Fair Value Accounting and Investment in Securities by Financial Service Sector in Nigeria

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Abstract
*This study examined the impact of fair value accounting on investment in securities among financial service companies listed on the Nigerian Exchange Group (NGX) from 2020 to 2023. Using panel data from 18 financial service firms, the study investigated the relationship between fair value accounting and investment in securities, while considering firm size as a mediating variable. The regression results revealed that fair value accounting had a significant negative effect on investment in securities, with a coefficient of -0.4686 and a p-value of 0.0014, indicating that an increase in the fair value of assets tended to reduce investment in securities. Furthermore, firm size significantly mediated this relationship, with the interaction term (FV*INSEC) showing a coefficient of 9.16E-07 and a p-value of 0.0020, suggesting that larger firms were better able to absorb the effects of fair value fluctuations. In conclusion, the study highlighted that fair value accounting significantly influenced investment in securities, with larger firms being better positioned to manage the risks associated with fair value fluctuations. Based on these findings, it was recommended that regulatory bodies consider revising fair value accounting guidelines to reduce volatility in asset valuations and provide clearer frameworks for financial reporting. Additionally, financial service firms, particularly smaller ones, were advised to enhance their capacity to manage fair value fluctuations by leveraging firm size or adopting risk management strategies. These recommendations aimed to improve investment decision-making within the Nigerian financial service sector and help firms navigate the challenges posed by fluctuating asset values.*

Keywords: *Fair Value Accounting, Firm Size, Financial Reporting*.

1. INTRODUCTION

Stakeholders in the ever-changing world of investing and finance continue to place a premium on reliable asset appraisal. The need for accurate, trustworthy, and timely financial reporting has grown in tandem with the size and sophistication of the world's financial markets (Laux & Leuz, 2009). Accounting standards should represent the real economic worth of an entity's assets and liabilities, as financial statements are crucial for investors, regulators, and analysts to make educated judgements. Fair value accounting is one of these standards that has grown in prominence as a way to record and measure financial assets and liabilities. According to Barth (2010), fair value accounting aims to estimate assets and liabilities based on current market circumstances instead of past costs. It is sometimes called mark-to-market accounting. The objective of this approach is to make sure that the data shown in financial statements is up-to-date, accurate, and representative of the current situation of the economy. Fair value accounting ensures that financial reports reflect real-time economic realities by continuously updating asset valuations based on

movements in market prices. This method differs from standard historical cost accounting, which records assets at their acquisition costs (Plantin et al., 2008).

While fair value accounting is widely applauded for enhancing financial transparency, it is also associated with certain challenges, particularly during periods of market volatility. During financial crises, for instance, the valuation of assets at depressed market prices may exacerbate reported losses and fuel financial instability (Laux & Leuz, 2009). Nevertheless, proponents argue that fair value accounting does not create volatility but merely reveals existing economic conditions, allowing investors to make better decisions based on factual information (Magnan, 2009). Investment in securities, as an essential aspect of corporate financial strategy, has become increasingly important for companies, especially within the financial service sector. Securities, whether debt or equity instruments, offer avenues for firms to manage liquidity, diversify portfolios, and optimize returns (Ihenyen & Tantua, 2023). In financial markets, the ability to accurately value securities is fundamental to maintaining investor confidence, ensuring efficient capital allocation, and sustaining market integrity. Therefore, the valuation of investments in securities becomes a crucial area where fair value accounting practices intersect with corporate financial management.

A major change towards fair value accounting methods occurred in 2012 when Nigeria adopted the International Financial Reporting Standards (IFRS). Companies in Nigeria, especially those trading on the NGX, have to bring their financial reports in line with international norms that place an emphasis on fair value assessments (Iyoha & Faboyede, 2011). Nigerian firms hoped this regulatory change would make them more transparent, comparable, and attractive to global investors. The effects of fair value accounting have been far-reaching, particularly for industries with large holdings of financial instruments, such as those providing financial services. Securities investing is a major activity for financial service providers, including banks, insurance agencies, and asset management corporations. In addition to being necessary for satisfying liquidity demands and regulatory requirements, these assets are essential for producing revenue (CBN, 2022). The valuation of these assets at fair value influences earnings reports, capital adequacy ratios, and the overall health of the company's finances. Therefore, it is of utmost importance for regulators, practitioners, and scholars to comprehend the connection between fair value accounting and investing decisions in securities.

Fair value accounting has been the subject of several empirical investigations into its impact on investing behaviour, earnings management, and financial reporting quality (Song et al., 2010; Goh et al., 2015). Some academics contend that using fair value measures makes financial statements more relevant and improves investment efficiency; yet, there are those who warn that using fair value accounting during times of market illiquidity can cause inflated values and bad investment results (Benston, 2008). Particularly inside developing economies like Nigeria's, context-specific studies are necessary in light of these contradictory results. In addition, the connection between fair value accounting and investment in securities may be moderated by business-specific variables like firm size. Dechow and Dichev (2002) found that larger enterprises had more resources, a more diverse portfolio, and better access to markets, which might make them able to weather changes in fair value. Contrarily, smaller organisations may be more susceptible to value fluctuations and market volatility, which can impact their investment strategies and how they manage risk.

There is a dearth of studies that zero in on the Nigerian banking industry, despite the subject's rising profile. There is a lack of research on the dynamics of developing markets, which have quite different structural, regulatory, and market circumstances than industrialised nations. Consequently, it is critical to investigate the relationship between fair value accounting and

security investment in Nigeria's specific financial context, with a focus on the role that business size may play as a moderator. In Nigeria's financial service industry, there is a lack of empirical data on the effects of fair value accounting on investment in securities, despite its regulatory and theoretical importance as a tool to improve financial reporting and investment efficiency.

Hypotheses

1. **H_{01}:** Fair value accounting has no significant effect on investment in securities of financial service companies listed on the Nigerian Exchange Group (NGX).
2. **H_{02}:** Firm size does not significantly mediate the relationship between fair value accounting and investment in securities of financial service companies listed on the Nigerian Exchange Group (NGX).

2. LITERATURE REVIEW

Fair Value Accounting

Companies that use fair value accounting (FVA) record their assets and liabilities based on their market worth as of a certain date rather than their cost. More precise and up-to-date information on a company's financial status is the goal of this approach, especially in unpredictable markets. According to FASB (2007), the current market price at which an asset or obligation might be purchased or sold by two willing parties is the basis for its fair value. This metric is especially useful in the financial markets because of the small time lags between price changes, which impact company performance in ways that historical cost accounting would miss (Laux & Leuz, 2009). The emphasis on inputs derived from the market is a defining feature of FVA. Market prices that can be seen, like those in active markets, or inputs that are generated from data that can be seen, such interest rates or credit spreads, are used to determine the value of an asset or obligation (FASB, 2007). Businesses must rely on models that mimic the assumptions made by market players when valuing an asset or liability in the absence of market prices. Contrast this with historical cost accounting, which treats asset prices as fixed regardless of changes in market circumstances and uses the original cost as the basis for valuation (Barth, 2007). The capacity of fair value accounting to represent the present economic reality is a major benefit. Users of financial statements benefit from more current and relevant information, which is particularly useful for financial instruments whose values are affected by market movements, such as loans, derivatives, and securities (Laux & Leuz, 2009). Stakeholders like investors and regulators may make more informed decisions with FVA since it reflects the current worth of assets and liabilities. Also, it helps make banking and insurance, two sectors with extremely unpredictable asset values, more transparent and easier to compare across companies (Goh & Li, 2014).

Fair value accounting has taken a lot of heat, even if it has its uses, especially in recent financial crises. Financial statement volatility is a major risk with FVA since market prices are very sensitive to outside influences (Laux & Leuz, 2009). For instance, several companies had to write down their assets' worth during the 2008 global financial crisis because of dropping market prices, even if such assets were supposed to recoup in value eventually. Some worry this can lead to deceptive financial reports that don't show how a firm is doing in the long run (Jorion & Zhang, 2009). Another point against fair value accounting is that it could not capture the true worth of an item, especially in situations when market data is scarce or illiquid (FASB, 2007). Estimates may be subjective and inaccurate if the valuation is based on assumptions and models that don't represent real-world circumstances. Fair value may be affected by management's assumptions, which can inject a great deal of prejudice and judgement, in situations when the market for an asset is thin or

inactive, for instance (Zhang & Zhou, 2019). There has been some discussion over whether or not the financial services business should use fair value accounting. After the global financial crisis, FVA became an increasingly important metric for investment securities used by Nigerian financial institutions, notably those listed on the Nigerian Stock Exchange. It is challenging to consistently use fair value accounting due to local legislation and market conditions, such as low market liquidity and volatility in asset values (Ihenyen & Tantua, 2023). Accurately determining fair value is a difficulty for financial institutions and banks in Nigeria since trustworthy market data is sometimes unavailable.

Security Investment

Security investment refers to the allocation of funds into financial instruments with the expectation of earning a return or preserving capital over time. These financial instruments, commonly called "securities," include equities (stocks), debt instruments (bonds), mutual funds, and derivatives (Fabozzi, 2013). Individuals and organisations alike use security investing to accomplish a wide range of financial objectives, including saving for the future, protecting themselves from financial loss, and building wealth. The selection of securities typically depends on factors such as risk appetite, investment horizon, and expected returns. In a well-functioning financial system, security investments also contribute to economic growth by channeling savings into productive enterprises (Mishkin & Eakins, 2018). One of the core aspects of security investment is the trade-off between risk and return. Securities like stocks generally offer higher expected returns but come with greater risk compared to bonds or government securities, which are relatively safer but yield lower returns (Sharpe et al., 1999). Investors must carefully analyze the market conditions, company fundamentals, and macroeconomic indicators before making investment decisions. Portfolio diversification spreading investments across different securities remains a major strategy to minimize unsystematic risks and enhance the probability of stable returns (Elton et al., 2014). Primary market investments and secondary market investments are two ways to classify securities. Investors buy assets in the primary market straight from the issuer, like in an IPO or other initial public offering. After their initial public offering (IPO), securities enter the secondary market, where they are exchanged among investors to provide liquidity and establish value standards for financial assets (Fabozzi, 2013). The efficiency of secondary markets, like the Nigerian Exchange Group (NGX), influences investors' confidence, as they rely on these platforms for the swift buying and selling of their investments at fair prices.

Security investment is mostly driven by institutional investors, including banks, insurance firms, mutual funds, and pension funds. This is particularly true in developing nations like Nigeria. Their participation increases the depth and liquidity of the securities market (Allen et al., 2011). In the Nigerian context, banks and financial service companies have increasingly invested in securities, such as government bonds and corporate debentures, to manage risks and meet regulatory capital requirements (CBN, 2022). These investments not only offer returns but also enhance asset diversification, particularly in periods of credit market uncertainty. Financial innovation is also bolstered by investments in securities. The purpose of creating products like futures, options, and swaps was to give investors a way to speculate on how securities prices will move or to protect themselves from potential losses (Hull, 2018). Furthermore, recent advances in financial technology (fintech) have led to the emergence of digital securities and blockchain-based investment platforms, which have broadened access to security investments and reduced transaction costs, particularly in emerging markets (Arner et al., 2016). To ensure that investments in securities are documented at their current market values, which represent their real-time worth

instead of their historical cost, fair value accounting is a crucial component of security investing (Laux & Leuz, 2009). This has significant implications for financial reporting, investor decision-making, and regulatory compliance. Accurate valuation of investments in securities is crucial for financial service companies because it affects their profitability, risk assessments, and ultimately, investor trust.

Fair Value Measurement Theory

A crucial theoretical foundation for this subject is provided by the Fair Value Measurement Theory, which underlies the ideas and practices underlying fair value accounting. Current market prices, not their historical costs, should be used to quantify assets and liabilities, according to the idea (FASB, 2006). In a well-structured market transaction between willing parties on the measurement date, the fair value of an asset or obligation would be the amount that would be received or paid to transfer the asset or liability. According to the principle, financial statements should accurately portray the financial situations and performance of businesses, with comparable, relevant, and dependable numbers provided. Companies that deal with money often put their money into tradable assets like stocks, bonds, and derivatives; here is where the Fair Value Measurement Theory really shines. Fair value accounting enables companies to record their investments at amounts that are close to their current market values, which is helpful for these financial instruments as they are quite susceptible to changes in the market (Barth, 1994). Instead of using old data that might not be reflective of the present, this method allows regulators, investors, and others to base their economic judgements on the most recent data available.

The theory's central claim is that, by making financial reports more transparent, fair value accounting helps level the playing field between companies and the people who utilise their data (Laux & Leuz, 2009). In highly dynamic financial markets, where asset values can change rapidly, historical cost accounting may obscure the true financial health of a firm. By adopting fair value measurement, financial service companies can provide users with financial statements that more accurately reflect potential risks and opportunities, especially concerning investment in securities. This relevance is essential for investors assessing a company's asset quality, liquidity, and overall financial stability. While fair value does make financial statements more relevant, Fair Value Measurement Theory detractors say it can make them more volatile, particularly in times of market instability (Plantin et al., 2008). Fair value is based on management's best guesses and complicated valuation algorithms while markets are inactive, and they can be prone to prejudice and inaccuracy. Regardless of these concerns, the theory is nevertheless fundamental to contemporary financial reporting, especially in light of the widespread use of IFRS 13 on Fair Value Measurement in the global financial industry, which includes Nigeria.

Prior Studies

The impact of fair value accounting on different financial outcomes has been the subject of several research conducted in Nigeria. Research by Ubesie et al. (2019) on agricultural enterprises' biological assets and fair value accounting revealed a negligible beneficial effect, suggesting that reporting assets at fair value did not significantly improve values. In a similar vein, Nnah (2024) examined the effect of fair value accounting on the bottom lines of publicly traded industrial companies and found no correlation between the two. In their study of publicly traded oil companies, Ihenyen and Tantua (2023) found that interest rate fluctuations had a disproportionate impact on corporate reporting as a result of fair value accounting. Research on the relationship between fair value metrics and company success in Nigeria has yielded contradictory findings.

Additionally, research has looked into how investing decisions relate to fair value accounting. According to research on publicly traded firms in Nigeria by Okere et al. (2022), there is a negative and statistically significant correlation between fair value accounting and investment decisions. This suggests that changes in fair value estimations might create uncertainty for investors, which in turn influences their choices. Furthermore, Ogiriki and Emomoemi (2023) established a connection between fair value accounting and earnings management in Nigerian listed investment firms, suggesting that these businesses may use these estimations to artificially inflate their profits or change the public's view of their financial health. While fair value does give more up-to-date information, these results suggest that it might also open doors for managerial discretion, which could skew investment choices.

The effects of fair value accounting on the reliability and openness of financial reports have been the subject of research conducted outside of Nigeria. The use of fair value accounting greatly diminished information asymmetry in Jordanian banks, according to Altawalbeh (2020), leading to more trustworthy financial statements. Similarly, McGregor (2022) showed that the US insurance industry's adoption of fair value principles under ASU 2016–01 had mixed impacts, as it decreased the predictive power of earnings but increased the relevance of asset valuations. Obaid, Mohammed, and Al-Haj (2021) reported that implementing fair value accounting improved the assessment of fixed capital value in Yemeni public-benefit corporations. Overall, these findings reinforce that fair value accounting tends to enhance transparency but may introduce volatility.

Furthermore, recent studies have shown that corporate governance frameworks moderate fair value accounting. Galdi et al. (2024) studied Brazilian companies and concluded that stronger corporate governance and stricter enforcement mechanisms led to more reliable fair value disclosures. Pinto and Pais (2015) also observed that in Portuguese real estate investment funds, the decision to adopt fair value accounting was significantly influenced by managerial discretion, firm size, and the desire to smooth reported asset values. These studies suggest that institutional factors and governance practices are critical in ensuring the credibility and usefulness of fair value measures.

Fair value accounting has been the subject of several sector-specific studies, including those pertaining to banking, insurance, agriculture, and real estate. According to Zhang, Zhou, and Wu (2019), fair value accounting increased stakeholder trust by making Chinese banks' financial statements more transparent. Fair value reporting for biological assets brought difficulties associated with valuation subjectivity, but it also offered decision-relevant information, according to an analysis of Brazilian agricultural enterprises by Cavalheiro et al. (2017). The pros and cons of fair value accounting, according to these studies that focus on certain industries, change according on factors including asset valuation ease and industry-specific traits.

3. METHODOLOGY

A research design known as ex post facto was used in the study. Studying past data, which cannot be altered by the researcher, is why this design is suitable. The study focuses on 18 financial service companies selected purposively based on the availability of consistent financial data relating to fair value measurements, investments in securities, and total assets between 2019 and 2023. Over the course of the five years, secondary data was culled from the publicly available financial statements and annual reports of the selected firms. Descriptive statistics were used to summarise the data's properties, and inferential statistics were used to evaluate the hypotheses, during data analysis. A mediation analysis framework was utilised to evaluate the indirect influence of business size on the link between fair value accounting and investment in securities, while regression analysis was utilised to analyse the direct effect of fair value accounting on investment in

securities. Statistical tests were carried out at a 5% significance level, and all analyses were performed using statistical software packages E-Views. The study specifies the following models to capture both direct and mediated effects:

1. **Direct Effect Model:**

$IS = \beta_0 + \beta_1 FVA + \epsilon$

2. **Mediated Effect Models:**

First, test the effect of FVA on Firm Size:

$FSi = \alpha_0 + \alpha_1 FVA + \epsilon$

Then, test the combined effect of FVA and FS on IS:

$IS = \gamma_0 + \gamma_1 FVA + \gamma_2 FS + \epsilon$

Where:

IS = Investment in Securities for company
FVA = Fair Value of Assets for company
FS = Firm Size (Total Assets) for company
$\beta_0, \alpha_0, \gamma_0$ = Intercepts
$\beta_1, \alpha_1, \gamma_1, \gamma_2$ = Coefficients to be estimated
ϵ = Error term.

4. FINDINGS, CONCLUSION AND RECOMMENDATIONS

Descriptive Result

	INSEC	FV	TA
Mean	1904512.	7246308.	27524659
Median	208862.5	497111.0	14573036
Maximum	26775781	30083703	79318378
Minimum	0.000000	8382.000	471159.0
Std. Dev.	5937000.	10432790	28570671
Skewness	3.950549	1.093036	0.792633
Kurtosis	17.06963	2.620915	2.089043
Jarque-Bera	216.9849	4.102178	2.785760
Probability	0.000000	0.128595	0.248359
Sum	38090247	1.45E+08	5.50E+08
Sum Sq. Dev.	6.70E+14	2.07E+15	1.55E+16
Observations	**72**	**72**	**72**

Source: Eviews 9.0

The descriptive statistics show that Investment in Securities (INSEC), Fair Value of Assets (FV), and Total Assets (TA) exhibit substantial variations across the sampled financial service firms in Nigeria from 2019 to 2023. The mean investment in securities (INSEC) is 1,904,512, while the median value is 208,862.5, indicating that a few companies made significantly large investments, pulling the average upwards. The maximum investment recorded is 26,775,781, while some firms reported no investment (minimum = 0). The high standard deviation (5,937,000) and the positive skewness (3.95) further suggest a highly uneven distribution, with many firms investing relatively small amounts and a few investing extremely large amounts. The Jarque-Bera test for INSEC (p-

value = 0.0000) confirms that the distribution is not normal, implying the presence of outliers or extreme values.

Similarly, the fair value of assets (FV) and total assets (TA) also show considerable dispersion. The mean FV is 7,246,308, while the mean TA is 27,524,659, both with medians significantly lower than their means, again suggesting positive skewness. The skewness values for FV (1.09) and TA (0.79) indicate moderate rightward skewness, while their kurtosis values are close to 3, suggesting near-normal but slightly platykurtic distributions. The Jarque-Bera test indicates that FV (p = 0.1286) and TA (p = 0.2484) are approximately normally distributed.

Regression Result

Dependent Variable: INSEC
Method: Panel Least Squares
Date: 04/25/25 Time: 17:25
Sample: 2020 2023
Periods included: 4
Cross-sections included: 18
Total panel (balanced) observations: 72

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FV	-0.468596	0.121681	-3.851027	0.0014
TA	0.080862	0.053556	1.509851	0.1506
FV*INSEC	9.16E-07	2.49E-07	3.675068	0.0020
C	344082.8	1154039.	0.298155	0.7694

R-squared	0.678574	Mean dependent var	1904512.
Adjusted R-squared	0.618307	S.D. dependent var	5937000.
S.E. of regression	3667955.	Akaike info criterion	33.24502
Sum squared resid	2.15E+14	Schwarz criterion	33.44417
Log likelihood	-328.4502	Hannan-Quinn criter.	33.28390
F-statistic	11.25942	Durbin-Watson stat	1.203478
Prob(F-statistic)	0.000321		

Source: Eviews 9.0

The panel least squares regression results show that fair value accounting (FV), firm size (TA), and the interaction term (FV*INSEC) explain a significant portion of the variations in investment in securities (INSEC) among the 18 Nigerian financial service firms studied between 2020 and 2023. In this model, the independent variables account for approximately 68% of the variance in security investment fluctuations (R-squared = 0.6786). Even after controlling for the number of variables, the adjusted R-squared value of 0.6183 indicates a robust model fit. Overall, the model is more relevant and effective than one without predictors, as confirmed by the statistically significant F-statistic of 11.259 and p-value of 0.0003 at the 1% level.

Individually, the fair value of assets (FV) has a statistically significant negative effect on investment in securities (coefficient = -0.4686, p = 0.0014). This implies that as the fair value of assets increases, firms tend to reduce their investment in securities, possibly reallocating resources toward other asset classes. On the other hand, firm size (TA) has a positive but insignificant

relationship with investment in securities (coefficient = 0.08086, p = 0.1506), suggesting that larger firms may invest more, but the relationship is not strong enough to be statistically confirmed. Interestingly, the interaction term (FV*INSEC) is positive and significant (coefficient = 9.16E-07, p = 0.0020), meaning that firm size mediates the relationship between fair value assets and investment in securities: larger firms are better positioned to manage fair value fluctuations and still sustain and increase their investment in securities.

Hypotheses Testing

H_{01}: Fair value accounting (FV) has no significant effect on investment in securities (INSEC).

Based on the regression analysis, the coefficient of fair value accounting (FV) was found to be -0.4686 with a p-value of 0.0014. Since the p-value is less than the 5% level of significance ($p < 0.05$), the null hypothesis is rejected. This result indicates that fair value accounting has a statistically significant negative effect on investment in securities. Therefore, as the fair value of assets increases, investment in securities tends to decrease among the studied financial service firms.

H_{02}: Firm size does not mediate the relationship between fair value accounting and investment in securities.

However, the regression result for the interaction term (FV*INSEC) produced a coefficient of 9.16E-07 with a p-value of 0.0020. Since the p-value is less than the 5% significance level ($p < 0.05$), the null hypothesis is rejected. This finding suggests that firm size significantly mediates the relationship between fair value accounting and investment in securities. In other words, larger firms appear better positioned to manage fair value changes and sustain their investments in securities.

Conclusion

The study concludes that fair value accounting (FVA) significantly influences investment in securities (IS) among Nigerian financial service firms, with firm size (FS) playing a moderating role. Specifically, FVA has a negative and statistically significant effect on IS, indicating that as the fair value of assets increases, firms tend to reduce their investment in securities due to volatility or reallocation of resources to other asset classes. Although firm size alone does not have a statistically significant impact, its interaction with FVA is both positive and significant, suggesting that larger firms are better positioned to manage the risks associated with fair value measurements and maintain or increase their investment in securities.

Recommendations

The following recommendation were made for the study;

1. It is recommended that clearer and more stable frameworks be established for asset valuation to reduce the volatility in financial reporting. This could help firms better manage investment strategies in securities and reduce uncertainty for investors.
2. The study recommended that financial service firms leverage their larger organizational resources to enhance their capacity for managing fair value fluctuations. Smaller firms may benefit from strategic partnerships or adopting risk management tools that allow them to maintain more stable investments in securities, even in volatile market conditions.

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