate suppliers and customers listed in the US IBISWorld reports for the year 2008 on accounting conservatism. The results revealed that there is a positive relationship between bargaining power of corporate suppliers and customers and accounting conservatism.

Hamdan et al. (2011) studied the impact of company size, debt contracts, and the industry type of accounting conservatism for 225 listed companies in Kuwait for the year 2009. The results showed that the impact of between company size and debt contracts on accounting conservatism is negative. In addition, the financial industry is more conservatism than others.

Lara et al. (2009) examined the impact of contracting, litigation, taxation and regulation on accounting conservatism for a sample of 10,873 firms in the US over the period 1964 to 2005 and found that contracting encourages only conditional conservatism but litigation, taxation, and regulation encourage both conditional and unconditional conservatism.

Xia and Zhu (2009) studied the impact of leverage, control of ultimate shareholders and level of management ownership on accounting conservatism for a sample of listed companies in China over the period 2001-2006 and found that the influence is positive for leverage but negative for control of ultimate shareholders and level of management ownership.

Qiang (2003) explored for a sample of 596 firms over the period 1988-99 in the COMPUSTAT the reasons for chosen some companies practicing of accounting conservatism and found that the reasons are litigation costs, auditor liability, board structure, debt ownership and political costs.

From the above, it can be noticed that most of the previous studies about the determinants of conditional accounting conservatism concentrated on non-emerging economies and there was no consistency in choosing certain explanatory factors to describe the reasons for the variation in conditional accounting conservatism practices.

In addition, some of these studies focused on a single country with local accounting standards or IFRS environment and the other concentrated on countries with local accounting standards or/and IFRS environment.

The uniqueness of this study is the inclusion of both environments for emerging economies represented by Egypt with local accounting standards environment and the UAE with IFRS environment using a new study model.

Numerous measures have been considered in the conservatism literature such as asymmetric timeliness of earnings, negative accruals, market-to-book ratio, hidden reserve, asymmetric accruals-to-cash-flow and the book-to-price ratio (see, for instance, Ball and Shivakumar, 2005, Penman and Zhang, 2002, Givoly and Hayn, 2000 and Basu, 1997).

The conditional conservatism literature did not provide evidence that certain measure is better than another and as such the present study will adopt Penman (2013) approach to calculate the conditional conservatism as follow:

Conditional Accounting Conservatism (CAC)_{it} = *Net Income before Tax for Bank i in Year t* - *Operating Cash Flow for Bank i in Year t*.

3. FORMULATION OF HYPOTHESES

The accounting and banking literature addressed many factors which have an influence on the conditional accounting conservatism but the ones which can be considered as relevant in the context of Egypt and the UAE are international financial reporting standards, global financial crisis, level of market competition, bank size and bank age. These are now considered in turn in more detail.

3.1. International financial reporting standards

Ewert and Wagenhofer (2005) argued that the adoption of IFRS should alleviate the accounting prejudice and increase earnings quality by limiting managers' choice over accounting approaches and hence increase the level of conditional accounting conservatism.

Basu (2005) argued that the practice of certain conditional accounting conservatism policies such as the lower of cost or market value to report the value of ending inventory and assets write off might have a negative impact on the contribution IFRS adoption. In other words, might make no difference between adopting or not adopting IFRS.

Hoogendoorn (2006) argued that IFRS as a principle-based accounting approach rather than rules-based accounting approach and hence can be considered as a relevant environment to encourage accounting conservatism practice.

The practice of conditional accounting conservatism is adopted internationally with IAS 37, IAS 38 and IFRS 3 being evidence for that (Piot, et al., 2015). They argued that IAS 37 have a tendency limit the undue use of provisions through preventing the provisions for future losses and hence avoid the overstatement of liabilities. In addition, the IAS 38 requirement for recognizing eligible internal intangible assets such as development expense should lead to increase in conditional accounting conservatism practices i.e., counting for depreciation. Moreover, IFRS 3 replaced the amortization approach of goodwill with the impairment tests (in case of infinite life) and depreciation (in case of finite life) which in line with news-dependent rather than a news-independent approach in accounting treatments.

Several studies have been conducted to investigate the impact of IFRS adoption on the behavior of the companies to practice accounting conservatism approach and of these are:

Marzuki and AbdulWahab (2016) using a sample of 1760 firm-year observation over the period 2004 - 2008 in Malaysia examined the impact of IFRS adoption on conditional accounting conservatism and found the influence is positive.

Andre et al. (2015) for a sample of 13,711 firm-year observations representing 16 European countries over the period 2000-2010 investigated the influence of adoption of IFRS on conditional conservatism. The results indicated that there is a negative relationship between IFRS adoption and conditional conservatism.

Andre et al. (2015) studied using a sample of 787 firms using French GAAP and 839 firms using IFRS over the period 2001-2007 the influence of the adoption of IFRS on conditional conservatism. They found that the adoption of IFRS led to a reduction in the conservatism.

Manganaris, et al. (2015) for a sample of 464 banks from 15 countries in Europe over the period 1998-2011 explored the effect of the adoption of IFRS on conditional conservatism. The results pointed that IFRS adoption led to a reduction in the conditional conservatism.

Piot et al. (2015) studied for a sample of 2,973 firms over the period 2001- 2008 the impact of IFRS adoption on conditional accounting conservatism and found reduction in conservatism as a result of adopting IFRS.

Elshandidy and Hassanein (2014) examined the impact of IFRS adoption on accounting conservatism for FTSE 100 nonfinancial firms over the period 2002-2007. They found that conservatism is decreased because of the adoption of IFRS.

Istrate (2013) studied the impact of the IFRS adoption on conditional conservatism for a sample of 600 firms listed on Euronext markets for 2011. The results revealed that the adoption of IFRS led to a reduction in the conservatism.

Ke et al. (2013) investigated the impact of IFRS adoption on the conservatism for different samples from listed firms from 17 European countries. The results for the sample of non-financial firms showed that the mandatory IFRS adoption has no influence on the accounting conservatism. For the sample of financial firms located in robust legal implementation countries, the results pointed that there is a positive relationship between the mandatory IFRS adoption and accounting conservatism. For the sample of financial firms located in feeble legal implementation countries, the results showed that there is a negative relationship between mandatory IFRS adoption and accounting conservatism.

Lai et al. (2013) studied the impact of IFRS adoption on conditional conservatism for a sample of all non-financial firms listed on the Australian Securities Exchange over the period 1993-2009. The results revealed that IFRS has a negative influence on conditional conservatism.

Zhang (2011) using a sample of 97 listed companies in New Zealand over the period 2000-2009 investigated the influence of IFRS adoption on conditional accounting conservatism. He found that the impact is positive.

Hence, from the above discussion, the first hypothesis is:

H1: There is a relationship between conditional accounting conservatism and the adoption of international financial reporting standards.

3.2. Global financial crisis

The consequences of the global financial crisis have been addressed in the literature.

Shahzad et al. (forthcoming) investigated the impact of the global financial crisis on audit quality of a sample of US financial and non-financial companies and found that there is a positive relationship between global financial crisis and audit quality.

Caporale, et al. (2017) studied the influence of global financial crisis on banks performance in MENA region and found that during the crisis domestic banks with lower operating risk are better foreign banks with higher operating risk.

Gulati and Kumar (2017) examined the influence of the global financial crisis on the profit efficiency for Indian banks. The results showed that profit efficiency of banks declined during the global financial crisis.

Moradi-Motlagh and Babacan (2015) explored the influence of the global financial crisis on the efficiency of Australian banks. They found that the global financial crisis had a negative impact on the efficiency of Australian banks.

Based on the results of the above studies, it can be argued that the existence of the global financial crisis might lead to negative perception by the users of accounting information about the credibility of this information which in turn might have a positive

impact on the practicing of conservatism approach to build up a confidence in the accounting information.

Enormous studies have been shown to examine the effect of the global financial crisis on the adoption of accounting conservatism technique and of these are:

Al-Hroot et al. (2017) examined the influence of financial crisis on accounting conservatism for a sample of all commercial banks in Jordan over the period 2005-2011. They found the accounting conservatism is increased during the crisis period.

Gharibi and Nemati (2015) using a sample of 93 companies listed in Tehran Stock Exchange over the period 2007- 2014 examined the influence of financial crisis on the accounting conservatism is negative.

Leune (2014) investigated the influence of financial crisis on accounting conservatism for a sample of 54 listed Dutch firms over the period 2005 to 2013. He found that the conservatism is decreased during the crisis period.

Sodan et al. (2013) for a sample of 1,426 observation from listed companies from Central and Eastern Europe over the period 2002-2011 investigated the influence of financial crisis on accounting conservatism and found that the impact is negative.

Pothof (2011) studied the impact of financial crisis on accounting conservatism for a sample of 138 Dutch family and non-family firms over the period 2006-2009. The results revealed that there is no impact on non-family companies but for the family companies the impact is negative.

So, from the above argument, the second hypothesis is:

H2: An association exists between conditional accounting conservatism and global financial crisis.

3.3. Level of competition in the market

Markets can be classified based on the level of competition into the competitive based market and monopolistic based market. In the competitive based market, all firms have equal opportunities to achieve a normal level of profits and hence might be motivated to adopt the conservative approach. In the monopolistic based market a few number of firms which are dominating the market as a result of their collusion among each other or because of their efficiency might achieve up normal level of profits and hence might have no incentive to adopt the conservative approach (see for instance, Haw et al., 2015, Dhaliwal et al., 2014, Li, 2013, Gaspar and Massa 2006 and Hou & Robinson 2006).

Product market competition literature provides quite a number of studies about the influence of market competition on conditional accounting conservatism and of these are:

Haw et al. (2015) for a sample from 38 countries examined the impact of product market competition on accounting conservatism over the period 1999 to 2007. The results showed that product market competition is positively related to accounting conservatism in countries with robust legal institutions, but not in countries with feeble legal institutions.

Dhaliwal et al. (2014) on a sample of 71,627 firm-year observations from 187 three-digit SIC industry groups for the period 1975-2005, investigated the influence of the level of product market competition on conditional accounting conservatism. The results revealed that the influence is positive.

Li (2013) studied the impact of product market competition on accounting conservatism for a sample of 22,289 firm-year observations from 14 European Union over the period 1999 to 2007 and found a positive relationship between product market competition and accounting conservatism.

Dhaliwal et al. (2008) on a sample of 99,315 firm-year observations for the period 1964-2006, investigated the influence of the level of product market competition on accounting conservatism. The results revealed that the influence is positive.

Some measures have been used in the product market competition literature to represent the level of competition in the market and of these are the N firm concentration ratio, the Herfindahl-Hirschman measure, the comprehensive industrial concentration measure, the entropy measure and the share of the firm in the market (see for instance, Bikker and Haaf, 2002; Cetorelli, 1999 and Davies, 1979).

Measuring of the level of product market competition literature did not provide any criteria to prefer a specific measure over another. Based on the best-fit approach (El-Bannany, 2006) the share of the firm in the market in terms of total deposits will be used to represent the level of product competition in the present study.

To conclude, firms in a more competitive market have more incentive for adopting conditional accounting conservatism to reduce the negative impact of the competition risk and as such the third hypothesis is:

H3: There is a negative association between conditional accounting conservatism and level of market concentration.

3.4. Bank size

Banking literature indicated that bigger firms are more conservative than smaller firms for reasons such as political outlays of failure to avoid possible involvement of the government which might have adverse effect on the standing of the firm and cause losing possible market opportunities (see for instance, El-Bannany 2012, Beaver and Ryan, 2000 and Penman & Zhang, 2002).

Many studies in the Firm size literature about the effect of firm size on conditional accounting conservatism and of these are:

Geimechi and Khodabakhshi (2015) for a sample of 121 listed companies in Tehran Stock Exchange over the period 2009 to 2013 the relationship between firm size and the level of conservatism accounting and found that firm size has no impact on accounting conservatism.

Khaddafi et al. (2015) studied for a sample 66 companies in Indonesia over the period 2011- 2013 the relationship between firm size and accounting conservatism and the results show a significant positive relationship between company size and

accounting conservatism.

Suleiman and Anifowose (2014) examined for a sample of listed Nigerian Food and Beverages companies over the period 2003- 2010 the relationship between firm size and conditional accounting conservatism and the results show a significant negative relationship between company size and accounting conservatism.

Khosroshahi et al. (2012) using a sample of 99 listed companies in Tehran Stock Exchange over the period 2003-2009 the influence of company size on accounting conservatism and the results revealed that company size has a positive impact on accounting conservatism.

Moeinaddin el al. (2012) studied the relationship between firm size and accounting conservatism for a sample of 181 listed firms in Tehran Stock Exchange over the period 2005-2010. They found that firm size has a positive influence on accounting conservatism.

Hamdan et al. (2011) investigated using a sample of 225 companies listed in Kuwait Stock Exchange for the year 2009 the impact of firm size on accounting conservatism and found a negative relationship.

Hamdan (2011) investigated using a sample of 50 companies listed in Bahrain Stock Exchange over the period 2005-2009 the impact of firm size on accounting conservatism and found a positive relationship.

Several measures for firm size have been implemented in preceding studies such as total deposits, total assets and a number of employees. Firm size literature did not prefer certain measure over another and as a result, the present study will be using the logarithm of total bank assets in year t to represent bank size as suggested by the best-fit approach adopted by El-Bannany (2006).

Based on the above discussion, the fourth hypothesis is:

H4: Bank size has an influence on conditional accounting conservatism.

3.5. Bank age

It can be claimed that age is a proxy for distinguishing a firm. This might be due to elder firms realizing well performance than newer ones because their involvement in the market benefits them to gain a better understanding of market conditions and hence become more conservatism to avoid the risk of litigation, debt contracting and agency problem. In addition, enhance the credibility of accounting information, enhance earnings quality, enhance disclosure quality and improve corporate governance (see, for instance, Hellman, 2008, Ahmed

& Duellman, 2007; Paprocki & Stone; 2004 and Penman & Zhang, 2002).

Results of previous studies showed the importance of firm age in explaining the companies' behaviour in different aspects (see, for instance, Biswajit & Manca, 2016; Pekka & Mika, 2016; Yaqoob, et al., 2014; and El-Bannany, 2012).

The age variable will be measured as the logarithm of bank age from its existence until the year under consideration.

Based on the above discussion, the fifth hypothesis is:

H5: There is a positive association between conditional accounting conservatism and bank age.

4. RESEARCH METHODS

Tables 1a & 1b show the study sample and study period. Based on the available data for the study period Seven Egyptian banks and eight UAE banks are representing the study sample over the period 2008-2013. Banks in the UAE adopted IFRS since 1999 (Central Bank of the UAE, 2017).

Table 1a. The sample of the Egyptian banks in the study (2008 - 2013)

<i>Banks Name</i>	<i>Abbreviation</i>
Arab International Bank	(AIB)
Al Watany Bank of Egypt	(AWB)
Banque Misr	(BM)
Bank of Alexandria	(BOA)
Commercial International Bank	(CIB)
National Bank of Egypt	(NBE)
PIRAEUS Bank Egypt	(PIRAEUS)

Table 1b. The sample of the UAE banks in the study (2008 - 2013)

<i>Banks Name</i>	<i>Abbreviation</i>
Abu Dhabi Commercial Bank	(ADCB)
Abu Dhabi Islamic Bank	(ADIB)
Bank of Sharjah	(BoS)
Commercial Bank International	(CBI)
National Bank of Abu Dhabi	(NBAD)
National Bank of Umm Al-Quwain	(NBQ)
Sharjah Islamic Bank	(SIB)
Union National Bank	(UNB)

The purpose of this study is to determine the factors (independent variables) which influence the conditional accounting conservatism (dependent variable). The purpose of multiple regression analysis is to explore the association between the dependent variable and independent variables. Hence, it is a suitable technique to be used to build the present study model as follows:

$$CAC_{it} = a_0 + a_1IFRS_t + a_2GFC_t + a_3EFDEP_{it} + a_4LGDEP_{it} + a_5LGAGE_{it} + u_{it} \quad (1)$$

where:

CAC_{it} = the dependent variable - conditional accounting conservatism for bank i in year t; measured as Net Income before Tax for Bank i in Year t - Operating Cash Flow for Bank i in Year t.

a_0 = constant;

$a_{1,2,3}$ = coefficients of the independent variables;

Details of the definitions of the independent

variables are given in Table 2.

u_{it} = disturbance term - that is the usual error term.

The sources of the data for the present study are the annual reports for banks which are available on their websites and the Bankscope database.

Table 2. Description of independent variables and expected signs

<i>Variable and abbreviation</i>	<i>Measurement</i>	<i>Expected sign</i>	<i>Actual sign</i>
International Financial Reporting Standards (<i>IFRS_t</i>)	Dummy variable equal to 1 for UAE Banks and 0 for Egyptian Banks	?	+
Global Financial Crisis (<i>GFC_t</i>)	Dummy variable equal to 1 for year 2008 and 0 for other years	?	+
Level of market competition (<i>EFDEP_{it}</i>)	The ratio of total deposits for bank <i>i</i> in year <i>t</i> to total market deposits in year <i>t</i>	-	-
Bank size (<i>LGDEP_{it}</i>)	Logarithm of total deposits for bank <i>i</i> in year <i>t</i>	?	NS*
Bank age (<i>LGAGE_{it}</i>)	Logarithm of bank age in year <i>t</i> measured as the bank age from its existence until the year under consideration.	+	NS*

Note: * NS = not significant

Source of data: Annual reports and Bankscope database

5. ANALYSIS OF THE RESULTS

5.1. Descriptive analysis

The results of the descriptive analysis for conditional accounting conservatism and the independent variables selected in this study are shown in Table 3. Conditional Accounting conservatism for the sample banks throughout the

study period varies from -26,278 to 9,240 of the maximum value representing the total conditional accounting conservatism and the mean is -1,218. The independent variables represented by IFRS, global financial crisis, level of market competition, bank size, bank age all differ also, and this should raise the assurance level in the results as claimed by Naser and Al-Khatib (2000).

Table 3. Descriptive Statistics for the dependent and independent variables

<i>Variable</i>	<i>Mean</i>	<i>SD</i>	<i>Min</i>	<i>Max</i>
Conditional Accounting conservatism (<i>CAC_{it}</i>)	-1,218	5,409	-26,278	9,240
<i>IFRS_t</i>	0.533	0.502	0.00	1.00
Global financial crisis (<i>GFC_t</i>)	0.167	0.375	0.00	1.00
Level of market competition (<i>EFDEP_{it}</i>)	0.079	0.085	0.00	0.29
Bank size (<i>LGDEP_{it}</i>)	4.434	0.629	2.25	5.50
Bank age (<i>LGAGE_{it}</i>)	1.501	0.311	0.48	2.06

Note: N= 90 observations

5.2. Test for multicollinearity

Multicollinearity is a statistical problem happened if the independent variables in the study model are highly associated with each other and hence the results might be confusing. The existence of this problem can be explored by conducting correlation analysis among these variables (see, for instance, Belsley et al., 1980; Fox, 1991; Bingham and Fry, 2010; Kuhn and Johnson, 2013).

Eliminating one of the independently associated variables can be an exit for the multicollinearity problem. Though, Neter et al. (1985) argued that connection among all or some independent variables in the study model does not indicate that the predicative power of the model or

its fitness will be ambiguous as far as it is inside the range of the observations. However, Neter et al. (1985) argued that eliminating some explanatory variables to sort out the multicollinearity problem might result in decreasing the clarification power of the model or errors in the model specification. These problems should be considered while searching for a solution to the multicollinearity problem.

The correlation analysis results for the independent variables are revealed in Table 4. The maximum value of is only 0.86 so we can presuppose that multicollinearity is not a serious problem because of it less than 0.99 as claimed by El-Bannany (2002).

Table 4. The correlations matrix for the independent variables

<i>Independent Variables</i>	<i>IFRS_t</i>	<i>GFC_t</i>	<i>EFDEP_{it}</i>	<i>LGDEP_{it}</i>	<i>LGAGE_{it}</i>
<i>IFRS_t</i>	-	0.000 (1.000)	0.010 (0.926)	0.003 (0.978)	-0.236* (0.025)
<i>GFC_t</i>		-	-0.026 (0.805)	-0.110 (0.303)	-0.071 (0.504)
<i>EFDEP_{it}</i>			-	0.864** (0.000)	0.495** (0.000)
<i>LGDEP_{it}</i>				-	0.425** (0.000)
<i>LGAGE_{it}</i>					-

5.3. Regression results and discussion

The results presented in Table 5 revealed that the regression model is significant and moderately explain the relationship between the conditional accounting conservatism and the independent

variables.

The coefficients of IFRS, global financial crisis, level of market competition, are statistically significant but the coefficients for bank size, and bank age is not.

The coefficient of the IFRS is positively

significant which suggest that the adoption of IFRS is encouraging the banks to practice conditional accounting conservatism and these results are in line with the results of Marzuki and AbdulWahab (2016) and Zhang (2011) but in the contrary of the results of Andre et al. (2015) and Manganaris, et al. (2015).

The coefficient of Global financial crisis is positively significant which suggest that the adoption of financial crisis is an incentive to the banks to adopt conditional accounting conservatism approach and these results are in line with the results of Al-Hroot et al. (2017), which contradicts the results of Gharibi and Nemati (2015) and Leune (2014).

The coefficient of the level of market competition is significant with the expected negative sign. This suggests that where the market is highly concentrated the earnings of banks will be protected and, hence, there is no need to adopt conditional accounting conservatism approach. Therefore, in the highly concentrated market, accounting conservatism is lower. The results are consistent with the outcomes of Haw et al. (2015) and Dhaliwal et al. (2014).

The coefficient of bank size is insignificant but with the expected positive sign and the coefficient of bank, age is insignificant but with the unexpected negative sign.

Table 5. The regression results: dependent variable CAC_{it}

Regressor	Coefficient	t-ratio	Probability
Intercept	-11,410	-1.04	0.301
$IFRS_t$	2,558	2.07	0.042
GFC_t	3,464	2.36	0.021
$EFDEP_{it}$	-34,179	-2.12	0.037
$LGDEP_{it}$	3,105	1.14	0.258
$LGAGE_{it}$	-1,972	-0.86	0.392
ADIB	-2,077	-0.81	0.421
AIB	4,243	1.18	0.241

Note: R-SQUARED = 0.21
F (7, 82) = 3.126
N = 89

R-BAR-SQUARED = 0.14
Sig. F. = 0.006
Number of observations 90

6. CONCLUSIONS

The aim of this study is to examine the determinants of conditional conservatism for banks in Egypt and the UAE over the period 2008-2013.

The regression results show that international financial reporting standards, Global financial crisis, level of market competition, have a significant impact but bank size and bank age have no significant impact on conditional accounting conservatism for banks in Egypt and the UAE

The study has provided understanding into the determinants of conditional accounting conservatism for banks in Egypt and the UAE. The results show that banks adopting IFRS have more intention to practice the conditional accounting conservatism approach as expected by the first hypothesis.

The global financial crisis has a positive impact on conditional accounting conservatism and this is line with the presupposition of the second hypothesis.

Level of market competition represented by the market share of bank t in year i to total market deposits in the market in year t, is encouraging banks to adopt the conditional accounting

conservatism approach to avoid the risks such as litigation and agency problem as expected by the third.

The coefficient of bank size is insignificant but with the expected positive sign the study results do not support the fourth hypothesis. The coefficient of bank age is insignificant but with the unexpected positive sign. The study results rejected the fifth hypothesis.

Limitations to this study can be summarized as follow: First, additional empirical evidence about the determinants of conditional accounting conservatism can be helpful in generalizing the results of the present study. Second, this research is about Egyptian and the UAE banks and covers the years from 2008 to 2013; therefore applying the same study model for banks in other countries for the same study period might produce different results. Third, the study sample is small because of data availability problem.

Further research can be conducted to address the limitations of the present study and work on overcoming it to enrich the literature on explaining the factors which might influence conditional accounting conservatism.

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