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EDITORIAL NOTE

It is with great pleasure and a profound sense of purpose that I welcome you to the maiden edition of the ***FRC Journal of Financial Reporting and Corporate Governance,*** a platform envisioned to deepen scholarship, stimulate policy dialogue, and enhance professional practice in the fields of financial reporting, auditing, assurance, valuation and corporate governance in Nigeria and beyond.

This inaugural issue marks a significant milestone in the knowledge development mandate of the Financial Reporting Council (FRC) of Nigeria. The journal is not only a scholarly repository but also a strategic initiative aimed at promoting transparency, accountability, ethical leadership, and institutional integrity through the power of evidence-based research and thought leadership.

In an era of rapid economic transformation and increasing complexity in financial markets, the need for high-quality financial reporting and strong corporate governance frameworks cannot be overstated. This journal seeks to bridge the gap between theory and practice, providing a platform for academics, practitioners, regulators, and policy-makers to interrogate emerging issues, share innovations, and propose reforms that align with global best practices.

In this maiden issue, you will find scholarly inquiries into the earnings quality of agricultural firms**,** ESG disclosure influences on investment decisions**,** and the effect of fair value hierarchy on accounting quality in commercial banks. Other contributions explore board attributes and human capital disclosure**,** the economic dimension of corporate social responsibility (CSR) in shaping financial outcomes, and enterprise risk management across Nigeria, Ghana, and South Africa. We also spotlight the increasingly vital theme of green accounting within the context of Nigeria's oil and gas sector.

I express deep appreciation to the Executive Secretary of the FRC of Nigeria, Editorial Board members, reviewers, contributors, and the FRC leadership whose commitment and intellectual rigor made this publication possible. Your support has laid the foundation for what we believe will become a respected academic and professional journal in the years ahead.

As we launch this journey, we invite researchers, regulators, practitioners, and stakeholders to engage with the ideas presented herein and to contribute actively to future editions. Together, we can shape a more resilient, transparent, and accountable financial ecosystem for Nigeria and the global community.

EDITORIAL DISCLAIMER: The authors bear full responsibility for the articles published in this Journal, and the opinions expressed do not necessarily represent those of the Financial Reporting Council of Nigeria.

Prof. Suleiman A. S. Aruwa
Editor-In-Chief
FRC Journal of Financial Reporting and Corporate Governance

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EFFECT OF FAIR VALUE MEASUREMENT HIERARCHY ON ACCOUNTING BASED EARNINGS QUALITY OF LISTED COMMERCIAL BANKS IN NIGERIA

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Abstract
This study examined the effect of fair value measurement hierarchy on Accounting Based Earnings Quality (ABEQ). Correlational research design was adopted. Data was gotten through secondary source for a sample of 10 out of 14 listed Commercial Banks spanning a period of twelve (12) years from 2011 to 2022 in Nigeria. This was sourced from their annual reports, making 120 firms – year observation. Ordinary Least Square Regression (OLS) was adopted in analysing the data after carrying out some diagnostic test of normality, heteroskedasticity and multicollinearity. The findings indicate Fair Value Measurements 1, 2 and 3 (FVM 1, 2, and 3) have negative significant effect on Accounting Based Quality (ABEQ). The study recommends that Managers of Commercial Banks should be compelled to maximize the use of Fair Value Measurement 1 inputs in times when the markets are very active. The Federal Reporting Council (FRC) of Nigeria should place sanctions on Commercial Banks that fail to comply with such directives. Secondly, Professional valuers of Commercial Banks in Nigeria should make reasonable adjustment when considering quoted assets for similar items in active markets, or inputs like interest rates, yield curves, and so on which are supported by market data when measuring fair value assets. This is necessary in reducing estimation uncertainty for fair value measurement 2. On the level 3 fair value measurements which are based on complex valuations methods, there is need to rely on assumptions of outside experts alongside management assumptions in order to develop fair value estimates for illiquid assets.

Keywords: Accounting-Based Earning Quality, Fair value level 1, Fair value level 2, Fair value level 3, Agency theory.

Introduction

For several decades now, Earnings Quality (EQ) has remained a contemporaneous debate among corporate experts, the academia, as well as standard setters in both developed and developing countries. However, since before the global financial crisis of 2008, Commercial Banks in the developing and developed countries have experienced several failures and scandals. Some major reasons behind these banks' failure could be attributed to low earnings quality which may reveal a high total expense to total income, high incidences of fraud, just to mention a few (Nigerian Deposit Insurance Corporation [NDIC], 2020). For example, the

earliest banking distresses in Oceanic bank, Platinum Habib bank, Savanna bank and others in Nigeria were all due to low earnings quality.

In addition, statistical records indicated that developed and developing countries have experienced several banking failures which are all attributed to low earnings quality. For instance, records from Price Water Coopers (PWC, 2023); (Federal Deposit Insurance Corporation [FDIC], 2023) indicated that there were 566 bank failures from 2001 to 2024 in the United States of America. A few examples of recent Commercial Banks failures in the United States of America include: Almena state, and Ericson state bank which occurred in 2020, as well as that of Signature Bank, Silicon bank and First Republic Bank which occurred in 2023. However, these failures have created so much fear and speculations that another banking crisis like that of the 2008 which was caused by global financial crisis would occur (PWC, 2023); (FDIC, 2023).

Similarly, records from NDIC (2020) have shown that out of the 425 banks that have liquidated between 1988 and 2022 in Nigeria, 51 of them are Commercial Banks. Some of these banks include Oceanic, Intercontinental, Standard trust, Platinum Habib, Diamond, just to mention a few. Although, this figure constitutes just twelve (12) percent of the total figure, but it is alarming due to the fact that Commercial Banks are risky undertakings considering their capitalization requirement, which are investors funds, and huge volume of depositors' funds. This Nigerian scenario is also evident in other developing or emerging economies which have been attributed to inaccurate disclosures of Commercial Banks' financial reports, or low earnings quality (Klynveld Peak Marwick Goerdeler [KPMG], 2022); (PWC, 2020); (Sellhorn & Stier, 2018); (Hsu & Wu, 2018).

In addition, it is an established fact that the main essence of accounting information is to influence decision usefulness of stakeholders. This implies that such report should be informational and should portray a real view of a business, and not just a mere perceptual view that entails record keeping and creation of financial reports according to specified rules. Furthermore, this informational approach is evident in the International Accounting Standard Board's conceptual framework for financial reporting which possesses attributes of this "reality view" (International Accounting Standard Board [IASB], 2011); (Barth, 2018). Therefore, researchers are of the opinion that earnings quality represent correct and dependable accounting numbers of a company's performance, hence informational and appropriate for decision making (Dechow & Schrand, 2004; Dechow et al. 2010).

Since, the goal of earnings quality is to provide financial information that would influence investors' in making efficient decisions; such information should be free from opacity, meaning that it should be transparent in order to avoid information asymmetry in the capital market (Hsu & Wu, 2018); (Barth, 2018); (Sellhorn & Stier, 2018). Asymmetric information is a situation where some private information, concerning suitable values to choose for model inputs and the

accurate fundamental economic value of a financial instrument of the firm is known to the managers of a firm only (Thesing & Velte, 2021; Landman, 2006). This leads to adverse selection and moral hazard problems.

One form of earnings attribute is the Accounting Based Earnings Quality (ABEQ), which is usually measured using accounting information (Thesing & Velte, 2021); (Gaio, 2010); (Sodan 2015); (Ibrahim et al. 2016); (Paoloni et al. 2017). Shareholders of Commercial Banks are much concerned about the growth of their investments and earnings which are presented in the income statement. This shows the level of progress of their investments. For instance, examining the earnings of Commercial Banks for some periods of time would reveal whether such profits or losses are sustainable in future, predictable, less volatile, and smoothened. The accurateness of earnings report presented to shareholders determine to a great extent what effective and realizable decisions would be made. However, inaccurate earnings numbers could lead to faulted decisions, and this have led to the extinction of some Commercial Banks both in Nigeria, and other countries (Thesing & Velte, 2021); (Yao et al. 2018); (Sodan, 2015); (Francis et al. 2004).

Consequently, for some time now a lot of arguments have focused on the impact of fair value measurement on Commercial Banks (Yao, et al. 2018); Paoloni, et al. (2017); (Barth and Landsman, 2010); (Landsman, 2007) just to mention a few. The IFRS standard requires reporting entities to provide fair value information based on 'three – level' hierarchical estimates in order to promote decision usefulness regarding valuations, methodologies and some uncertainties regarding fair value measurement. The reliability of each of the three levels depends on the inputs used for estimation. So, level 1 assets and liabilities are considered to be highly reliable, because they are measured based on directly observable inputs, such as prices of quoted identical assets. However, level 2 and level 3 are characterized by some element of judgments by management. Level 2 include inputs such as yield curves, exchange rates and empirical correlations that introduce managerial discretion into the valuation process. Level 3 is estimated with unobservable inputs computed by using price models, or discounted cash flow methodologies, or other information reflecting the reporting entities own assumption or judgments that is characterized by so much estimation uncertainty that may be highly unreliable.

Commercial Banks are the early adapters of the International Financial Reporting Standards (IFRS) than other sectors in Nigeria. To a great extent, their measurement of assets and liabilities are on fair value basis. Commercial Banks in Nigeria ensure that their fair value estimates accurately consider current market situations, and it can be presumed that fair value of assets and liabilities may have varied remarkably. However, even though the Nigerian Commercial Banks are still recovering from the Corona virus pandemic, it is more challenging as a result of volatile (unpredictable) financial markets and serious economic uncertainty emanating from geopolitical events, galloping inflation, and interest rates in Nigeria. Despite

the fact that, much attention is been given to the economic impact of these phenomenon, analysts are also concerned about the accounting impacts of how these trends and events affect fair value (KPMG, 2022). This study provides combined evidence that fair value level 1, level 2 and level 3 have significant effect on ABEQ of listed Commercial Banks in Nigeria. The remaining parts of the paper are divided as follows: a review of related literature, methodology applied in the study, results, discussion, and conclusion.

Literature Review

Earnings Quality

Earnings quality is a multifaceted concept, without a widely accepted definition and difficult to measure. Many researchers (Dechow & Schrand, 2004); (Francis, et al. 2004); (Dechow, et al. 2010); (Sodan 2015), and others view it as reported earnings that are high in quality which capture the present operating performance, reflect future performance and can correctly forecast the intrinsic value of the firm. So, one fundamental area of concern in financial reporting is earnings quality, which is an integral part of the whole financial reporting quality.

Moreover, earnings quality provides an avenue for future cash flows than recent ones, and this is why earnings are often used in valuation models and as performance measure instead of operating cash flow (Menicucci, 2020); (Dechow et al. 2010); (Dechow et al. 1998). Similarly, according to Schipper and Vincent (2003) as cited in Wasan and Mulchandani (2020), earnings quality can be described from two different perspectives, which are contracting and investing. From contracting view, poor quality of earnings may lead to inadvertent transfer of wealth. An example of this is when a firm overcompensate managers for achieving numbers which actually may have been deliberately inflated. On the investment context, poor earnings quality may mislead investors in their investing decisions. Since public investors are highly dependent on reported earnings for making decisions, knowledge of measures which can effectively capture firms' earnings quality is very important. Earnings Quality is categorized into two broad categories: Market-Based, and Accounting Based.

According to Paoloni et al. (2017); Schipper and Vincent (2003), Accounting based earnings quality, which is the focus of this paper can be defined as time series attributes of earnings that show the gradual distribution of profits from one period to another, and the statistical technique that generate earnings. This study considered earnings persistent, predictable, variability, and earnings smoothing as the accounting-based attributes.

Earnings persistence involves the measure of extent to which present period earnings shocks persist in future and affects future earnings expectation (Krishnan & Zhang, 2019); (Yao et al. 2018); (Paoloni et al. 2017); Francis et al. (2004); (Buchholz, 2020). Hence, they are earnings that might be maintained in the future. Financial reports that have a higher degree of earnings persistence are considered to be useful in decision making for equity valuation (Dechow et al, 2010). Earnings persistence involves the measure of extent to which present period earnings

shocks persist in future and affects future earnings expectation (Krishnan & Zhang, 2019; (Yao et al. 2018); (Paoloni et al. 2017); (Francis et al. 2004); (Buchholz et al. 2020). Hence, they are earnings that can that might be maintained in the future. Financial reports that have a higher degree of earnings persistence are considered to be useful in decision making for equity valuation (Dechow et al, 2010). Therefore, the extent to which financial reporting information can be helpful to users in predicting future earnings is also a fundamental part of the relevance-objective of International Standard Setters (IFRS conceptual framework, 2010/2018); (Barth, 2018); (Thesing & Velte, 2021); (Bratten et al. 2016).

Although, persistence is not the only reflector of high - quality earnings as the earnings process must also show underlying intrinsic value. In contrast, non-persistent earnings are a consequence of normal application of accounting standards in some economic environments. Besides, the management intervention in the financial reporting process can change non-persistent earnings into persistence earnings. Earnings quality connotes a high degree or magnitude of earnings persistence, in a situation where earnings truly reflect performance during the period and if present-period persist in future periods (Lipe, 1990). Therefore, fair value hierarchical measurements can be used to maintain persistent earnings. Predictability attribute examines the capability of earnings to predict future earnings or cash flows and several researches have been carried out with this variable (Yao et al. 2018); (Sodan, 2015); (Gaio, 2010); (Baragoto & Markelevich, 2008); (Doyle et al. 2003); (Francis et al. 2004); (Vander-Meulen et al. 2007). So, this clearly portrays the ability of a firm to generate future cash flows. Variability simply means volatility and is also based on time-series property of earnings. It is supposed that less volatile earnings are more predictable and persistent. Therefore, another common proxy for earnings predictability is the variance of earnings, meaning that lower earnings predictability is attributable to higher variance or volatility (Clubb & Wu, 2014); (Paoloni et al. 2017).

Variability is mostly related to low quality of earnings because it is related to temporary variations of net income which do not represent the current value of the business and the risk profile of the firm. In contrast to this, lack of variability is associated to high quality of earnings. The fourth accounting-based characteristics discussed in this study is earnings smoothness, which also known as earnings management. Earnings smoothness which also known as earnings management. Managers normally engage in income smoothing in order to reduce the variability of reported income by using accruals or real earnings management (Kim & Yasuda, 2021); (Saona & Alvarado, 2020); (Harakeh, 2019); (Campa, 2019); (Alareeni, 2018a&b). Similarly, according to Levitt (1998), earnings management involve activities in which financial statements show what the management actually wants rather than the existing financial performance of a firm.

Furthermore, earnings management (income smoothing) can also be defined as the planned timing of revenues, expenses, gains and losses to smooth out bumps in earnings. Severally,

earnings management is used to increase income in the current year at the expense of income in future years. Earnings management can also be used to decrease current earnings in order to increase income in the future. Earnings quality connotes a high degree or magnitude of earnings persistence, in a situation where earnings truly reflect performance during the period and if present-period persist in future periods (Lipe, 1990). Therefore, fair value hierarchical measurements can be used to maintain Accounting-Based Earnings Quality. The literature of these measurement bases is discussed in the following subsections.

Fair Value Measurement

Fair Value Measurement framework was issued in May 2011 by the International Accounting Standard Board (IASB). It provides guidelines for measuring fair value assets and liabilities and the significant disclosures relating to fair value measurement. The International Accounting Standards Board (IASB) wanted to enhance disclosures for fair value in order that users could better assess the valuation techniques and inputs that are used to measure fair value. There are no new requirements as to when fair value accounting is required but rather it relies on guidance regarding fair value measurements in existing standards.

The International Financial Reporting Standards (IFRS) sets out a framework for measuring fair value, and requires disclosures about fair value measurements. This is clearly specified in IFRS 13 and it is defined as 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 (an exit price). When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or the liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value. In addition, the fair value distinguishes itself from other method of valuation in several ways. First is that it an exit price, so it is based on the assumptions of the market place. Second is the fact that it is not entity specific and so takes into account any assumptions about risk. This means that fair value is measured using the same assumptions used by market participants and takes into account the same characteristics of the asset or liability. Such conditions would include the condition and location of the asset and any restrictions on its sale or use. This study broadly hypothesizes that:

H_0: Fair value measurement have no significant effect on ABEQ of listed Commercial Banks in Nigeria.

Level 1 Fair Value Measurement

Level 1 input are unadjusted quoted prices in active markets for items identical to the asset or liability being measured. As with current IFRS standards, if there is a quoted price in an active market, an entity uses that price without adjustment when measuring fair value. An example of this would be prices quoted on a stock exchange. The entity needs to be able to access the market at the measurement date. Active markets are ones where transactions take place with

sufficient frequency and volume for pricing information to be provided. An alternative method may be used where it is expedient. The standard sets out certain criteria where this may be applicable. For example, where the price quoted in an active market does not represent fair value at the measurement date. An example of this may be where a significant event takes place after the close of the market such as a business reorganization or combination. However, some existing studies in developed countries have found significant relationship between level 1 fair value measurement and ABEQ. Yao et al. 2018 found a positive significant effect between fair value measurement 1 and earnings persistence; Paoloni, et al. 2017; Sodan (2015) both found a negative and significant effect between fair value measurement 1 and ABEQ in emerging economies. Contrastingly, Takacs et al. (2020) found no significant effect between fair value measurement and ABEQ in emerging economies. So, based on the mixed findings of previous researches and other problems, this study hypothesizes that:

H_{01}: Level 1 fair value measurement has no significant effect on ABEQ of listed Commercial Banks in Nigeria.

Level 2 Fair Value Measurement

Level 2 inputs are inputs other than the quoted prices determined in level 1, that are directly or indirectly observable for that asset or liability. They are likely to be quoted assets or liabilities for similar items in active markets or supported by market data. For example, interest rate, credit spreads or yields curves. Adjustments may be needed to level 2 inputs and, if this adjustment is significant, then it may require the fair value to be classified as level 3. This study therefore, hypothesizes that:

$H0_2$: Level 2 fair value measurement has no significant effect on ABEQ of listed Commercial Banks in Nigeria.

Level 3 Fair Value Measurement

Level 3 inputs are unobservable inputs. These inputs should be used only when it is not possible to use Level 1 or 2 inputs. The entity should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. However, situations may occur where relevant inputs are not observable and therefore these inputs must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability. The general principle of using an exit price remains and IFRS 13 does not preclude an entity from using its own data. For example, cash flow forecasts may be used to value an entity that is not listed. Each fair value measurement is categorized based on the lowest level input that is significant to it. Hence, the study hypothesizes that:

H_{03}: Level 3 fair value measurement has no significant effect on ABEQ of listed Commercial Banks in Nigeria.

Theoretical Review

The major underpinning theory of this study used to explain the effect fair value measurements on Accounting-Based Earnings Quality is the principal-agency theory propounded by (Jensen & Meckling, 1976); (Fama & Jensen, 1983), and (Arrow, 1985). Jensen and Meckling (1976) describes agency relationship as a contractual arrangement involving one or more individuals called the principal(s) who employs the service of another person (the agent) to carry out some service on their behalf. This involves delegating some decision-making authority to the agent. Investors provide their capital in order to maximize their wealth (utility maximization). Contrastingly, if the goal of the agent is also that of the utility maximization as the principal, it will be clear that the agent will not always act in the best interests of the principal. Therefore, the agency theory expresses the motivational problems evident in a company, caused by the separation of ownership and control of resources which result to the principal – agent problem. In addition, discretion in fair value measurements can be used by managers to provide confidential information, thereby increasing the importance of information (Barth, 2018; Beaver and Venkatachalan, 2003). This is known as beneficial earnings management. Then, agents are to provide reports on stewardship entrusted upon them by their principal(s). Such reports are to reflect the real activities or operations of the business. So, the model of this study is built on the premise that there is a strong relationship between fair value measurements and ABEQ, and it is presented mathematically as:

$$ABEQ_{it} = \beta_0 + \beta_1 FVM1_{it} + \beta_2 FVM2_{it} + \beta_3 FVM3_{it} + \varepsilon_{it} \quad \text{(i)}$$

Where: ABEQ = Accounting Based Earnings Quality; β_0= Constant; β= Parameter; i = Firm i; t= time t; FVM1 = Level 1 fair value assets; FVM2 = Level 2 fair value assets; FVM3 = Level 3 fair value assets

Methodology

This study examined a balanced panel dataset of 10 out of the 14 listed Commercial Banks operating in Nigeria, generating 120 observations over 12- year period from 2011 to 2022. Commercial Banks that they are selected are those in full operation in Nigeria, and have complete, consistent, and accessible dataset for each year that fall within the time scope of the study. First, Banks have to be authorized by the Central Bank of Nigeria (CBN), and listed on the Nigerian Exchange (NGX) as at 31st December, 2022. Second, each bank included in the sample has available data obtained from annual statement of financial position, income statements all presented in naira (₦) collected from each Commercial Banks' website. The listed Commercial Banks excluded from the sample are Eco bank, Union bank, sterling bank and Jaiz bank. Eco bank and Union bank have their annual reports presented in dollars while complete data for all the years of observation could not be accessible for sterling bank and Jaiz bank. However, the cross sectional and time series dataset obtained from each bank website was analyzed using OLS multiple regression.

Measurement of Variables

Accounting-Based Earnings Quality, the dependent variable, is measured as the aggregate of persistence, predictability, variability and smoothness, divided by four (4) Sodan, (2015); (Gaio, 2010). The independent variables are measured as: Fair value level 1 is measured as sum of financial assets recognized at fair value level 1 divided by total assets for a period. Fair value level 2 is measured as sum of financial assets recognized at fair value level 2 divided by total assets for the period while, Fair value level 3 is measured as sum of financial assets recognized at fair value level 3 divided total assets for a period (Yao et al. 2018); (Paoloni et al. 2017).

Results and Discussion

Regression model

With the objective of examining the effect of fair value hierarchical measurement on ABEQ, data was analyzed with OLS multiple regressions. The study used both a descriptive analysis and ordinary least square regression (OLS) to determine the combined effects of fair value measurements (FVM 1, 2, and 3) on ABEQ. A linear regression model is derived as follows:

$ABEQ_{it}=\beta_0+ \beta_1FVM1_{it}+ \beta_2FVM2_{it}+ \beta_3FVM3_{itt}+\varepsilon_{it}$.

Where: ABEQ represents aggregate earnings quality, β_0=Constant, β= Parameter, i = individual Commercial Banks, t = year, FVM1 = Level 1 fair value assets, FVM2 = Level 2 fair value assets, FVM3 = Level 3 fair value assets. The model of study was analyzed using an Ordinary Least Square (OLS) model. The justification behind the use OLS emanated from the various test performed on the dataset. The Breusch-Pagan Test (Heteroskedasticity test) was insignificant.

Descriptive statistics

Table 1 presents descriptive statistics for the dependent variable (ABEQ) and the independent variables (FVM 1, 2, and 3). ABEQ has a mean and standard deviation of 0.500 and 0.115 respectively while the values 0.324 and 0.668 represent the minimum and maximum for ABEQ respectively. Fair value measurement 1(FVM1) has a mean and standard deviation of 0.115 and 0.093 respectively. The minimum and maximum values for FVM1 are 0.000 and 0.405 respectively. Similarly, Fair value measurement 2 (FVM2) has a mean and standard deviation of 0.068 and 0.099 respectively. The minimum and maximum values for FVM2 are 0.000 and 0.599 respectively.

Table 1: Descriptive Statistics

Variables	Mean	SD	Minimum	Maximum	Skewness	Kurtosis	N
ABEQ	0.500	0.093	0.001	0.096	0.554	0.000	120
FVM1	0.115	0.093	0.000	0.406	0.000	0.148	120
FVM2	0.068	0.099	0.000	0.599	0.000	0.000	120
FVM3	0.776	0.169	0.000	0.997	0.000	0.000	120

Lastly, the values 0.776 and 0.169 represent the mean and standard deviation for fair value measurement 3 (FVM3). However, the minimum and maximum values are 0.000 and 0.997, respectively.

In addition to Skewness and kurtosis which are used for checking normality of data, the Shapiro- wilk was also used. Hernandez (2021), Razali and Wah (2011) opined that Shapiro-Wilk is the most reliable for checking normality in a sample data with null hypotheses. The determination of normality using the Shapiro-Wilk states that if the p-values are low, the null hypotheses would be rejected, and this means that data are normally distributed. The figures from the table 2 indicate that the data does not lack normal distribution, meaning that the null hypothesis is rejected (P values < 0.05).

Table 2: Normality Test Result

Variable	W	V	Z	P-values	N
ABEQ	0.931	6.594	4.226	0.000	120
FVM1	0.922	7.500	4.514	0.000	120
FVM2	0.674	31.373	7.720	0.000	120
FVM3	0.462	51.812	8.844	0.000	120

Source: Stata Output, 2024

Furthermore, the Pearson correlation analysis was carried in order to determine the correlations within the variables. Pallant (2003) recommended a value of above 0.3, while Hair et al (2010) suggest that correlation among variables should be less than 0.7. The Pearson correlation table is presented in table 3:

Table 3: Pearson Correlation Coefficient

Variables	**ABEQ**	**FVM1**	**FVM2**	**FVM3**
ABEQ	1.000			
FVM1	-0.227	1.000		
FVM2	-0.336	-0.069	1.000	
FVM3	-0.307	-0.202	0.146	1.000

Source: Stata Output, 2024

From table 3, it can be seen the value of the correlation coefficients for the individual variables are between 0.1 and 0.2. This implies that the variables are independent of each, hence they are not correlated, and therefore, they can be maintained for the study. Furthermore, diagnostic tests were performed on the data. The multicollinearity test carried out on data shows that the variables are collinear. The Variance Inflation Factor for each variable is less than 10, and the values for Inverse Variance Inflation Factor are less than 1. This implies conformity with the bench mark of less than 10 for VIF and less than 1 for VIF and I/VIF respectively (Hair et al,

2010). So, the model is suitable and reliable for regression analysis. Table 4 presents result for the multicollinearity test.

Table 4: Multicollinearity Test

Variables	VIF	I/VIF
FVM1	1.36	0.736
FVM2	1.11	0.897
FVM3	1.14	0.876
Mean VIF	2.57	

Source: Stata Output: 2024

Furthermore, the result of the regression analysis is presented in table 4.5. In line with the study hypotheses, a significant relation was found between fair value hierarchical measurement and ABEQ on Commercial Banks in Nigeria. On the specific hypotheses, the study found a negative significant effect on the three independent variables (FVM1, 2, 3) and ABEQ. Based on this finding, this study fails to accept the null hypotheses $H_{01,}$ H_{02} and H_{03} which states that fair value measurement 1, 2, and 3 have no significant effect on ABEQ.

Moreover, the overall R^2 0.4197 indicates that the overall estimated model is statistically significant. In addition, the (F- statistics = 19.97; F- probability 0.000 indicates that the regression model was well formulated in explaining the relationship between fair value hierarchical measurements and ABEQ. In addition, the R^2 of 42% shows that the variables combined together contribute only 42% to ABEQ in the Nigerian Commercial Banks.

Table 5: Robust Regression Result

Variables	**Coefficients**	**Std Error**	**t-value**	**Prob. Values**
FVM1	-0.536	0.107	-4.98	0.000
FVM2	-0.435	0.082	-5.34	0.000
FVM3	-0.218	0.034	-6.43	0.000
Constant	-0.195	0.205	-0.95	0.344
Prob>F	0.000			
R- square	0.4197			
F- statistics	19.97			

Source: Stata Output, 2024

Moreover, the implications of the findings of this study indicates that a reduction in fair value measurements 1 assets increases ABEQ. The use of unadjusted quoted prices in the measurement of assets is more reliable and less subjective unlike other measurement bases. Although estimation uncertainty might be evident in times when markets are inactive due to some economic crisis, which may lead to unavailability of prices of identical assets they are still considered to be more reliable. The negative significant effect for fair value measurement

2 implies that a decrease enhances earnings quality. Managers are advice to apply caution when using the unobservable inputs because some elements of managerial discretion may be required. An excessive utilization of managerial discretion in fair value measurement can increase earnings management. In most situations, studies have found that the level 3 fair value measurement can only have significant impact in an environment where corporate governance exists. Therefore, the essence of corporate governance is to safeguard shareholders' wealth form the opportunistic behaviour. The fact that level 3 fair value estimates are strictly based on unobservable input makes them very subjective to managerial discretion, hence the need for corporate governance.

Conclusion and Recommendation

The study examined the effect of fair value hierarchical measurement on ABEQ of listed Commercial Banks in Nigeria within the period 2011 to 2022. The outcome from the study of previous literature found that a gap exists regarding the effect of fair value measurements and ABEQ on listed Commercial Banks in Nigeria. This study proposes that the measurement of assets using fair level 1, 2, and 3 bases has negative significant effect on ABEQ of listed Commercial Banks in Nigeria. Some previous empirical studies support this finding to a great extent. So, the study evidence that net assets reported at fair value through Commercial Banks statement of financial position are associated with ABEQ. Therefore, the study notes that the provision of IFRS 13 improves accounting quality and to a great extent contributes in effective decision-making process by capital market participants and other stakeholders. Consequently, this study recommends that managers of Commercial Banks in Nigeria should engage in strict estimation procedures, which will help reduce estimation uncertainty in the computation of fair values measurements.

However, these finding are subject to some biases that might have affect the outcome, and this provides avenue for future researches. First, it considers only Deposit Money Banks in Nigeria. So, findings cannot be applied to other financial institutions in Nigeria. Second, is potential biasness that may be evident in the measurement of smoothness as one of the attributes of the dependent variable (Accounting Based Earnings Quality). However, some previous studies (Al-Azeez et al. 2019; Campa, 2019; Kliestik et al. 2020) found that smoothing is normally carried out by Banks to manipulate earnings. Researchers may propose alternate measurement as was used by Lipe (1990); Sodan (2015), Gaio (2010), Francis et al. (2004). Third, only fair value assets were considered in the measurement of fair value. The reason behind this is that financial statements of Commercial Banks in Nigeria capture more assets than liabilities using fair value measurements. Thus, only a less significant value of liabilities is recorded in the financial statements.

However, there is need for other researches to consider corporate governance variables in order to mitigate endogeneity issues which is a common problem in the study of fair value and earnings.

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