

Challenges and prospects of applying fair value accounting in the Algerian banking sector

Jihan GHRISSI ^{1,*}

¹ Faculty of Economics, Business and Management Sciences, University of Algiers 3(Algeria)
(dr.jygy.business@gmail.com)

Received: 17/09/2025 ; **Revised:** 20/09/2025 ; **Accepted:** 08/11/2025

Summary: This study examines the integration of fair value as an accounting measurement basis within the Algerian financial system, particularly in the banking sector. It addresses the limitations of historical cost and highlights the increasing importance of fair value, as supported by international standard-setters such as IASB and FASB. The research analyzes Algeria's current financial reporting practices and emphasizes the need for continuous updates to ensure alignment with global standards. In a context of economic volatility, fair value is proposed as a comprehensive solution to measurement challenges. The study recommends adapting Algeria's accounting framework to prevent financial isolation and support its integration into the international financial environment.

Keywords: Fair value, Historical cost, Accounting standards, Banking sector

JEL Classification: M41 ; G18 ; M48; G21.

* Jihan GHRISSI dr.jygy.business@gmail.com

Introduction

Accounting is regarded as an information system that measures the results of economic events and communicates them to its users to assist in decision-making. Given the vital role it plays at the level of the national economy, through the information it provides to the users of financial reports and statements, many countries have organized their accounting policies by issuing accounting standards. These standards aim to reduce areas of divergence in the presentation of financial information, enhance its development, and adopt accounting principles that are better suited to the practical needs of their application.

Among the most important developments introduced by these standards are the new methods of valuing financial statement items. Previously, the historical cost principle was the fundamental basis for valuation. However, this principle proved insufficient to provide financial information that accurately reflects the true value of the items being assessed, and consequently, the real financial position of the enterprise. Another factor that encouraged the search for alternative valuation methods was the impact of price fluctuations and inflation on the accounting valuation process, and therefore on the production of financial information. In addition, valuation is influenced by market supply and demand for the entity's assets, which are often recorded at historical cost in the financial statements, a practice that does not always reflect their actual value particularly in the case of current assets such as shares and bonds. Algeria, for its part, has not remained unaffected by these developments in the field of accounting; it has introduced the

Financial Accounting System, which in many aspects aligns with International Accounting Standards and International Financial Reporting Standards (IFRS), while also responding to the needs of financial information users.

Research problem :

The implementation of fair value in the Algerian banking sector raises several questions. While this valuation method aims to more accurately reflect the true value of financial assets and liabilities, its application within the Algerian context faces specific challenges. Indeed, the limited financial market, institutional constraints, and economic fluctuations complicate the effective adoption of fair value. Moreover, the level of understanding and training of accounting practitioners plays a crucial role in the effectiveness of this method. This situation therefore raises the central question: **to what extent is fair value actually applied in Algerian banks, and what are the main challenges and obstacles to its effective adoption?**

Research Questions:

-Do accounting professionals and auditors have the necessary knowledge and training to properly apply fair value in banks?

-What are the main challenges faced by Algerian banks in implementing fair value measurement within the current economic and institutional context?

Hypotheses

This study addresses the question by testing the following hypotheses

H1: Accounting professionals in Algeria lack sufficient training to effectively apply fair value.

H2: Market limitations and institutional constraints hinder the adoption of fair value in Algerian banks.

Objective of the Study

This study aims to **analyze the practical application of fair value measurement in Algerian banks**, highlighting the valuation methods of financial instruments under the FAS and examining the **challenges and constraints** faced in a context marked by market limitations, institutional barriers, and economic fluctuations.

Importance of the Study

This research is significant because it:

- Assesses the degree of alignment between the Algerian banking sector and international accounting standards.
- Identifies the obstacles to implementing fair value, offering recommendations to improve the quality of financial information.

- Contributes to academic and professional discussions on adapting international standards to emerging contexts such as Algeria

1- Historical Cost and the Shift Towards Fair Value

1.1 Historical Cost in Financial Reporting

Traditional accounting has long relied on several measurement principles, the most widely accepted being historical cost. This approach is valued for its high degree of objectivity, as recorded amounts are supported by verifiable documents. For decades, historical cost has been considered the dominant and generally accepted measurement basis, applied to financial statement elements at their initial recognition. However, it disregards subsequent changes in the economic value of these elements over time. As a result, it fails to reflect the impact of inflation and the loss of purchasing power of money. This limitation undermines the usefulness of financial statements, making the information they provide less relevant for comparing financial periods within the same entity and for drawing comparisons across different entities. (Benali, A. 2019.p57)

Historical cost has traditionally been regarded as the classical basis for financial documentation, whereby assets, liabilities, expenses, and revenues are recorded at their initial recognition. This initial point in time reflects the actual transaction that occurred between the entity and external parties, supported by objective documentation to validate the recognized value of financial elements. Under this approach, subsequent changes in the currency's value are disregarded, thereby ensuring a high degree of transparency and reliability while minimizing the influence of personal judgment. (Paul Jajainam ,2013.p1)

In the following section, researchers reviewed several definitions of historical cost. According to Kieso and colleagues, historical cost is defined as the price or cost of an asset or liability at the time of its occurrence, and it is regarded as the primary method for measuring most assets and liabilities (Kieso, Weygandt, & Warfield, 2020). Similarly, the American Institute of Certified Public Accountants (AICPA) describes historical cost as the value assigned to elements, services rendered, or liabilities incurred in exchange for goods and services received or to be received.

Historical cost may also be defined as the cost measured by actual cash payments or their equivalents arising from financial liabilities at the time expenses are incurred. In this sense, historical cost reflects the actual amount resulting from an arm's-length transaction between two independent parties, supported by legally verifiable documentation.

1.2 Criticisms of Historical Cost

- Historical cost disregards changes in the purchasing power of money. This means that items recorded at historical cost in the entity's books are inconsistent in terms of their real value, which may lead to misleading aggregates and inappropriate accounting treatments.
- The recognition criteria, which require assets and liabilities to be linked to an arm's-length transaction with an external party, result in the non-recognition of certain intangible assets such as internally generated goodwill. Although these assets provide future economic benefits to the entity, their exclusion distorts both the financial position and financial performance, whether materially or immaterially, depending on their significance. (Evi Rahmawati, 2006.p116)

The reliance on arm's-length transactions with external parties as a prerequisite for recording financial events and recognizing items in financial statements undermines the independence of

accounting periods. Consequently, it becomes difficult to accurately assess financial position and performance. This also affects shareholders' interests, since ownership changes across accounting periods: some shareholders may gain while others may lose, leading to an unfair allocation of income and benefits

1.3 The Shift to Fair Value

As a result of the continuous criticisms directed at the historical cost model, a new approach has emerged and imposed itself as an alternative measurement basis in accounting: the fair value model.

The International Accounting Standards Board (IASB) issued International Accounting Standard IAS 32 in 1995, concerning the presentation of information related to financial instruments. This standard introduced a new concept of fair value, defining it as: *“the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s-length transaction.”* This definition was later extended to other standards. Another significant step was the issuance of IAS 39 on the accounting of financial instruments, which further reinforced the concept of fair value.

However, following the 2007 global financial crisis, when numerous criticisms accused fair value accounting of being one of the causes of the crisis, the IASB did not succumb to these views. Instead, it defended the fair value approach and issued a new standard on financial instruments, namely IFRS 9: Financial Instruments, which gradually replaced IAS 39 until its full implementation in 2015. Moreover, IFRS 9 incorporated the new definition of fair value introduced by another standard, IFRS 13: Fair Value Measurement.

The definition of fair value as provided by IFRS 13 is: *“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”* (IFRS foundation,2020,§9.pA687)

This new definition emphasizes the fundamental differences in framing the concept of fair value, which can be outlined as follows:

- The phrase *“the amount for which an asset could be exchanged”* was replaced with *“the price that would be received to sell an asset”*, as the new definition assumes the sale of the asset rather than its exchange. The asset being measured at fair value is therefore considered in the context of a sale rather than an exchange. Consequently, beyond the conceptual difference between exchange and sale, the notion of value or price itself represents another conceptual distinction. According to some officials at the International Accounting Standards Board (IASB), these concepts are defined by language specialists, and the issue is further complicated by the presence of different meanings for words—not only in English but also across all languages.
- The term *“settlement of a liability”* in the old definition was replaced by *“transfer of a liability”* in the new definition. Conceptually, there is a significant difference between settlement and transfer. Settlement implies extinguishing the liability, whereas transfer does not necessarily involve extinguishment; rather, it relates to changing the state of the liability to another form, such as converting a debt into an equity right in the case of convertible bonds.
- The term *“knowledgeable, willing parties”* was replaced with *“market participants”*. Conceptually, the previous definition was clearer, as it explicitly required that the parties involved in determining fair value possess both knowledge and willingness. In contrast, the notion of market participants could include individuals who are coerced, unwilling,

uninformed, monopolistic, non-monopolistic, or any other parties potentially present in the market, without imposing any specific characteristics or attributes such as fairness—which is a key quality that a valuer must possess. Under this new conceptual framework, unfair values could exist, which cannot be considered a conceptually accurate representation. In this context, a participating valuer in the market could be either a fair valuer or an unfair one.

- The term “*arm’s-length transaction*” was replaced with “*ordinary transaction*”. The former concept recognizes a genuine exchange and, even if such an exchange does not actually occur, it aims to approximate a real or hypothetical transaction upon which fair value can be determined. In contrast, the concept of an ordinary transaction does not specify its components, characteristics, boundaries, or assumptions. In our view, assuming an arm’s-length transaction is preferable and closer to reality than assuming an ordinary transaction.
- The concept of the market was also added in the new definition, which was not required as the location of the transaction in the previous definition. In our view, this is a significant addition, as it specifies that fair value is measured solely within the market, although the notion of the market is further elaborated in the standard, as will be discussed.
- The measurement date was included in the new definition, which was not mentioned in the previous definition. This addition specifies the exact timing of the fair value measurement, avoiding any ambiguity.

1.4 Fair Value Measurement According to IFRS 13

Fair value measurement has become a cornerstone of modern financial reporting, particularly under IFRS standards, as it provides a more current and economically relevant representation of assets and liabilities compared to traditional historical cost accounting. The approach is widely used in the valuation of financial instruments, investment properties, and complex derivatives, allowing stakeholders to obtain a clearer picture of an entity’s financial position and performance.

The adoption of fair value measurement enhances the transparency, comparability, and relevance of financial statements, enabling investors, regulators, and other users to make more informed decisions. IFRS 13 provides a structured framework for fair value measurement, including guidance on inputs, valuation techniques, and disclosure requirements, thereby reducing ambiguity and improving consistency in financial reporting.

1.4.1 Fair Value Hierarchy

IFRS 13 aims to emphasize consistency and reliability, ensuring comparability through fair value measurement and related disclosures by implementing what is known as the **fair value hierarchy**. The fair value hierarchy refers to the structure that should be followed when measuring fair value. According to this structure, the inputs used in valuation techniques are classified into three successive levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. In other words, a lower-level input can only be used if a higher-level input is not available.

If the inputs used in a fair value measurement are classified into different levels within the hierarchy, the entire fair value measurement is assigned to the **lowest-level input** that is significant to the measurement in its entirety, requiring professional judgment.(Oubal Khadija & Achouri Siham,2019,p295)

- **Level 1:** Quoted prices in active markets for identical assets or liabilities.
- **Level 2:** Observable inputs other than Level 1, such as quoted prices for similar assets or liabilities or market-corroborated data.
- **Level 3:** Unobservable inputs based on entity-specific assumptions, used when market data are unavailable.(KPMG,2024.p10-25)

The hierarchy ensures that the most reliable and observable data are prioritized in fair value measurement, providing a transparent basis for valuation.

1.4.2 Valuation Techniques

In order to determine fair value, an entity resorts to using valuation techniques appropriate to the circumstances of the asset or liability being measured. When sufficient observable data are not available, unobservable inputs may be used. The objective of using these valuation techniques is to determine the price at which an asset could be sold or a liability transferred between market participants at the measurement date under current market conditions. There are three widely used valuation approaches.(PWC,2019.p6-15)

- **Market Approach:** Based on prices and other relevant information from market transactions involving identical or comparable assets or liabilities.
- **Income Approach:** Converts expected future cash flows or income into a single present value using appropriate discount rates.
- **Cost Approach:** Estimates the amount required to replace the service capacity of an asset, adjusted for obsolescence or depreciation.

Entities must select the technique most appropriate for the asset or liability being measured, considering the availability and reliability of data.

1.4.3 Application and Disclosure

Fair value measurement is applied wherever IFRS standards require or permit it, with particular attention to investment properties, financial instruments, and derivative contracts. IFRS 13 also mandates comprehensive disclosures to help users understand the valuation techniques, assumptions, and inputs used, including:(IFRS Foundation,§72, § 93(d), §93(h))

- The level of the fair value hierarchy for each measurement.
- A reconciliation for Level 3 measurements, showing movements during the period.
- Sensitivity analyses for unobservable inputs, highlighting potential impacts on valuation.

These requirements improve the transparency and comparability of financial statements, fostering confidence in the reported information.

1.5 The Effects of Fair Value Accounting on Financial Reporting

Fair value accounting does not only influence valuation practices but also reshapes the way financial information is presented and interpreted. Its application carries several implications that directly affect financial statements, transparency, and performance analysis.

- **Balance Sheet Presentation and Asset-Liability Structure:**
The use of fair value accounting has a significant effect on how assets and liabilities are displayed in the balance sheet. Items that were traditionally reported at historical cost may now be adjusted to reflect their current market value, which can alter the overall depiction of the entity's financial position. (Pragnesh B. Dalwadi, 2023. p122)
- **Income Statement and Recognition of Unrealized Gains/Losses:**
Adjustments in fair value may result in recording gains or losses in the income statement, even in the absence of an actual market transaction. Such entries can influence reported profitability and shape stakeholders' perceptions of the entity's performance.
- **Disclosure and Reporting Transparency:**
Because of the technical complexity of fair value measurement, financial reports often require comprehensive disclosures regarding the models, assumptions, and inputs applied in the valuation process. These disclosures serve to improve transparency and enable users to evaluate the credibility of the reported figures.
- **Impact on Financial Ratios and Performance Evaluation:**
Fair value accounting can affect various financial indicators, such as leverage ratios and profitability ratios. Consequently, it plays a role in how investors, analysts, and other stakeholders interpret the entity's financial health and assess its market valuation.

2-Application of Fair Value in Algerian banks: Challenges, Issues, and Perspectives

Algeria has gradually aligned its accounting framework with the **International Financial Reporting Standards (IFRS)**, incorporating the principle of **fair value measurement** to enhance financial transparency and comparability. A major milestone in this reform was the implementation of the **Financial Accounting System (SCF) in 2010**. Fair value, as defined by **IFRS 13**, represents "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date", marking a clear shift from the traditional historical cost method previously dominant in Algeria. The SCF has adopted several elements that rely on fair value as a measurement basis, many of which correspond to similar elements in the **International Accounting Standards**. Furthermore, the SCF explicitly defines the methods for valuation or revaluation at fair value in **Chapter Two of the decree issued on July 26, 2008**, which addresses the determination of valuation techniques and accounting recording methods, specifying the different cases in which fair value measurement should be applied.

2.1 Some elements measured at fair value according to the Financial Accounting System (SCF):

- **Investment Properties:** Upon initial recognition, investment properties are recorded as tangible fixed assets. Subsequently, entities may opt to revalue these investment properties using the fair value model. However, the fair value approach is not mandatory, as the cost model remains an alternative valuation method (Algerian Decree No 17-121, 2008). Entities are required to consistently apply one of these methods. It is noteworthy that the Financial Accounting System harmonizes with International Accounting Standards on this matter, particularly with International Accounting Standard 40 (IAS 40), which governs investment property accounting. .
- **Land and Buildings:**
The fair value of land and buildings is typically their market value. This value is determined based on appraisals conducted by qualified valuation experts.

- **Biological Assets:**
Biological assets are measured at their fair value less estimated costs to sell at initial recognition and at each subsequent reporting date. If fair value cannot be reliably determined, the asset is measured at cost less accumulated depreciation and impairment losses (Algerian Decree No 21-121, 2008)
- **Impairment or Decline in Asset Value:**
Before the adoption of the Financial Accounting System, periodic or annual revaluation of assets or fixed assets was not permitted. However, under the current system, economic entities are required to revalue their assets at fair value and to recognize any impairment losses in their accounting records.
- **Financial Instruments:**

Bylaw No. 09-08 of December 29, 2009, which concerns the accounting valuation and recording of financial instruments by banks and financial institutions, sets out the fundamental rules governing this area. According to Article 02 of the bylaw, a financial instrument is defined as any contract that generates a financial asset for one party and an equity instrument for another. Article 03 further clarifies that financial assets include cash, equity instruments of another entity, contractual rights to receive cash or another financial asset, or contractual rights to exchange financial assets or liabilities with another entity under advantageous conditions. In addition, funds deposited in Algerian banks, the Public Treasury, the Postal Checks Center, as well as shares, bonds, and similar securities, are explicitly recognized as financial assets. Conversely, Article 04 defines a financial liability as any obligation that entails either the delivery of cash or another financial asset to a third party, or the exchange of assets or liabilities with another party under favorable conditions. Finally, Article 05 introduces the notion of special financial instruments, which are understood as contracts that represent residual interests in the assets of an entity after the deduction of its liabilities. (Bank of Algeria Bylaw No. 09-08, 2009, Articles 2–5)

The Financial Accounting System has incorporated numerous aspects related to the accounting of financial instruments, aligning closely with **International Accounting Standard (IAS) 39**. This alignment is particularly evident from the initial recognition (primary accounting entry) and the classification of financial instruments into four categories: (Bounaadja Sahnoune, 2020, p137)

- **Held-for-trading securities:** Financial instruments held for trading purposes;
- **Available-for-sale securities:** Financial instruments held for sale;
- **Loans and receivables:** Debt instruments and loans granted;
- **Held-to-maturity securities:** Financial instruments held until maturity.

From this perspective, it is evident that the **Financial Accounting System (SCF)** has been significantly influenced by **International Accounting Standards**. It is also worth noting that the SCF has not limited the use of the **fair value approach** to these items alone. For example, **business combinations, consolidation of entities, and other similar cases** also apply the fair value method.

2.2 Obstacles to Implementing Fair Value Measurement in Algerian Banks

The implementation of fair value measurement in the banking sector of emerging economies poses specific challenges that differ from those encountered in developed markets. In Algeria, banks face significant obstacles in fully applying IFRS 13 due to the country's economic structure, regulatory environment, and the characteristics of its financial markets. While the adoption of fair value accounting is intended to improve the transparency and comparability of financial information, the Algerian banking context exposes several limitations that hinder its effectiveness. These challenges can be grouped into market-related constraints, institutional weaknesses, and broader

macroeconomic factors, all of which affect the reliability, consistency, and practical application of fair value measurement in Algerian banks.

- **Limited Active Markets**

Fair value measurement, as defined under IFRS 13, is primarily based on the use of observable inputs and active market data to ensure objectivity and reliability. However, in the Algerian context, financial markets such as the stock exchange and bond markets remain relatively illiquid and underdeveloped, which significantly limits the availability of reliable market prices for various assets and liabilities. As a result, banks and financial institutions in Algeria are often compelled to rely on Level 2 inputs, based on indirect observable data, or Level 3 inputs, which depend on unobservable assumptions and valuation models. This reliance on less objective inputs increases the degree of subjectivity in fair value measurements and raises concerns regarding the consistency and credibility of financial reporting. (IFRS foundation, 2011, p72-90)

- **Lack of Valuation Expertise**

Measuring fair value requires a solid mastery of advanced valuation techniques, including the income, market, and cost approaches, as outlined in IFRS 13. However, in Algeria, the lack of professional valuers and accountants adequately trained in these methodologies poses a significant challenge. This shortage of expertise often leads to inconsistencies in applying valuation models and increases the likelihood of inaccuracies in fair value reporting. Consequently, the reliability and comparability of financial statements may be compromised, particularly in the banking sector where fair value measurement plays a crucial role in assessing financial instruments.

- **Regulatory and Legal Environment**

Algeria's accounting framework continues to be shaped primarily by the national accounting system (SCF – Système Comptable Financier). Although this system was designed with reference to International Financial Reporting Standards (IFRS), it has not fully incorporated all the requirements related to fair value measurement. In practice, Algerian banks and financial institutions often face contradictions between the SCF and IFRS, particularly when legal and tax frameworks still favor the use of historical cost accounting. This duality creates challenges in applying IFRS-based fair value, as preparers must navigate between compliance with local regulations and the need to provide financial information that reflects current market realities. (Benali, 2019, p55)

- **Macroeconomic Instability**

Algeria's economy remains heavily reliant on hydrocarbons, making it particularly vulnerable to fluctuations in global oil prices. Such volatility directly impacts the valuation of assets, as sudden increases or decreases in energy revenues can distort financial market conditions. Furthermore, in periods marked by inflation or currency devaluation, establishing reliable fair values becomes increasingly complex, since market prices may not accurately represent stable or sustainable economic realities. This situation adds significant uncertainty to fair value measurement and undermines the consistency of financial reporting in the Algerian context.

- **Transparency and Information Asymmetry**

Reliable fair value measurement depends on transparent and comprehensive financial disclosures that allow stakeholders to assess the credibility of reported figures. In the Algerian context, however, many companies—particularly small and medium-sized enterprises (SMEs) and state-owned banks—tend to disclose only minimal financial information. This lack of transparency reduces the availability of reliable market data, thereby complicating the application of fair value accounting. As a result, fair value measurements in such institutions often rely on assumptions and internal models rather than observable market evidence, which increases subjectivity and decreases comparability across financial reports.(World Bank,2020)

- **Weak Training and Guidance:**

There is a clear lack of training and structured guidance on International Accounting Standards in Algeria, particularly in the banking sector. The absence of continuous and well-designed training programs, except for some efforts by professional bodies and organizations, has proven largely ineffective. Consequently, most of these initiatives fail to achieve sufficient results across institutions. Moreover, Algerian commercial banks have not yet reviewed their accounting systems following the adoption of the Financial Accounting System, especially regarding financial instruments. Additionally, a significant portion of accounting practices in Algeria remains traditional, highlighting the need for a comprehensive review of accounting curricula under this system and focused training for candidates seeking professional accounting certification. The Algerian Central Bank must take all necessary measures to address these challenges.

- **Subjectivity and Inconsistent Application of Fair Value:**

The determination of fair value often relies heavily on professional judgment and estimation. As a result, institutions may apply different assumptions and valuation techniques, which undermines the consistency and comparability of financial statements and raises doubts about their reliability.(Pragnesh B. Dalwadi,2023.p122)

- **Earnings Volatility and its Implications:**

Because fair value reflects changing market conditions, it can introduce significant volatility into reported financial figures. Such fluctuations may distort earnings, showing variations that do not necessarily correspond to the entity's actual operating performance.

2-3 Fair Value Practices in the Banking Sector: Insights from Practitioners' Interviews

To complement the theoretical framework of this study, field interviews were conducted with bank executives responsible for accounting and with auditors. Through direct questioning and guided discussions, these interviews aimed to gather practical insights and observations, providing empirical support for the key themes of the study.

According to the opinions and observations of bankers and auditors we interviewed in Algerian banks, there is general support for using fair value as an alternative to the historical cost method. Bank executives emphasized that fair value aligns with the valuation methods used by investors to estimate and predict cash flows, provides a comprehensive reflection of income, and allows for more complete recording of financial instruments, including derivatives. Accounting specialists, based on their auditing experience, noted that applying fair value helps reconcile differences between accounting results and the underlying economic reality, offering investors a clearer understanding and future perspective of the institution's value. However, the respondents also highlighted that, particularly among non-managerial staff, understanding of the fair value concept is often limited due to insufficient training, weak supervision, and the lack of qualifying programs tailored to the banking sector. Auditors, in contrast, demonstrated a high level of knowledge of the Financial Accounting System (SCF) and its measurement methods, including fair value, enabling them to effectively examine and verify accounts. The implementation of System No. 09/08, dated

12 Muharram 1431 (December 29, 2009), regarding the evaluation and recording of financial instruments, confirmed that fair value measurement enhances objectivity in accounting. Both bankers and auditors agreed that fair value has a significant impact on the qualitative characteristics of accounting information, as it provides more realistic valuations for various account items at the balance sheet date. By incorporating realized and unrealized gains and losses in the income statement and statement of changes in shareholders' equity during the period they occur, fair value information naturally influences investors' and decision-makers' judgments.

Following the series of questions we developed in consultation with banking practitioners, the responses highlighted several challenges regarding the adoption of fair value in Algerian banks. While the concept of fair value is understood by preparers of financial statements, its effective application remains limited, despite the existence of legal provisions governing its use. Bank professionals noted that Algerian banks still face difficulties in publishing accurate and transparent financial statements, particularly in terms of measurement and disclosure, due to the complexity of the financial accounting system and the lack of an adequately prepared environment. Accounting professionals further emphasized that the use of fair value introduces multiple measurement alternatives, which may increase opportunities for management to manipulate results according to their interests, while also extending the time required to prepare and present financial statements. Auditors added that reliance on fair value can lead to exaggerated profit inflation at year-end, especially during periods of rising prices, and that frequent fluctuations in general price levels may result in decisions based on unstable information. Consequently, fair value measurement is seen as inconsistent with several fundamental accounting principles and complicates the comparability of financial information across periods.

Conclusion

The concept of fair value has emerged as one of the most influential developments in modern accounting theory. Rooted in the analytical work of twentieth-century scholars, fair value accounting was introduced as a necessary response to the limitations of the historical cost model, particularly in the face of accelerating economic and technological change. Today, it is widely endorsed by leading accounting bodies, most notably the International Accounting Standards Board (IASB), and has become a cornerstone of international financial reporting standards.

In Algeria, the adoption of fair value accounting within the framework of the Financial Accounting System (Système Comptable Financier, SCF) represents a strategic move toward harmonizing national banking practices with global standards. However, the implementation of fair value in the banking sector presents several structural and operational challenges.

To address the challenges and enhance the effectiveness of fair value reporting under the SCF, the following strategic recommendations are proposed:

1. **Capacity Building** Implement targeted training programs for accounting professionals in the banking sector, focusing on fair value principles, valuation techniques, and IFRS compliance.
2. **Standardization of Valuation Methodologies** Develop and enforce unified guidelines for the measurement of fair value across banks to reduce subjectivity and enhance comparability of financial statements.
3. **Transparency and Disclosure Enhancement** Encourage comprehensive disclosures regarding valuation assumptions, inputs, and methodologies to improve the reliability and usefulness of financial information for stakeholders.
4. **Financial Market Development** Support initiatives aimed at improving the liquidity and efficiency of domestic financial markets, thereby facilitating access to observable market data for fair value assessments.

By addressing these key areas, Algeria's SCF can more effectively integrate fair value accounting into its banking sector, ultimately improving the relevance, reliability, and transparency of financial reporting. Further empirical research is recommended to assess the impact of fair value adoption on financial performance, investor confidence, and regulatory compliance within Algerian banks.

Referrals and references:

1. Al-Hayyali, W. N. (2017). *Principles of financial accounting* (Vol. 1). Arabic Academy for Publishing.
 2. Benali, A. (2019). Accounting reforms and IFRS adoption in Algeria. *International Journal of Accounting Research*, 55.
 3. Dalwadi, P. B. (2023). Fair value accounting: Benefits, challenges and implications for financial reporting. *Vidya – A Journal of Gujarat University*, 122.
 4. Jaijainam, P. (2013). Fair value accounting vs historical cost accounting. *Review of Business Information Systems*, 17(11), 1.
 5. Oubal, K., & Achouri, S. (2019). L'impact de l'évaluation à la juste valeur sur le secteur bancaire en période de crise: Comparaison entre le secteur bancaire marocain et français. *European Scientific Journal*, 15(25), 295.
 6. Rahmawati, E. (2006). Support and against historical cost accounting: Is it value relevance for decision making? *Jurnal Akuntansi dan Investasi*, 7(1), 116–117.
 7. World Bank. (2020). *Algeria economic update*. Retrieved from <https://www.worldbank.org/en/country/algeria/publication/economic-update-october-2020>
1. IFRS Foundation. (2011). *IFRS 13 – Fair value measurement*. Paragraphs 72–90. Retrieved from <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards/english/2022/issued/part-a/ifrs-13-fair-value-measurement.pdf>
 2. IFRS Foundation. (2020). IFRS 13 – Fair value measurement. paragraph 9, page A687 Retrieved from: <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards/english/2021/issued/part-a/ifrs-13-fair-value-measurement.pdf>
 3. International Accounting Standards Committee. (1995). IAS 32 – Financial instruments: Disclosure and presentation. London: IASC. Retrieved from IAS 32 :
<https://www.ifrs.org/issued-standards/list-of-standards/ias-32-financial-instruments-presentation/>
4. KPMG International. (2024). *Fair value measurement handbook* (pp. 10–25). Retrieved from <https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/ifrg/2024/isg-handbook-fair-value-measurement.pdf>
 5. PwC. (2019). *Guide to fair value measurement* (pp. 6–15). Retrieved from https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/fair_value_measureme/assets/pwcfairvalueguide0922.pdf