

## REBUILDING CONFIDENCE: ACCOUNTING CONSERVATISM AND GOVERNANCE MODIFICATIONS IN PALESTINIAN BANKS

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**Abstract:** The Palestinian banking sector stands as a pivotal component within the Palestinian financial system, encompassing a roster of 15 operational banks. Of these, six are locally owned national banks, listed on the Palestinian stock market: Bank of Palestine, Al-Quds Bank, the National Bank, the Palestinian Investment Bank, the Arab Islamic Bank, and the Palestinian Islamic Bank. These institutions are governed by the Palestinian Monetary Authority, which articulates precise banking policies aimed at nurturing deposit growth and prudently investing shareholder and investor funds. While the historical origins of accounting conservatism have raised concerns about its potential impact on the quality of financial information, it has evolved into an essential requirement for financial statement users. The collapse of several prominent corporations underscored the importance of accounting conservatism in curbing opportunistic managerial practices, such as profit manipulation, extra budgetary financing, and other transgressions against the principles of conservatism. The convergence of accounting conservatism and corporate governance functions as a mechanism to mitigate agency problems, improving the quality of financial reporting. Accounting conservatism assumes a pivotal role in curtailing profit manipulation and elevating the caliber of accounting information. Recent developments in accounting discourse spotlighted corporate governance, intensified scrutiny on profit manipulation practices, and emphasized the significance of appropriately tailored accounting information for capital markets. These trends have reshaped the significance of accounting conservatism's adoption, measurement, and its potency in bolstering accounting information quality and market pertinence. In this study, we embark on an exploration of the interplay between accounting conservatism and market value fluctuations of Palestinian banks enlisted on the Palestine Stock Exchange.

**Keywords:** Palestinian banking sector, accounting conservatism, corporate governance, financial reporting

### INTRODUCTION

The banking sector is one of the most important components of the Palestinian banking system, and this sector includes 15 operating banks, of which 6 are local national banks listed in the Palestinian stock market and they are (Bank of Palestine, Al-Quds Bank, the National Bank, the Palestinian Investment Bank, the Arab Islamic Bank and the Palestinian Islamic Bank), all the banks are subject to the regulation of the Palestinian Monetary Authority, which draws clear banking policies, and works to develop deposits and invest the funds of shareholders and investors in well-studied investments (Palestine Monetary Authority, 2014).

Accounting conservatism is one of the oldest accounting issues, and despite some objection by some financials for its negative impact on the quality of information contained in the published financial statements, it has become a basic requirement at the present time by the users of the financial statements, especially after the collapses of large number of giant companies, and the resulting heavy losses incurred for the stakeholders in these companies as a result of some opportunistic practices carried out by the management of these companies, including profit management practices, extrabudgetary

financing and other practices that are a clear violation of the concept of accounting conservatism (Ikbal & Alqdau, 2013).

Whereas the relationship between accounting conservatism and corporate governance is strong, which together constitute a means to reduce the agency problem, and accounting conservatism plays an important role in limiting profit management and enhances its quality and the quality of accounting information (Khalil & Al-Ezzani, 2017), also the phenomenon of profit management to achieve administrative objectives is a joint action between both conservatism and governance. Some recent trends in accounting thought have emerged that have focused on the concept of corporate governance, the increase in profit management practices, and the interest in the concept of the appropriateness of accounting information on the part of the capital market, which affected the importance of the concept and the degree of accounting conservatism that companies follow, as well as on how to measure the degree of this conservatism, and also on the extent of their effectiveness in the field of achieving the quality and appropriateness of accounting information, which makes it able to help investors in making rational investment decisions (Abu Jarad, 2015).

Therefore, we will try through this study to identify the relationship between the accounting conservatism and

changes in the market value of the banks listed on the Palestine Stock Exchange in light of the amendments to the Palestinian Banks Governance Manual, to identify the contribution of these modifications to strengthening or limiting the practice of accounting conservatism in the Palestinian banking sector and its reflection on the value of Local banks listed on the Palestine Stock Exchange, with the aim of coming up with recommendations that contribute to strengthening these rules, developing a culture of governance and developing the legal and supervisory environment.

### **Importance of the Study**

This study derives its importance from the fact that it deals with a very important economic sector as it plays a pivotal role in economic development in Palestine, as the stability of this sector is necessary in order to build a strong national economy. The soundness of the financial position of these banks and their remoteness from exaggeration in their results, as the accounting conservatism is considered a guarantee to reduce the exaggeration and the practice of profit management. Based on the foregoing, the importance of the study can be summarized as follows:

- The study contributes to deepening the understanding of aspects of accounting conservatism in light of banking governance in Palestine.
- Determine the effect of the accounting conservatism on the market value of the banks listed on the Palestinian Stock Exchange in light of compliance with the amendments to the Palestinian Banks Governance Manual.
- Shedding light on the fairness of the financial reports of the Palestinian banking sector by showing the degree of conservatism practiced in these reports, which may reveal profit management practices and exaggerate levels of financial performance.
- It is considered the first study that examined the effectiveness of amending the 2014 Palestinian Banking Governance Manual.
- The importance of this study appears in terms of its handling of a contemporary issue and of great importance due to its role in preserving the stability of the economy and advancing development.

### **Problem of the Study**

Most of the Arab studies focused all their efforts on describing governance mechanisms, and none of these studies dealt with the impact of amending the 2014 Palestinian Banks Governance Manual on its

relationship with accounting reservation and its relationship to the market value Palestinian banks. In narrowing the gap in the literature of accounting research, especially in Palestine. Some studies have also indicated that the fact that financial reports are conservative in a certain market indicates the fulfilment of the market efficiency hypothesis, which states that the share price reflects all available information on it in a timely manner (Khalil & Al-Ezzani, 2017). Accordingly, the problem of the study can be summarized in the following questions:

- What is the impact of the amendments to the Palestinian Banks Governance Manual issued in 2014 on the market value of the local banks listed on the Palestine Exchange?
- What is the effect of the amendments to the Palestinian Banking Governance Manual on the degree of accounting conservatism, measured by the conservation models used in the study (BTM, TACC / EBXT).
- What is the role of the accounting conservatism measured by the BTM model in affecting the market value of Palestinian banks in light of the amendments to the Palestinian Banking Governance Manual issued in 2014?
- What is the role of the accounting conservatism measured by the TACC / EBXT model in affecting the market value of Palestinian banks in light of the amendments to the Palestinian Banks Governance Manual issued in 2014?

### **Objectives of the Study**

The study seeks to achieve the following objectives:

- Knowing the effect of the Palestinian banks' governance amendments for the year 2014 on the market value of those banks.
- Identify the effect of the Palestinian banks' governance amendments for the year 2014 on the degree of accounting conservatism practiced in Palestinian banks.
- Identify the role of the accounting conservatism in affecting the market value of the banks listed on the Palestine Stock Exchange in light of the Palestinian banks' governance amendments for the year 2014.

### **Limitations of the Study**

- Substantive Limits: The effect of the accounting conservatism on the market value of the banks listed on the Palestine Stock Exchange in light of the governance amendments of Palestinian banks.
- Spatial boundaries: The study will be applied to all banks listed on the Palestine Stock Exchange.
- Temporal boundaries: The study deals with the period 2009-2019, with the neutralization of the year 2014, which is considered a transitional year for the implementation of the amendments made to the Governance Manual for Palestinian Banks.

### **LITERATURE REVIEW**

**Machokoto et al. (2021) financial conservatism, firm value and international business risk: Evidence from emerging economies around the global financial crisis:** This study aimed to show the effect of the accounting conservatism on the value of banks through a sample of seven African countries between the years 2003-2012, where the researchers relied on the decrease in the granting of credit as a result of the financial crisis that occurred between 2008 and 2009, the sample size amounted to 5320 views representing 901 establishment in (Egypt, Morocco, Kenya, Nigeria, South Africa, Tunisia, Ivory Coast). The study concluded with a number of results, the most important of which is that financial conservatism played a positive role in excluding the impact of shrinking financing grants on the value of banks in the local and international markets, as well as finding that adopting conservative financial policies preserves these banks' value and reduces the risks of reducing financing

grants. Likewise, the benefits of conservatism outweigh the benefits of debt financing during crises, as debt financing lowers tax expenses.

**Vishnani and Bhatia (2019) entitled "Accounting conservatism and corporate governance, evidence from the Indian banking sector":** This study dealt with the relationship between the accounting conservatism and the Indian public listed banks governance, where the researcher used the descriptive and analytical approach, by studying the bank's financial data published on the Indian Stock Exchange, where the study population consisted of 50, the study sample were 33 banks with 354 observations during the period 2003-2015. To reach the objectives of the study, the researcher used the descriptive analytical method based on historical financial statements listed on the Indian Stock Exchange. To measure the level of conservatism practiced in this sample, the researcher used Basu modified module. The study concluded that the level of conservatism in banks that apply strong governance is higher than in those applying weak governance, where the total of ( $\beta_1$  And  $\beta_2$ ) was smaller at the weak governed banks than stronger governance banks. The study recommended the necessity of implementing more stringent corporate governance, which would raise the level of conservatism in Indian banks.

**Zadparvar (2016) the effect of the accounting conservatism on the bank's value in the Tehran financial market:** The study aimed to identify the effect of the accounting conservatism in enhancing the fixed value through two means, the first is to improve the ability to borrow with better terms, and the second is to reduce administrative opportunism. This study found that there is an effect of the accounting conservatism in enhancing the fixed value through the two aforementioned means, and it dealt with the effect between the accounting conservatism and the corporate value for a sample of (101) companies listed on the Tehran Stock Exchange in the period between (2004-2009) according to the Panel data method. Where the Basu (1997) model was used to measure the conservatism and (return on shares, long-term liabilities and capital expenditures) as measures of the value of the bank. The study recommended the necessity of conducting more researches studying the relationship between financial leverage and accounting conservatism, also the relationship between companies sectors and accounting conservatism, as this study found a Significant positive relation among the three dependent variables and the independent variable accounting conservatism.

**Obied (2017) the Effect of Accounting Conservatism in Financial Reports on Market Value of Jordanian Shareholding Companies Listed on Amman Stock Exchange:** The study aimed to find out the effect of the accounting conservatism in the financial reports of the Jordanian public shareholding companies on the market value of these companies. The study was applied on a sample consisting of (1116) observations from (186) companies listed on the Amman Stock Exchange, that were selected according to several determinants during the period (2010-2015), and the descriptive analytical approach was used to answer the questions of the study. The researcher used the least squares, multiple regression analysis to test the hypotheses of the study, and correlation analysis were adopted through (SPSS) application. The concluded that the accrual basis could be considered suitable measure to the nature of Amman Stock Exchange for measuring the effect of conservatism on the market value Jordanian public companies in all sectors. The study recommended the necessity of activating the accounting conservatism policies in the Jordanian public shareholding companies to an appropriate degree.

**A study (Khalil & Al-Ezzani, 2017) the accounting conservatism under the corporate governance and its impact on the quality of earnings:** This study aimed to study the effect of accounting conservatism on the quality of earnings through continuity, predictive ability and honest



representation of profits) in light of the governance of Egyptian public shareholding companies. The researcher dealt with Faisal Islamic Bank through a random sample of its employees, so 120 questionnaires were distributed at all levels from them 115 questionnaires were retrieved that and used to test the study hypotheses. The study concluded that there is a positive effect of the accounting conservatism on the quality of earnings represented by (continuity, predictive ability and honest representation of profits) in light of the governance of Egyptian public companies. The study recommended the necessity of preventing manipulation in choosing accounting policies through the application of accounting conservatism policies, as well as the necessity to exclude uncertainties and limit management's exaggeration in performance in order to receive rewards by applying more conservative policies to a reasonable degree.

**Abu Hamida (2017) the Relationship between Accounting Conservatism Polices and Corporate Governance and their impact on Disclosure Quality of the Financial Statement of Local Banks listed in Palestine Exchange:**

This study aimed to identify the effect of the accounting conservatism on the added economic value of the companies listed on Palestine Stock Exchange. To reach the goal of the study, the researcher used the descriptive analytical approach, by studying the periodic financial reports for a sample of (24) companies. They were all the companies listed on the stock exchange without interruption from 2010 to 2015, with the exception of the banking sector due to its specificity. The study found an existence of a positive, statistically significant effect of the accounting conservatism practiced in the Palestinian shareholding companies, measured by the book to market (BTM) value, and this effect has been repeated by using the accrual approach measure.

**Abu Jarad (2015) the impact between conservatism in accounting policies and institutional governance and their impact on the quality of disclosure of financial statements of local banks listed on the Palestine Stock Exchange:**

The study aimed to identify the relationship between accounting conservatism and governance and their impact on the quality of disclosure in the local banks listed on the Palestine Stock Exchange. During the period (2008-2014) local Palestinian banks consist of (7) banks, and the study sample consist of (49) Observation, the researcher used the descriptive analytical approach to reach they study goals. To measure the degree of conservatism, the ratio of book to market value was used (BTM), and the ratio of total accruals to profits before extraordinary items and discontinued operations (TACC / EBXT), depending on the published financial reports of the banks, and the researcher relied on the Palestinian Banking Governance Guide for the year 2014 in measuring governance, and the disclosure system instructions issued by the Palestine Stock Exchange (PEX) and approved by the Palestinian Capital Market Authority (PCMA) to measure the accounting disclosure.

The study found that there is a positive statistically significant relationship between the degree of accounting conservatism practiced by local Palestinian banks and their application of governance rules, while there is no effect of accounting reservation on the quality of disclosure, also found that the degree applying governance rules affects the quality of disclosure, especially the following governance mechanisms (Auditing systems, the education level of the members of the board of directors, the remuneration of the members of the board and the management, future policies and equity ownership) on the other hand there is no clear effect for the mechanisms of (powers of the board of directors, the internal regulations and laws, the distribution of equity ownership) on the quality of disclosure.

The researcher recommended the necessity for the Monetary Authority to encourage banks to raise the degree of disclosure and to publish periodic reports on the quality of disclosure in local banks.

## METHODOLOGY

The study relied on the descriptive approach for the purpose of describing the problem of the study, and gathering the data needed to reach its goals. The study also adopted the historical approach through reviewing previous studies, for understanding the effect of independent variable on the dependent variable the investigator used the analytical approach. The both variables were calculated by the researcher, where the independent variable “Accounting Conservatism” was calculating using two approaches (BTM and Accrual), as for the dependent variable “Market Value” calculated by multiplying the share closing price with the number of outstanding shares, while the intermediate variable “Governance” was treated as dummy variable given 0 and 1 before and after the amendment respectively.

### Study Population

The study population consists of local banks listed continuously during the study from 2009-2019 on the Palestine Exchange. The study dealt with these banks by studying their financial reports for a period of ten years. The period was divided into two periods five years each, the first before the amendments 2009-2013 and the second period is after the amendments from 2015- 2019. The local banks were six according to the Palestinian Monetary Authority (PMA), and they are Bank of Palestine (BOP), the Arab Islamic Bank (AIB), the Palestinian Islamic Bank (ISBK), Palestinian Investment Bank (PIBC), Quds Bank (QUDS), and the National Bank (NTB). Thus the population size consist of 60 observations, ten for each bank during the ten studied years.

### Study Procedures

The researcher extracted primary data from banks' financial statements and reports published on the Palestine exchange website and entered them into the computer through the spreadsheet program (MS-EXCEL), and then mathematically processed to obtain the final data used to perform various statistical tests using the Stata (version 12) statistical program.

### Variables

The researcher relied on the quantitative method in measuring the study variables and the following is an explanation of the study variables and how to measure them according to what is shown in Table 1 following:

Table 1. The variables table

Variable	Type	How to measure	code
Acc. conservatism using book value to market measurement	Independent	= Book value per share divided by the closing price. Book value = net equity after excluding preference shares at book value and divided by weighted average ordinary shares.	BTM

Acc. conservatism using Accruals approach		Total Accruals equal (net annual profit before extraordinary and discontinuous events - net operating cash flow) and divide the result by the EPS.	TAC C/ EBX
Market value	Dep. V	= Share Closing price × Number of shares	MV
Adjustments Governance manual of Palestinian banks	Dummy	This dummy variable is assigned a value of 0 for the period before the adjustments and a value of 1 for the period after the adjustments made in 2014.	GOV T

### Independent Variable Accounting Conservatism

**BTM Measurement:** The theoretical framework for this scale was developed by Beaver and Ryan (2000) and was used by Ahmed et al. (2002). Accordingly, the researcher relied on this scale to measure the degree of accounting conservatism. The degree of accounting conservatism can be calculated through the following equation:

$$\text{Consv. } d_{it} = (N. Eq_{it} / W. CS_{it}) / M. V_{it}$$

In which: **Consv.  $d_{it}$** : The degree of accounting conservatism practiced by the bank  $i$  in year  $t$ ,  **$(N. Eq_{it} / W. CS_{it})$** : Net equity / Weighted average of common shares (bank  $i$ , year  $t$ ),  **$M. V_{it}$** : The closing price of bank  $i$ 's share in year  $t$ .

When the ratio exceeds one, this means that the book value is greater than the market value (Unconservative) and vice versa, if the ratio is less than one, then this means that the market value is higher than the book value (conservative), and in this case the market has valued the share higher than in the bank's books depending on factors outside the books (Givoly & Hayn, 2000).

Accordingly, the studies that used this value depend on the market efficiency assumptions, which state that the share price in the market reflects all its information in a timely manner, and this means that the market value is fair, and if the book value to the market ratio is less than one correct This is evidence that the company is using a high degree of conservatism by reducing its asset values (Abu Hamida, 2017).

**Accrual Scale Accrual Based Measure (TACC / EBXT):** The degree of accounting conservatism will be calculated by using the ratio of total accruals to profits before extraordinary items and discontinuous operations, as a number of researchers have used this approach, most notably among those studies are (Abu Hamida, 2017), they both concluded that the practice of conservatism leads to the existence of negative accruals for a long period of time, and the higher negative accruals means higher degree of conservatism exist. The degree of conservatism according to this approach can be find out by the following equations:

$$\text{Consv. } d_{it} = TAAC_{it} \div EBXT_{it}$$

**Where:** **Consv.  $d_{it}$** : The degree of accounting reservation practiced by the bank  $i$  in year  $t$ ,  **$TAAC_{it}$** : Total dues to the bank  $i$  in year  $t$ ,  **$EBXT_{it}$** : Profits before extraordinary items and discontinued operations of the bank  $i$  in year  $t$ .

And total accruals (TAAC), can be calculated using the following equation:

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

Where:  $TACC_{it}$ : The total accruals to the bank  $i$  in year  $t$ ,  $EBXT_i$  : Profits before extraordinary items and discontinued operations of bank  $i$  in year  $t$ ,  $OCF_{it}$  : Operating cash flow of bank  $i$  in year  $t$ .

### Dependent Variable Market Value

The researcher will measure the market value of Palestinian banks by multiplying the number of issued shares by the closing price for that period, as it reflects the fair market value of the bank's share, and was obtained from trading reports in the bank's annual report that is published on the Palestine Exchange. As for the number of issued shares, it was obtained from the capital balance in the statement of changes in owner's equity, as this balance appears with a nominal value equivalent to one dollar for each share.

### The Dummy Variable Governance of Palestinian Banks in (2014 amendments)

As previously mentioned, gave zero for the period prior to governance manual amendments, and one for the period after governance manual amendments.

### HYPOTHESES

$H_{01}$ : There are no statistically significant differences in the market value of the local banks listed on the Palestine Exchange in light of the amendments to the Palestinian Banks Governance Manual for the year 2014.

$H_{02}$ : There are no statistically significant differences in the degree of accounting conservatism practiced in the Palestinian banks measured by the two models (BTM, TACC/ EBXT) in light of the amendments to the Palestinian banks Governance manual for the year 2014.

$H_{03}$ : There is no statistically significant role for accounting conservatism measured by BTM in influencing the market value of local banks listed on the Palestine Exchange in light of the amendments to the Palestinian Banks Governance Manual for the year 2014.

$H_{04}$ : There is no statistically significant role for accounting conservatism measured by TACC/EBXT scale in influencing the market value of local banks listed on the Palestine Exchange in light of the amendments to the Palestinian Banks Governance Manual for the year 2014."

### DESCRIPTIVE STATISTICS Independent Variable Accounting Conservatism

#### Book to Market approach

Table 2. Acc- Conservatism measured by BTM

Bank name	Before Amendments to the Governance Manual						Arithmetic Conservatism	
	2009	2010	2011	2012	2013	The mean	Deviation Standard	
<b>BOP</b>	0.402	0.482	0.559	0.552	0.525	0.504	0.065	Exist
<b>AIP</b>	1.068	1.319	1.454	1.314	1.112	1.253	0.160	Not exist
<b>ISBK</b>	1.446	1.305	1.347	1.203	0.824	1.225	0.241	Not exist
<b>PIBC</b>	1.273	1.252	1.253	1.367	1.457	1.320	0.090	Not exist
<b>QUDS</b>	0.773	0.843	1.070	1.289	1.313	1.058	0.248	Not exist
<b>NTB</b>	1.319	1.318	1.272	1.143	0.942	1.199	0.161	Not exist
<b>Arithmetic Mean</b>	1.047	1.087	1.159	1.145	1.029	Population arithmetic mean		1.093



Standard Deviation	0.339	0.301	0.320	0.349	0.394	Accounting conservatism	No Conservatism
	After Amendments to the Governance Manual					The Arithmetic mean	Standard conservatism deviation
Banks name	2015	2016	2017	2018	2019		
<b>BOP</b>	0.582	0.781	0.849	0.897	1.056	0.833	0.173 exist
<b>AIP</b>	0.890	0.970	0.811	0.929	0.807	0.881	0.072 exist
<b>ISBK</b>	1.018	0.892	0.739	0.802	0.818	0.854	0.107 exist
<b>PIBC</b>	1.267	1.279	1.044	1.075	1.006	1.134	0.129 There is no
<b>QUDS</b>	1.076	1.216	0.709	0.709	0.825	0.907	0.229 exist
<b>NTB</b>	0.753	0.649	0.707	0.727	0.651	0.697	0.046 exist
<b>Arithmetic Mean</b>	0.931	0.965	0.810	0.857	0.861	Population arithmetic mean	0.884
<b>Standard Deviation</b>	0.244	0.245	0.128	0.139	0.148	Accounting conservatism	Conservatism

Table (2) shows all the descriptive statistics for the independent variable Acc.Cons measured by BTM ratio,

including the arithmetic mean, standard deviation. It is evident from the results in the table that the average of BTM ratio for the Palestinian banks before the amendment (2009-2013) ranged between 0.504 and 1.320, whereas Bank of Palestine was the only bank practiced a high degree of conservatism with nearly 0.5 BTM which means that book values of equity is evaluated fifty percent of its fair value, meanwhile all other banks had not practiced any conservatism in their financial statements and the BTM ration for all were above 1.093. As for the period after the amendment of the Governance Manual in 2014, which is the period from 2015-2019, it was found that the average of BTM ration varied between 0.697 and 1.134, the result showed that all banks practiced different level of accounting conservatism, the highest of which was the National Bank with 0.697 BTM, while the Palestinian Investment Bank (PIBC) maintained its position as the most liberal Palestinian bank with BTM of 1.134. To summaries table 2 shows that the Palestinian banking sector wasn't practicing any conservative financial policies before the amendment made to the governance manual during the study period from 2009-2013 and average BTM ratio for the sector was 1.093, while after the amendments from 2015 to 2019 Palestinian banking sector was practicing mild conservative financial policies with 0.884 BTM.

### Total Accruals to Profit Approach

Table 3. Acc- Conservatism measured by TACC/EXBIT

Banks Name	Before amendments to the Governance Manual					Mean STD conservatism Arithmetic		
	2009	2010	2011	2012	2013			
<b>BOP</b>	-6.53	-1.21	3.62	0.05	-2.15	-1.24	3.68	Exist
<b>AIP</b>	-56.41	7.36	91.18	103.11	5.90	30.23	66.42	Not Exist
<b>ISBK</b>	41.73	102.84	0.95	-2.81	4.88	29.52	44.70	Not Exist

<b>PIBC</b>	13.58	-14.10	2.11	-1.00	-	-2.04	11.00	Exist
					10.78			
<b>QUDS</b>	-29.42	1.46	10.74	-4.33	-	-7.59	15.67	Exist
					16.41			
<b>NTB</b>	-12.97	-7.65	-26.82	-7.05	-1.90	-11.28	9.53	Exist
<b>Arith.</b>	-8.337	14.783	13.63	14.662	-	Population		6.27
<b>Mean</b>					3.410	arithmetic mean		
<b>STD</b>	33.963	43.772	40.130	43.403	8.747	Accounting		Not exist
					Conservatism			
<b>Banks</b>						After amendments to the		
<b>Names</b>						Governance Manual		
	2015	2016	2017	2018	2019	Arithmetic mean	Standard deviation	Conservatism
<b>BOP</b>	2.09	3.65	-8.64	6.75	-3.83	0.004	6.18	There is no
<b>AIP</b>	10.95	15.23	12.97	19.32	5.05	12.70	5.29	There is no
<b>ISBK</b>	6.57	3.14	2.65	5.43	2.91	4.14	1.75	There is no
<b>PIBC</b>	22.91	-1.48	-5.56	-0.16	-12.1	0.72	13.25	There is no
<b>QUDS</b>	-4.61	6.34	-3.42	-0.64	-5.13	-1.49	4.71	Exist
<b>NTB</b>	-3.74	2.72	1.61	-5.43	-17.5	-4.48	8.06	Exist
<b>Arithmetic</b>	5.695	4.933	-0.065	4.212	-	Population		1.93
<b>Mean</b>					5.102	arithmetic mean		
<b>Standard</b>	10.324	5.637	7.682	8.682	8.623	Accounting		Not Exist
<b>Deviation</b>						Conservatism		

The average degree of accounting conservatism practiced in the Palestinian banks before the amendment (2009-2013) ranged between -11.28 and 30.23, as we find that the National Bank practiced a high degree of conservatism compared to other banks where TACC/EBXIT was -11.28 (negative accruals), meanwhile Arab Islamic bank (AIB) and Palestinian Islamic bank (ISBK) hadn't practiced any conservatism since the ratio of total accruals to profit was positive for both banks and it was 30.23 and 29.52 respectively, while the ration of total accruals to profit for the banking sector before the amendments of the governance were positive which means that there was no conservatism practiced in the Palestinian banking sector during the period from 2009-2013.

As for the period after the amendment of the Governance manual from 2015-2019, table 3 shows that the total

accruals to profit ratio for the Palestinian banking sector's varied between -4.48 and 12.70, and that Quds Bank and National Bank practiced conservative financial policies where the degree of conservatism were -1.49 and -4.48 respectively, while the other banks had not practices any conservatism according to total accruals approach, while for the whole sector the average of TACC/EBXT was 1.93 (positive) so there was no conservatism practiced after the amendments to the governance manual.

### Measuring the dependent variable (Market value of Palestinian banks)

Table 4. Market value of Palestinian Banks by thousands of USD

Banks	Before amendments to the Governance Manual						
	2009	2010	2011	2012	2013	Avareg	STD
BOP	375,000	340,000	348,000	400,660	480,000	388,732	56,335,1
AIP	46,801.5	36,546.3	39,091.4	43,585.7	56,027.5	44,465.1	7,601
ISBK	25,158.8	36,817.3	38,658.2	48,115.7	77,000	45,150	19,5867
PIBC	48,000	50,000.	51,410	48,230	46,640	48,856	1,861,916
QUDS	60,500	59,500	51,000	45,000	49,500	53,100	6,683,9
NTB	21,806.3	21,806.3	23,001	44,888.1	58,361.9	33,972.8	16,8116
mean	96,211.1	90,778.3	91,860.1	105,125.4	127,921.6		
STD	137,367.1	122,770.3	125,912.6	144,793	172,809.8		
Banks	After amendments to the Governance Manual						
	2015	2016	2017	2018	2019	Mean	STD
BOP	525,000	516,773	530,000	464,000	408,000	488,755	52,283
AIP	77,500	77,500	132,000	117,750	144,362	109,823	30,9739
ISBK	72,000	106,875	148,350	136,900	141,680	121,161	31,737
PIBC	57,989	62,580	87,040	90,750	99,060	79,484	18,132
QUDS	71,500	73,260	144,957	157,113	142,472	117,861	41,8902
NTB	119,250	142,500	138,000	127,500	148,200	135,090	11,6597
Mean	153,873	163,248	196,725	182,335	180,629		
STD	183,002	175,598	164,779	139,715	112,864		

Table 4 shows that the market value of Palestinian banks during the periods before the governance manual amendments was lower than it was in the period following the amendments. Where before the amendment it is clear that Bank of Palestine has the heist market value among other banks, nearly seven times higher than Quds Bank the second larger bank in the market as average for five years period from 2009-2013, this was the same during the period after the amendment where Bank of Palestine kept its position as the largest Palestinian bank but the gap shrinked to 3.6 times comparing to the second larger bank which was National Bank in average for five years from 2015 to 2019, also its noted that the market value for all banks grown remarkable in average after the amendments to the Palestinian banking sector governance manual.

### **The Intermediary variable: Governance of Palestinian Banks in 2014 (amendments)**

As previously mentioned, this dummy variable is assigned a value of 0 for the period before the adjustments and a value of 1 for the period after the adjustments made in 2014.

## **STATISTICAL METHODS**

To answer the hypotheses of the study, the following methods were used:

### **Analyzing cross-sectional time-series data method (Panel Data)**

The cross-sectional time series data will be examined (Panel Data) By using the following linear regression model:  $Y_{it} =$

$$B_0 + \sum_{j=1}^K B_j X_{jit} + \varepsilon_{it} \quad (i = 1, 2, \dots, N; t = 1, 2, \dots, T; j = 1, 2, \dots, K)$$

Whereas:  $Y_{it}$  The dependent variable in the form for the bank  $i$ , through time  $t$ .  $B_{oi}$  The slope is constant for each facility  $i$ , Assuming the segment is constant over time.  $B_j$  The coefficient of the independent variable  $j$ .  $X_{jit}$  the independent variables and their number  $j$  in the bank  $i$  through time  $t$ .

$\varepsilon_{it}$  Random error in the bank  $i$ , through time  $t$ .

The linear regression model can be analyzed using three different methods, namely:

### First: Pooled Regression Model

This model is considered one of the simplest models for segmental time series data, as this model assumes the stability of all model parameters over time, assuming that the effect of time is constant, and this model estimates the coefficients of independent variables for all banks ( $(B_{io}, B)$  Cross Sections), During the required time series, and the summative regression model can be written as follows:  $Y_{it} = B_o + \sum_{j=1}^k B_j X_{jit} + \varepsilon_{it}$

Where this model assumes that the expected value of the random error is equal to zero, and the variance of the random error is constant. If the characteristics of the banks are fixed and defined for all banks, the usual least squares method can be used (OLS) at the discretion of this model.

**Second: Fixed Effects Model (Fixed Effect Model):** This model aims to determine the behavior of each cross-sectional data group (banks) independently, by making the segment ( $B_o$ ) vary from one facility to another, as this model allows for a difference between banks by estimating the segment for each facility, and the segment is variable between banks and fixed Over time, with the coefficients of the independent variables remaining constant for each cross-sectional data set. Thus, this model can be expressed in the following form:  $Y_{it} = B_{oi} + \sum_{j=1}^k B_j X_{jit} + \varepsilon_{it}$ . The term fixed effects (FEM) in this example, the syllable ( $B_o$ ) for every facility it does not change over time, rather it only changes through banks.

**Third: The Random Effects Model:** In the fixed effects model (FEM), It is assumed that the random error ( $\varepsilon_{it}$ ) takes the form of a normal distribution with an arithmetic mean equal to zero and a constant variance equal to  $\sigma^2$ . In order for the estimation of the model parameters (FEM) is assumed that the variance of the error is homogeneous for all cross-sectional data (banks), and there is no self-correlation across time for each set of cross-sectional data in a specified period of time.

The random fixed effects model (REM) convenient in estimating the coefficients in the event that the previously mentioned hypotheses are not completed, as this model treats the segment (as a random variable that takes an equal weight  $B_{oi}\mu$ ), the following equation illustrates this:  $B_{oi} = \mu + v_i$

Thus a random effects model (REM) can be obtained as follows:  $Y_{it} = \mu + \sum_{j=1}^k B_j X_{jit} + v_i + \varepsilon_{it}$

Where it indicates the error in the cross-sectional data set for each bank, so that the model contains the composite error which consists of  $v_i + \varepsilon_{it}$ , Therefore, the composite error has the same characteristics as other random errors, where the value of the arithmetic mean is zero, and the variance is constant and equal to  $\sigma_{\varepsilon}^2 + \sigma_v^2$ , and to estimate the random effects model REM (Generalized Least Squares-GLS). To determine which models are most suitable, two tests are used, The first test is a comparison between the Pooled regression model and the fixed effects model (PRM & REM) through Breusch and Pagan Lagrangian multiplier test, if the value of the statistical significance is greater than the level of significance (0.05) at this point the pooled regression model (PRM) is considered, because it's most suitable to the data, while if The value of the statistical significance was less than the significance level (0.05), then second test is needed, which is Hausmann's test, to make a comparison between the fixed effects model and the random effects model (FEM & REM), if the test resulted that the statistical

significance value is less than the significance level (0.05), then the researcher has to use fixed effect model FEM, if the result was the opposite way then random effect model is used.

### Methods of Analyzing Cross-Sectional Data

This analyzing was carried by using (Mann-Whitney U Test) for independent samples, to examine whether there are statistically significant differences in the degree of accounting conservatism and the market value before and after adjustments of Palestinian banks governance manual.

### DATA ANALYSIS AND STUDY RESULTS Data Validity

Before starting data analyzing and hypotheses test, a set of conditions had to be available in study data, and they are as follow:

#### Normal Distribution Test

For the data of cross-sectional time-series models (Panel data models) to be valid the observation values has to be normal distributed, and if this condition is not met, the data is processed through natural logarithm, the natural root, or other methods. For testing data normality the researcher used (Shapiro-Wilk Test), the test shows that only BTM & TACC observation after the amendments was normal distributed Where the value of the statistical significance of these variables was greater than the level of significance ( $\alpha = 0.05$ ), so the natural logarithm was used to fix the observation of both variables before the amendments 2009-2013 Where the value of the statistical significance of these variables was less than the level of significance ( $\alpha = 0.05$ ), table 5 bellow shows the result of (Shapiro-Wilk Test).

	BTM	TACC / EBXT	Market value	BTM	TACC / EBXT	Market value	Table 5. The normal distribution test (Shapiro-Wilk Test)  <b>Before amendments to the amendments to Palestinian Palestinian Governance</b>  <b>the After the Banks Manual</b>
<b>Kurtosis</b>	-0.948	1.753	1.963	0.594	0.327	1.780	
<b>skewness</b>	-0.416	3.393	2.307	-0.299	0.616	1.705	
<b>Observations</b>	30	30	30	30	30	30	
<b>Values Z</b>	0.851	0.749	0.564	0.952	0.976	0.656	
<b>Statistical significance</b>	0.001	0.000	0.000	0.190	0.719	0.000	

#### Banks Governance Manual

Accounting reservation      Accounting reservation

#### Stationarity Test

Before estimating cross sectional time series models, it is necessary to ensure the stability of time series data representing study variables, using the Augmented Dickey-Fuller (ADF) test, while this study examines the role of accounting conservatism in influencing market value of Palestinian banks over two periods, the first period before amendments to the Palestinian Bank Governance Manual from 2009 to 2013, while the second period following the amendments from 2015 to 2019. Which confirms that the duration of each period represents 5 years, while the study included table 6 (banks surveyed),

(Phillips et al,2000) confirmed that if the number of sections greater than the number of the study years, then we don't need to test the stability, while for more caution the researcher tested the data stability using ADF test, and the result confirmed stability for conservatism measured by TACC/EBXT before & after the amendments of the Palestinian banks governance manual, and BTM data after the amendments, however the test result showed that all other data were instable (presence of a unit root), table 6 below shows the test result.



Table 6. Dickey-Filler test results for testing the stability of study data

2009-2013			2015-2019		
Study variables	T value	Statistical significance	Study variables	T value	Statistical significance
Logarithm (Accounting reservation measured by scale BTM)	-1.817	0.965	Accounting reservation measured by scale BTM	2.177	0.015
Logarithm (Accounting reservation measured by scale TACC / EBXT)	4.587	0.000	Accounting reservation measured by scale TACC / EBXT	7.184	0.000
Logarithm (The market value of the banks)	-2.045	0.980	Logarithm (The market value of the banks)	1.202	0.115

### Multicollinearity

The existence of multicollinearity between independent variables leads to model inflation and the inability of independent variables to explain the change in the dependent variable, therefore multicollinearity measured in two ways, the first is measuring variance inflation factor (VIF), the second measuring the correlation between independent variables in one model, and (Gujarati,2010) suggesting that if VIF value higher than 10 indicates that a problem multicollinearity exist, and (Kennedy, 1985) emphasized that obtaining a correlation factor value between two independent variables in a single model above 0.8 also indicates a problem of multicollinearity.

Table 7. Multicollinearity test

Variables							
Before the amendments to the Governance Manual				After the amendments to the Governance Manual			
BTM	TACC/EBXT	M.V	VIF	BTM	TACC/EBXT	M.V	VIF
BTM	1			1			
TACC / EBXT	<b>0.673</b> **	1	1	<b>0.258</b>	1		1
M.V	<b>-0.930</b> **	<b>-0.659</b> **	1 1	<b>-0.511</b> **	<b>-0.228</b>	1	1

### Autocorrelation

The problem of autocorrelation appears if adjacent observations are correlated, which will affect the validity of the model, as the effect of independent variables on the dependent variable will not be real as a result of that correlation, and to check that (Wooldridge Test) used, the test result showed that only

accounting conservatism measured by BTM before the governance manual amendments was suffering from this problem, where statistical significance was less than the level of significance ( $\alpha \leq 0.05$ ), and to solve this problem the researcher used Rogers (1993) Robust Stander Error tool.

Table 8. Autocorrelation test

Study form	2009 - 2013		2015-2019	
	Values F	Statistical significance	Values F	Statistical significance
The impact of accounting reservation measured by a scale BTM on the market value	79.901	0.001	5.408	0.068
The impact of accounting reservation measured by a scale TACC / EBXT on the market value	2.36	0.185	0.179	0.690

### Heteroskedasticity

Random errors variance stability is one of the important assumptions of linear regression (Homoskedasticity), and to verify this assumption (Breusch-Pagan/Cook-Weisberg) test was used. The results showed the Random errors variance stability, so that the value of the statistical significance of all study variables was greater than the level of significance ( $\alpha \leq 0.05$ ), which assured that all models do not suffer from the problem of the instability of the variance of random errors, table 9 below shows that findings:

Table 9. Heteroskedasticity test

Acc. Conv Approach	2009 – 2013		2015 -2019	
	$\chi^2$	Statistic sag	$\chi^2$	Statistic sag
The impact of ACC.Cnv measured by BTM On the market value	1.11	0.292	0.06	0.810
The impact of ACC.Cnv measured by ATCC/ EBXT On the market value	0.98	0.323	0.23	0.634

### Hypotheses Testing

**Testing hypotheses H01:** “There are no statistically significant differences in the market value of the local banks listed on the Palestine Exchange in light of the amendments to the Palestinian Banks Governance Manual for the year 2014”. To answer this hypothesis, (Mann-Whitney U test) for independent samples was used, as shown in table 10, test result showed that statistical significance was (0.00), which is less than the significance level (0.05), which leads to the rejection of the null hypothesis, and that confirmed the existence of a statistically significant difference for the market value of banks before And after the amendments to the Palestinian Banks Governance Manual.

Table 10. Testing hypotheses H01

	2009-2013		2015-2019		Mann-Whitney test results	
	mean	STD	mean	STD	Man – Witn Z	ST.Sig
SAMPLE	132454541.4	102379300.0	146866463.9	175362088.7	135	-4.66
						<b>0.000</b>
	mean		STD		Mann-Whitney test results	
					Man Z	ST.Sig
BOP	388732000	56335149.95	488754603	52282978.3	2.00	- 0.032
AIP	44465074.6	7600997.0	109822545.6	30972577.1	0.00	- 0009
ISBK	45149988.6	19585990.3	121161000.0	31736733.1	1.00	- 0016
PIBC	48856000.0	1861915.7	79483800.0	18131574.0	0.00	- 0009
NTB	339727370	16810681.1	135090000.0	11659352.5	0.00	0009
	6683935.96	117860583.8	41890473.6	0.00	-2.61 -2.62	0009

QUDS  
53100000.0

**Testing hypotheses Ho2:** “There are no statistically significant differences in the degree of accounting conservatism practiced in the Palestinian banks measured by the two models (BTM, TACC/EBXT) in light of the amendments to the Palestinian banks Governance manual for the year 2014”

**Testing hypotheses Ho2 For BTM:** To answer this hypothesis (Mann-Whitney U test) for independent samples was used, test result showed that statistical significance difference in the degree of accounting conservatism measured by the BTM for Palestinian banks before and after the amendments to the Palestinian Banking Governance Manual, where the value of statistical significance reached (0.002), which is less than the level of significance (0.05), so we reject the null hypotheses. The results shown in Table 11 also confirmed that the degree of accounting conservatism measured by the BTM scale of local banks listed on the Palestine Stock Exchange after the amendments to the Banking Governance Manual is higher than before the amendments.

Table 11. Testing hypotheses Ho2 for BTMT

Banks	2009-2013		2015-2019		Mann-Whitney test results	
	Mean	STD	Mean	STD	Man – Witn Z	St.Sig
SAMPLE	1.09	0.32	0.88	0.18	237.0	-3.15
the bank	Mean	STD	Mean	STD	Mann-Whitney results	test

	Man – Witn Z					St.Sig
	Value					
<b>BOP</b>	0.50	0.06	0.83	0.17	0.00	-2.61 <b>0.009</b>
<b>AIP</b>	1.25	0.16	0.88	0.07	0.00	-2.61 <b>0.009</b>
<b>ISBK</b>	1.23	0.24	0.85	0.11	2.00	-2.19 <b>0.028</b>
<b>PIBC</b>	1.32	0.09	1.13	0.13	5.00	-1.57 <b>0.117</b>
<b>QUDS</b>	1.06	0.25	0.91	0.23	7.00	-1.15 <b>0.249</b>
<b>NTB</b>	1.20	0.16	0.70	0.05	0.00	-2.61 <b>0.009</b>

**Testing hypotheses H02 for TACC/EXBT:** Mann-Whitney U test for independent samples was used to test the hypotheses, test result showed that there is no statistical significance difference in the degree of accounting conservatism measured **TACC/EXBT** for Palestinian banks before and after the amendments to the Palestinian Banking Governance Manual, where the value of statistical significance was (0.337), which is greater than the level of significance (0.05), so we accept the null hypotheses, the finding as shown in table 12 below:

Table 12. Testing hypotheses H02 for TACC/EXBT

SAMPLE	2009-2013		2015-2019		Mann-Whitney test results		
	Mean	STD	Mean	STD	Man	– Z	St. Sig
					Witn Value		
	6.27	35.34	1.93	8.75	385.0	-0.96	<b>0.337</b>
	Mean	STD	Mean	STD	Mann-Whitney test results		
					Man	– Z	St. Sig
					Witn Value		
<b>BOP</b>	-1.245	3.68	0.003	6.18	10.00	-0.522	<b>0.602</b>
<b>AIP</b>	30.23	66.42	12.70	5.29	12.00	-0.104	<b>0.917</b>
<b>ISBK</b>	29.52	44.70	4.14	1.75	12.00	-0.104	<b>0.917</b>
<b>PIBC</b>	-2.04	11.00	0.72	13.25	12.00	-0.104	<b>0.917</b>
<b>QUDS</b>	-7.59	15.67	-1.49	4.71	11.00	-0.313	<b>0.754</b>
<b>NTB</b>	-11.28	9.53	-4.48	8.06	6.000	-1.358	<b>0.175</b>

**Testing hypotheses H03:** “There is no statistically significant role for accounting conservatism measured by BTM in effecting the market value of local banks listed on the Palestine Exchange in light of the amendments to the Palestinian Banks Governance Manual for the year 2014”.

#### Testing for BTM before the amendments of governance manual

To choose between the (PRM) And (FEM) the researcher used Lagrangian multiplier test, where the test result confirmed that (FEM) best suit the data of the study, since the sig-statistics was less than the significant level of ( $\alpha = 0.05$ ), then Haussmann's test was used to consider whither (FEM) or (REM) better for the data, where hussman test result confirmed that Fixed Effect model is better for testing the hypotheses at significant level of ( $\alpha = 0.05$ ). Table 13 below shows positive role of accounting conservatism measured by BTM on the banks market value before the amendments of governance

manual during the period from 2009-2013, so we reject the null hypotheses and since the relation between CONS and BTM is reverse relationship, which means the relation between market value and CONS is positive relationship. And it showed the ability of accounting conservatism to explain the changing of market value by about 57% equal  $R^2$ .

Table 13. Testing hypotheses H03 2009-2013:

Dependent variable: log (Market Value)				
Variables	Factor (Coefficient)	Standard error (Stared. Error)	T value ( t statistic)	Statistical significance (Sig.)
<b>Reg. constant</b>	17.98617	0.0178376	1008.33	0.00
<b>Log. BTM</b>	-1.270212	0.4644414	-2.73	0.041
<b>Lagrangian multiplier</b>	$\chi^2(1) = 10.78$	0.001	Ph value	7.48
<b>Haussmann's test</b>	$\chi^2(1) = 20.40$	0.000	Sta. Sig	0.041
<b>Number of sections (banks)</b>	6		( $R^2$ )	0.5675
<b>Observations</b>	30			

#### Testing for BTM after the amendments of governance manual

As for the first part of H03, the two comparative tests were carried on and the result lead to use the fixed effect model to test hypotheses 3 after the amendments of governance manual. Table 14 below shows positive role of accounting conservatism measured by BTM on the banks market value before the amendments of governance manual during the period from 2015-2019, so we reject the null hypotheses and since the relation between CONS and BTM is reverse relationship, which means the relation between market value and CONS is positive relationship. The test result shows that accounting conservatism could explain the changing of market value by about 20% equal  $R^2$ .

Table 14. Testing hypotheses H03 2015-2019

Dependent variable: log (market value)				
Variables (Coefficient)	Factor	Standard error (Stared. Error)	Values z ( z statistic)	Statistical significance (Sig.)
<b>Reg. constant</b>	20.1292	0.3178159	63.34	0.000
<b>Log. BTM</b>	-1.56377	0.2097878	-7.45	0.000
<b>Lagrangian multiplier</b>	$\chi^2(1) = 51.43$	0.001	Ph value	55.56
<b>Haussmann's test</b>	$\chi^2(1) = 0.010$	0.914	Sta.sig	0.000
<b>Number of sections (banks)</b>	6			
<b>Observations</b>	30		( $R^2$ )	0.1966



**Testing hypotheses Ho4:** “There is no statistically significant role for accounting conservatism measured by TACC/EBXT scale in influencing the market value of local banks listed on the Palestine Exchange in light of the amendments to the Palestinian Banks Governance Manual for the year 2014”.

**Testing for TACC/EBXT before the amendments of governance manual:** To choose between the (PRM) And (FEM) the researcher used Lagrangian multiplier test, where the test result confirmed that (PRM) best suit the data of the study and the Statistical significance were greater than significant level ( $\alpha \leq 0.05$ ). Table 15 below shows the test result where TACC/EBXT ratio had negative role influencing the market value of the Palestinian banks at significant level ( $\alpha \leq 0.05$ ) which implied refusing the null hypotheses. And since the relation between Acc.conv and TACC/EBXT ratio is reversal relationship, this imply a positive role for accounting conservatism measured by the TACC/EBXT model in influencing the market value of Palestinian banks before the amendments to the Governance Guide. The value of the coefficient of determination ( $R^2$ ) is indicating that the degree of accounting conservatism could explain 43.4% of the changes in market value of Palestinian banks.

Table 15. Testing hypotheses Ho4 2009-2013

<b>Dependent variable: log (market value)</b>				
<b>Variables</b>	<b>(Coefficient)</b>	<b>Standard error</b>	<b>T value</b>	<b>St. Sig</b>
<b>Reg. Constant</b>	18.41519	0.2338147	78.76	0.00
<b>Log. TACC / EBXT)</b>	-0.2515777	0.0829314	-3.03	0.001
<b>Lagrange test (<math>R^2</math>)</b>	$\chi^2(1) = 0.38$ 0.434	0.0.2697	F value St.Sig	9.20 0.010

**Testing for TACC/EBXT after the amendments of governance manual:** To choose between the (PRM) And (FEM) the researcher used Lagrangian multiplier test, where the test result confirmed that (FEM) best suit the data of the study and the Statistical significance were less than significant level ( $\alpha \leq 0.05$ ), then Hausmann's test was used to consider whether (FEM) or (REM) better for the data, where hussman test result confirmed that Random Effect model is better for testing the hypotheses, where St.Sig was greater than significant level of ( $\alpha = 0.05$ ). Table 16 below shows the test result where TACC/EBXT ratio had positive role influencing the market value of the Palestinian banks at significant level ( $\alpha \leq 0.05$ ) which implied accepting the null hypotheses. And since the relation between Acc.cons and TACC/EBXT ratio is reversal, this imply a negative role for accounting conservatism measured by the TACC/EBXT model in influencing the market value of Palestinian banks after the amendments to the Governance Guide. The value of the coefficient of determination ( $R^2$ ) is indicating that the degree of accounting conservatism could explain 4.4% of the changes in market value of Palestinian banks.

Table 16. Testing hypotheses Ho4 2015-2019

<b>Dependent variable: Log (market value)</b>				
<b>Variables</b>	<b>(Coefficient)</b>	<b>Standard error</b>	<b>Z Value</b>	<b>St.Sig</b>
<b>Reg. Constant</b>	18.77095	0.0472907	396.93	0.000
<b>Log. TACC / EBXT)</b>	-0.0128454	0.0068266	-1.88	0.073

Lagrange test	$\chi^2(1) = 42.40$	<b>0.000</b>	<b>F value</b>	<b>3.54</b>
Hausmann's test	$\chi(1) = 0.010$	<b>0.9165</b>	<b>St.Sig</b>	<b>0.0726</b>
				Sections
Observations	<b>30</b>		<b>(R<sup>2</sup>)</b>	<b>0.0440</b>

## CONCLUSIONS

**The difference in the market value before and after the amendments to the Banking Governance Guide in Palestine** The study showed a statistically significant difference in the market value of the banks listed on the Palestine Exchange before and after the amendments to the Banking Governance Guide, where the market value of the banks after the amendments was higher than before, and the researcher explains this result to the time factor that led to the accumulation of profits and therefore increasing the market value, as well as to the governance adjustments that led to an increase the performance efficiency in general, which contributed to a positive impact on the market value, this result agreed to the result of both (Al-Najjar & Akl, 2016) and (Khalil & Al-Ezzani, 2017).

## **The difference in the degree of accounting conservatism before and after the amendments to the Banking Governance Manual in Palestine**

The study showed a statistically significant difference in the degree of accounting conservatism measured by the BTM ratio for the banks listed on the Palestine Exchange before and after the amendments to the Banking Governance Guide, where the degree of the accounting conservatism of banks before the amendments was higher than after the amendments to the Banks Governance Guide. While the results confirmed the absence of a statistically significant difference in the degree of accounting conservatism as measured by the TACC/EBXT scale (the ratio of receivables to profits before extraordinary profits and discontinuous events) before and after the amendments to the Banks Governance Guide, and the researcher explains this result that accounting conservatism is a tool for solving The agency problem, which decreases in the case of an effective and strong governance system, and agrees with this result, which indicated that there is an adverse effect between the two mechanisms of the board of directors and management ownership with accounting conservatism, as well as who indicated that " Weak governance structure tends to exercise higher conservatism." This indicates that the amendments in the governance of Palestinian banks have reduced conservatism in this sector. While this study differed with both the study (Qudah & Al-Kubaisi, 2016), which indicated that there was no effect between conservatism and governance, as well as the study (Abu Jarad, 2015), which indicated that there was a positive effect between them.

## **The role of accounting conservatism measured according to BTM influencing the market value of Palestinian public listed banks in light of the amendments to the Palestinian Banks Governance Guide**

The study showed a positive role for accounting conservatism according to the BTM model practiced in local listed Palestinian banks in influencing the market value of the banks before and after the amendments to the governance guide, where the effect after the amendments was higher than before, as for the ability of accounting conservatism to explain the discrepancy in banks market value was higher before than after the governance amendments. The researcher explains this result to the amendments made to the Palestinian Banks Governance Manual and the entry of other factors more related to the market value, and both (Al-Najjar, 2014) and (Abu Hamida, 2017) agree with this result (Saad, 2014).

## **The role of accounting conservatism measured by receivables model (TACC/EBXT) influencing the market value of the Palestinian public listed banks in light of the amendments to the Palestinian Banks Governance Guide**

The study showed a positive role for accounting conservatism measured according to the receivables model (TACC/EBXT) practiced in banks listed on the Palestine Exchange influencing the market value of banks before the amendments to the Banks Governance Guide, A large number of studies agree with this result, including (Al-Najjar, 2016), While the role of conservatism was negative on the banks values after the governance amendments and this result corresponded with (AbdelZahra, 2017). Regarding the ability of the degree of accounting conservatism to explain the discrepancy in the market value before the amendments to the Banks Governance Guide was higher than after the amendments. Governance has reduced the degree of accounting conservatism practiced by Palestinian banks, and this result is consistent with (Abu Jarad, 2015).

### **RECOMMENDATIONS**

- Based on the results of the study that showed a decrease in the degree of accounting conservatism after the amendments to the Palestinian Banks Governance Manual, the researcher recommends the financial sector regulators (the Monetary Authority) to pay more attention to accounting conservatism.
- Strengthening the oversight of the financial policies adopted in Palestinian banks to prevent manipulation of these policies in order to prevent exaggeration in their financial reports, which gives higher reliability to these reports and ensures the exercise of a reasonable degree of conservatism.
- Urging the concerned authorities to issue binding legislation regarding the application of accounting conservatism in Palestinian banks when preparing financial reports because of the importance of conservatism in giving higher reliability to financial reports and enhancing their credibility.
- Obligating the external auditor in the audit contract to express his opinion on the degree of accounting conservatism practiced in Palestinian banks and linking it to the risks of exaggerating the annual results of these banks, because the researcher found a decrease in the practice of accounting conservatism in the Palestinian banks listed on the Palestine Exchange.
- The necessity of encouraging the Palestinian bank administrations to make an extra effort to maintain a reasonable degree of conservatism, especially the administrations of the Arab Islamic bank, the Palestinian Islamic bank and the Palestine Investment Bank.

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