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**FAIR VALUE UNOBSERVABLE INPUTS ON THE VALUE
RELEVANCE OF LISTED DEPOSIT MONEY BANKS (DMBs) IN
NIGERIA**

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Abstract

This study addressed the influence of fair value of unobservable inputs on the interrelationship between the value relevance of listed DMBs in Nigeria. The sample is comprised of ten (10) listed deposit money banks (DMBs) in Nigeria for seven (7) years (between 2012 and 2018). Secondary data were obtained from the annual reports and accounts of the listed DMBs in Nigeria and the panel multiple regression technique of data analysis was employed as the tool for analysis. Results from the regression analysis revealed that there is positive significant relationship between fair value unobservable inputs, book value per share on the value relevance of accounting information. Based on the findings it is therefore recommended that management of listed deposit money banks should take cognizance of fair value inputs when preparing financial statements.

Keywords: Fair value, Value relevance, Unobservable inputs, Book value per share, Earnings per share.

1.1 Introduction

Financial statements give vital information on the financial state of affairs of an organisation (Nirmala and Florence, 2011). The usefulness of accounting information have been constantly documented by extant literatures on value relevance, which measures the efficacy of accounting figures from the perspective of equity valuation. The value relevance is associated to the provision of vital information that enables investors assess the worth of a firm towards making informed decisions (Kimouche, 2016).

Policy makers consider the deployment of fair value (FVA) approach in determining the worth of a company thereby enabling more efficient, transparent and reliable financial information with high level of precision on the economic state of the organisation (Posti, 2016). FVA relies on categorization as derived from most studies, which include observable (monitoring) and unobservable (non-monitoring) inputs there by instituting a FVA categorisation, which entails a measurement process. FVA measurements are categorized into hierarchies, depending on the type of input to the valuation techniques utilised. Based on IFRS 13, Level 3 hierarchy are entail non-monitoring inputs for the assets or liabilities, which are used to measure FVA in the absence of relevant observable inputs. The provision also advocates the utilization of the most efficient accessible information including the entity's own data, factoring identified market participation fundamentals. Alfreda and Sergej (2017) opine that when Level 1 and Level 2 inputs are not available then Level 3 becomes the next option in boosting the relevance of FVA estimates, which buttresses the latter's importance in the model. This position is also corroborated by Barron, Chung, and Yong (2016) whose study delved on usefulness of financial information to users.

FVA is deemed to be one of the most controversial aspects in accounting because of the perception that it might not reflect firms' financial condition, which contributes to the importance of financial information. Past financial crises have warranted debate about FVA among various experts in relevant sectors of the global economy. Critics have faulted FVA for amplifying the crisis and creating consistent fall in prices (Khan, 2010). Its valuation is considered as unpredictable,

unrealistic, which require management initiative, especially in difficult financial times. Some studies such as Song, Thomas & Yi (2010) document that managers are involved in creative accounting especially in relation to FVA, which distorts its value relevance. Alfreda and Sergej (2017) opine that investors while making their equity pricing decisions are likely to undervalue some estimates, possibly because of information asymmetry, which entails the need for caution in utilizing information containing FVA estimates. This explains why Wang and Zhou (2017) emphasised on the difficulty to conclude on fair value results, which require more informative reporting. In some domains, the markets lack the capacity to provide the necessary and reliable data for FVA measurement. There could be the eventual estimation of values that unreliable and devoid of reality thus adversely affecting value relevance (Hoogendoorn, 2006). In developing countries like Nigeria, some assets do not have available market, therefore, fair value measurement would be more challenging, which raises questions on their reliability and how they could be value relevant.

Antagonists of FVA posit that the inclusion of fair value has the potential to create artificial volatility, and consequently, increasing cost of regulatory intervention, and there by create negative market reactions, which could in turn affect cash flows, and thus firm value (Ball 2006). Recognizing these transitory changes in regulatory capital would result in excess volatility that does not reflect economic reality. Fair value is often considered a controversial area in accounting as some scholars opines that fair valuemight not reflect financial reality. Financial predicament has led to a major debate about fair value among regulators especially players in the financial industry. Critics have blamed fair value for intensifying the volatility thereby increasing the overall risk in the financial systems.

It is imperative to examine fair value unobservable inputs after years of implementation in Nigeria in order to confirm if there has been noticeable relevance of accounting numbers. This important question about fair value accounting requires the attention of academics, policy makers and practitioners.

Base on the surrounding issues raised regarding the value relevance of fair value accounting and in light with other issues identified, this study aims at

investigating the effect of fair value accounting on the value relevance of listed deposit money banks in Nigeria.

The main objective of this study is to determine the effect of fair value unobservable inputs on the value relevance of listed deposit money banks in Nigeria. Specifically, the study is aimed at determining the effect of book value per share, earnings per share, and fair value of unobservable inputs on the value relevance of listed deposit money banks (DMBs) in Nigeria. It is therefore hypothesized that the aforementioned explanatory variables do not exert significant influence on the value relevance of the listed DMBs in Nigeria.

The motivation of this study is due to the complexities surrounding on the effect of fair value unobservable inputs on the value relevance of accounting information. There have been a long on going growing debate that have caused discrepancies among scholars (Lee & Park, 2013). This is why this study set out to examine the effect of fair value unobservable inputs on the value relevance of accounting information of listed deposit money banks in Nigeria for the period of 2012-2018. The practical outcome of the study is expected to be of importance to various stakeholders. Investors are identified as one of the primary users of financial information. Potential investors make use of financial statements to assess the viability of investing in a company and the quality of financial information is important in their decision making. Fair value is an important area in accounting hence, this study will help investors to acknowledge the relevance of fair value in relation to firm value. The shareholders are the major risk bearers in a company and they rely on the quality of the information in the financial statement to assess the performance of a company, thus, the outcome of this research will bring to light the relevance of fair value of financial information.

The remainder of the paper is organized as follows: section 2 presents relevant extant studies. Section 3 discusses the methodology employed for the study. In section 4, the results of data analysis are presented and discussed. Section 5 concludes the study by highlighting the finding and its policy implications.

2.0 Literature Review

This section addresses the key concepts of the study as well as reviews relevant studies on the subject. The relevant theories that underpin the variables of the study are also identified and discussed.

2.1 Conceptualisation

Value relevance can be defined in various ways. For example, Barth, Beaver and Landsman (2001) see it from the perspective of interrelationship between accounting figures and market value of common stock. Another view is that of Francis and Schipper (1999) who perceive it from four dimensions as derived from the influence of financial information. First that the later influences stock prices by capturing intrinsic share values toward which stock prices drift, second, that such information is value relevant if it contains the variables used in a valuation model or assists in predicting those variables, while the third and fourth are premised on value relevance as indicated by statistical association between financial information and prices or returns. Consistent with Francis and Schipper's (1999) fourth interpretation of value relevance, this study defines value relevance as the ability of financial statement information to capture and summarise information that determines the firm's value.

In line with the requirement of (IFRS 13: B2), fair value measurement requires an entity to determine the following: particular asset or liability that is the subject of the measurement. IFRS 13 provides that in the measurement of fair value estimates, an entity should consider the attributes of the asset or liability being measured that a market participant would consider when pricing the asset or liability at measurement date (for example, the condition and location of the asset and any restrictive covenant on the sale or use of the asset) (IFRS 13:11). IASB seeks to improve comparability and consistency in fair value measurements and associated disclosures through a 'fair value hierarchy'.

The hierarchy classifies the valuation methods inputs used in into three levels. Highest priority is given to (unadjusted) quoted prices observable in active markets for identical assets or liabilities while unobservable inputs is given lowest priority to (IFRS 13:72). Level 1 input are quoted prices in active markets for identical assets or liabilities that are observable on the measurement date. (IFRS

13:76). Level 2 inputs are observable inputs other than quoted market prices considered within Level 1 for the asset or liability, either directly or indirectly. (IFRS 13:81). They include quoted prices for similar assets or liabilities traded in active markets, identical or similar assets or liabilities quoted prices in markets that are not active, observable inputs other than quoted prices for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. (IFRS 13:86). Unobservable inputs can only be used to measure fair value when relevant observable inputs are not available, in so doing allowing for circumstances where there is little, or no, market activity for the asset or liability at the measurement date.

2.2 Empirical Review

We review extant literatures of fair value and value relevance of accounting information. Subsequently, the related theories on the subject are also discussed with a view to establishing a link to the model.

Ghassan and Tala (2018), investigated value relevance of IFRS13, fair value hierarchy information in Palestinian financial institutions in relation to level three, due to unobservable inputs used on it. Their study found out that fair value hierarchy significantly affects the relevance of information presented to the investor's. It documents that level 3 does not lower investors' decision. Similarly, Haiping and Eliana (2018) conducted a study on the compensation of CEOs and the relevance of fair value accounting using a sample covering the period of ten years between 2007 and 2016. Findings revealed that Level 3 fair value inputs is less value relevant, which shed light on the decision usefulness of fair value accounting. The outcome of most of these studies in relation to level 3 is not impressive. However, such results are for studies in developed economies. The outcome could be different in less developed economies.

Furthermore, Sami (2016) investigated the value relevance of International Financial Reporting Standards (IFRS) and the effect of the financial crisis on European financial firms for the period between 1998 and 2012. The outcome reveals that the combined value relevance of book value of equity and earnings has increased following mandatory IFRS adoption. In addition, the findings suggest that the value relevance of book value of equity increases while that of

earnings decreases as the financial crisis evolves. Moreover, during the crisis period the value relevance of equity book value appears greater for firms operating in countries with weak institutional environment as well as for firms with weak corporate governance mechanisms. Again, this is peculiar to European economies, and requires further replication in African economies such as Nigeria.

In a related local study by Appolos, Grace and Jerry (2016) who delved on the value relevance of accounting information of 28 companies listed on the Nigerian Stock Exchange (NSE) using pooled OLS, ANOVA test was also conducted. The findings showed that there is no significant difference between the value relevance of accounting information prior and after the adoption of IFRS. The methodological difference of this study when compared to other foreign studies lacks a basis for comparison. Studies by Suadiye (2012) and Pathirawasam (2013) delved on the value relevance of earnings and book value of equity for Turkey, and Sri Lanka respectively. They both reveal that book value of equity is more value relevant than the earnings in both countries.

Fadia and Mohammad (2015) empirically examined whether developments in financial reporting environment following the adoption of IFRS resulted in more relevant financial information over time, for Jordanian firms, which documented them to be value relevant during all the period of the study. Also, Mary, Taylor and Kevin (2015) provided evidence on the value relevance of fair value asset and liability measurements for non-financial firms between 2008 and 2014. They found out that Level 3 fair value measurements are negatively associated with stock price. This provides conflicting outcome with most of the previously documented extant studies.

Most of the literatures reviewed suggest a gap that needs to be filled especially with regard to level 3 fair value measurement as they provide conflicting evidence in the outcomes. Besides, the related studies in terms of methodology are concentrated in Europe and other more developed economies. It is therefore evident that more studies are required on the subject with African economies, especially Sub Saharan African (SSA) countries such as Nigeria.

2.3 Theoretical Framework

This section explains the related theories upon which the study is hinged. The agency and stakeholder's theories are used to underpin the study.

The widely accepted agency theory developed by Jensen & Meckling (1976) explains the link between an investor and a proxy. The proxy otherwise known as an agent is expected to provide financial report of stewardship, which the investor, who is the owner, is expected to rely upon. Rather than manage the firm themselves, investors who are part owners of the firm, they rely on the management to do that for them. Management can, however, fail to disclose some information about the company to investors, a phenomenon that impairs on the usefulness of financial information. Fair value unobservable inputs, which are based on management's models can give room for the latter to capitalize on loopholes leading to information asymmetry, which can distort the value relevance of accounting information. Investors are not present in the daily affairs of a company operations but have to rely on the information provided by management which could prompt information asymmetry.

The Ohlson's clean surplus theory developed by Ohlson (1995) documents how the market value of a company can be described in terms of final accounts variables. The market value of a firm can be expressed in terms of the net book value of the firm's assets as per the statement of financial position and the expected present value of future earnings, both of which are used to estimate share value. The clean surplus theory leads to the measurement perspective because the more fair values the accountant incorporates into the book value, the less the need to predict abnormal earnings. The above theories explain the relationship between fair value and value relevance of accounting information.

3.0 Methodology

The study adopted the correlation research design, which conforms to positivism approach. It utilised a sample size of ten (10) listed DMBs out of a total population of fourteen (14).

The financial data used for the study are secondary in nature obtained from the annual reports. Panel regression analysis was employed based on the fact that the study involves the use of both time series and cross sectional data.

Variables Measurement and Model Specification

Table I: Measurement of the Dependent (DV) and Independent Variables (IVs)

Variable	Nature of Variable	Proxy	Measurement
Share Price	DV	ShPr	Asking price of stocks after first quarter of publication of the annual accounts
Book Value Per Stock	IV	BoVaS	Stockholders' fund of each firm to the number of common stock.
Earnings per stock	IV	EaPrS	Net Income after interest and tax of each firm to the number of common stock.
Fair value level hierarchy	IV	FaVaH	Level three assets divided by total assets.

Source: Compiled by the researchers from various literatures revealed below

Our models including the parsimonious model rely heavily on the Ohlson (1995) price model. Other related literatures, which align with the this model include Jarva & Lantto (2012), Tsalavoutas, Andre & Evans (2012), and Ismail, Karmarudin, Zijl & Dunstan (2013). The models are presented as:

$$ShPr_{it} = b_0 + b_1BoVaS_{it} + b_2EaPrS_{it} + \varepsilon_{it} \quad (1)$$

To determine the value relevance of fair value unobservable inputs, an index will be introduced and model 1 will be expanded. Thus

$$ShPr_{it} = b_0 + b_1BoVaS_{it} + b_2EaPrS_{it} + b_3FaVaH_{it} + \varepsilon_{it} \quad (2)$$

Where $FaVaH_{it}$ is the fair value hierarchy for banki at time t, the study will employs Equation 2.

Note that the variables are as defined in Table I above. Also, b_0 is the intercept, while b_1 , b_2 and b_3 are the coefficients/estimators, and ε_{it} is the residual or error term.

4.0 Data Presentation and Discussion

In this section, data collected in the course of carrying out the study were presented and discussed. The hypothesis formulated for the study was tested to determine the effect of fair value unobservable inputs on the value relevance of accounting information.

Table II: Summary of Descriptive Statistics

VARIABLES	OBS	MEAN	Std. Deviation	Minimum	Maximum
ShPr	70	6.2683	7.2221	0.4	28.2
BoVaS	70	6.7346	5.0376	0.07	17.43
EaPrS	70	0.867	1.1003	- 1.01	4.67
FaVaH	70	0 .0117	0 .0051	0.0014	0.0179

Table II presents the descriptive statistics of the data for the variables of the study. The data set indicated above contained a total of 70 observations for 10 listed deposit money banks over the study period of 7 years. Three independent variables were measured against the dependent variable. The dependent variable is the share price of the sampled banks.

The table shows that the sampled DMBs during the period have an average share price (ShPr) of ₦6.26 with standard deviation of 7.22, and minimum value of ₦0.4k and ₦28.2k as the maximum value. The standard deviation of 7.22 implies

that there is high variability of the share price among the banks, this is also evident from the difference between the maximum and minimum value.

The table reveals that the average book value per share (BaVaS) of the sampled banks is ₦6.73K, with standard deviation of 5.04, and the minimum and maximum BVS of ₦0.07k and ₦17.43k respectively.

The results from table II show that the average earnings per share (EaPrS) is ₦0.87k of the sample banks during the period of the study, with the standard deviation of 1.10. The minimum and maximum EPS are -₦1.01K and ₦17.43k respectively.

The table indicate that the average fair value unobservable inputs (FaVaH) of the sampled banks is ₦0.0117k, with standard deviation of 0.005, and the minimum and maximum value of ₦0.0014k and ₦0.018k respectively.

Table III: Correlation matrix

	ShPr	BaVaS	EaPrS	FaVaH
ShPr	1.0000			
BaVaS	0.7161	1.0000		
EaPrS	0.7386	0.6771	1.0000	
FaVaH	0.6775	0.4681	0.7062	1.0000

From table III, which represents the correlation matrix, it can be seen that BaVaS, EaPrS and FaVaH are positively correlated with SP of the listed deposit money banks in Nigeria. The implication is that the above variables move in the same direction with share price. In addition, the result in the Table III shows the absence of multicollinearity among the variables as the relationship between the variables did not exceed the threshold of 0.8 as suggested by Hair et al. (2010).

However, to determine the existence of multicollinearity, the variance inflation factor (VIF) was conducted.

Table IV: Regression Results

Variables	Coefficient	Std. Error	Z- value	P>(Z)
BaVaS	0.3582	0.1420	2.52	0.012
EaPrS	0.0199	0.0811	0.25	0.806
FaVaH	1.3901	0.3073	4.52	0.000
CONSTANT	0.9747	0.1101	8.85	0.000
R Squared overall:	0.6145			
f-Statistics:	102.34			
Prob.:	0.0000			
Hetttest:	0.7634			
Hausman:	0.1486			
L.M test:	0.0000			
VIF:	2.24			

Residual tests

The results in table IV show the absence of Heteroskedasticity as indicated by the Breuch Pagan/Cook-Weisberg test for heteroskedasticity, a Chi2 of 0.09 with p-value of 0.7634. Thus, we reject the null hypothesis that there is no constant variance in the residuals; as the p-value is statistically insignificant.

The study conducted multicollinearity test to show there is correlation among the explanatory variables themselves, which may affect the result of the study. Variance inflation factor (VIF) was conducted and the values for all the variables are less than 10 and the tolerance values for all the variables are greater 0.10 (rule of thumb). This shows there is no multicollinearity problem. The table also indicate the absence of multicollinearity among the explanatory variables, as shown by the mean variance inflation factor (VIF) of 2.24.

Hausman specification test was also conducted in order to determine the preferred model between fixed and random effects. The result obtained from Hauman specification test conducted in the study shows a p-value of 0.1486 that is statistically insignificant and as such the random effects model is considered as the most appropriate estimator over the fixed effects model.

However, the Breusch and Pagan Langragian multiplier test was conducted to determine whether the random effect should be interpreted or we go for the pool OLS. The result deduced from the test showed a P-value of 0.0000 that is significant at 1%. This indicate random effect model is the best model that suits the study.

Since random effect model is the model that suits the study therefore the R^2 overall is interpreted and the table indicate that the independent variables explained 61.45% of the total variations in the dependent variable (share price) of listed deposit money banks in Nigeria, from the coefficient of multiple determinations (R^2 overall of 0.6145). The F- statistics of 0.0000 indicate that the model is fit.

Hypotheses Testing

Table 4.3 shows that, book value per share (BaVaS) has a significant positive effect on the value relevance of listed deposit money banks in Nigeria, with a coefficient of 0.3582 and with a p-value of 0.012 which is statistically significant at 1% level of significance. The coefficient of 0.3582 indicates that ₦1 increase of EPS lead to a corresponding increase of share price of ₦0.3582K. Based on this, the study rejects the null hypothesis one (H_{01}) which states that, book value per share has no significant effect on the value relevance of listed deposit money banks in Nigeria. This signifies that book value is significant in determining the share price of listed deposit money banks in Nigeria. This finding is in line with the studies of Pathirawasam (2013) but contrary to Kimouche (2016).

Table 4.3 shows that, earnings per share (EaPrS) has an insignificant positive effect on the share price of listed deposit money banks in Nigeria, from the coefficient of 0.0199 with p-value of 0.806 which is statistically insignificant at any level of significance. This implies that earnings per share have an insignificantly effect of share price of listed deposit money banks in Nigeria. Therefore, in line with the result, the study fails to reject the null hypothesis two (H_{02}) which state that earnings per share has no significant effect on the value relevance of listed deposit money banks in Nigeria. This finding is contrary to Oyerinde (2011), and Abiodun (2012).

Lastly, the results from table 4 show that, fair value unobservable inputs hierarchy have a significant positive effect on the value relevance of listed deposit money banks in Nigeria, with a coefficient of 1.3901 and a p-value of 0.000 which is statistically significant at 1% level of significance. This suggests that when financial statement are prepared using fair value accounting approach it boost users confidence of the accounting numbers in the financial statement as this is reflected in the increase of share price. The more banks uses unobservable inputs the higher will be the share price. Fair value unobservable inputs hierarchy has the largest beta coefficient of 1.3901, which means that a 1% increase in the use of unobservable inputs will lead to a corresponding increase in share price of ₦1.3901K increase, therefore fair value hierarchy have significant effect on the value relevance of accounting information of listed deposit money banks in Nigeria. Based on this, the study rejects the null hypothesis three (H_{03}) which states that, which states that fair value unobservable inputs has no significant

impact on the value relevance of listed money banks in Nigeria. The result is in line with the study of Fadia and Mohammad (2015), Mary, Taylor and Kevin (2015) but contrary to Haiping and Eliana (2018).

5.1 Conclusion and Recommendations

The study contributes to the value relevance literature by examining the value relevance of accounting information in relation to fair value of listed deposit money banks in Nigeria focusing on the period between 2012 and 2018. The results demonstrate that, as far as the listed deposit money banks in Nigeria are concerned, information contained in the financial statement prepared using fair value unobservable inputs are of value relevance to investors and stakeholders generally.

Three explanatory variables were used to ascertain the effect of fair value accounting on the value relevance of accounting information of listed deposit money banks in Nigeria. Two of the explanatory variables book value per share and fair value unobservable inputs are statistically significant in influencing the share price of quoted deposit money banks in Nigeria. Based on the results obtain from the analysis, it is concluded that fair value unobservable inputs is value relevant to users of financial statement. It implies that investors' reaction to share prices of listed deposit money banks in Nigeria are determined by fair value accounting.

It is therefore recommended that management of listed deposit money banks should prepare their financial statements to comply with the International Financial Reporting Standards (IFRS) fair value accounting. Also, the management of listed deposit money banks in Nigeria should ensure that they familiarize and update themselves with requisite knowledge of fair value accounting in order to enrich the content of financial statements and enhance the relevance of accounting numbers.

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