Application Of IFRS 13: Fair Value Accounting on Earnings Management in the Nigeria Banking Sector

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ABSTRACT
The main objective of the study was to obtain evidence on the influence of fair valuation on earnings management amongst Deposit Money Banks in Nigeria. The design adopted was Ex-post Facto research design, and covered the Banking industry in Nigeria for the period 2015 – 2021. The target population consists of Deposit Money Banks listed on the Nigerian Stock Exchange (NSE). Thirteen (13) listed banks were selected using purposive sampling technique. Data were obtained from the audited annual accounts and financial reports of the selected banks. Descriptive statistics and multiple regression analysis were used to ascertain the influence and relationship between the dependent and independent variables specified in the model. Results show a positive association between Fair value intensity, levels 2 and 3 of Fair value on earnings management. Adjusted R square for Levels 2 and 3 fair values were 0.688 and 0.79 respectively while fair value intensity had an adjusted R square of 0.662,

demonstrating that Fair valuations had been used significantly to manage earnings. Based on the findings of this study, it was recommended that investors, stakeholders and users of financial statements should be more circumspect and intensify scrutiny when assessing banks' performance based on reported earnings and pay close attention to the asset components of Fair values levels 2 and 3 since they increase the likelihood that the reported earnings are creatively management.

Keywords: *Fair Valuation, Earnings Management, Banking Industry*

1.1 INTRODUCTION

Globally, earnings management arising from managers' ability to creatively manipulate figures presented in the financial statements to influence entity's performance has been a long standing concern for users of financial statements. This concern has intensified with the birth of Fair Value measurement (IFRS 13). Fair value measurement is believed to address the global need for a more acceptable method of asset valuation other than the use of the traditional Historical Cost Accounting. The essence of Fair value measurement is for firms to estimate the best possible price at which their current positions would be traded in orderly transactions based on current information and conditions (Steven 2008). Fair value measurement involves a fair value hierarchy system that prioritizes the inputs to asset valuation techniques used to measure fair value, giving highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). This is based on the thinking that the market value of assets, liabilities and transactions better reflects an entity's position and has higher value relevance on financial reporting (Hitz, 2007).

However, critics of Fair-value-based accounting system, in the wake of the 2008 global financial crises, argue that fair value is less objective or reliable than historical cost and that Fair value accounting involves subjective judgments in the generation of accounting data, which may bring inaccuracy and uncertainty (Xiaolu, 2013). Fiechter and Meyer (2009) agreed that, estimation of fair value (marking-to-model) creates opportunities for the exercise of management judgment and intentional bias which can decrease the quality of firm's reported earnings. Moreover, the idea of higher relevance of market-based measures does not hold in all scenarios, particular for financial reporting environments with inactive or inefficient markets. The argument further extended that, given the current trend, fair values will more probably be estimated by the use of asset valuation techniques which enhances earnings management and could lead to lower quality of reported earnings:

These asset valuation techniques create concerns as to the reliability of the measurement process when the inputs are unobservable. These unobservable inputs expand the information asymmetry as users of financial statements have limited access to information used in generating such inputs. Consequently, more confidential information is available to managers and the use of discretionary measures and entity generated inputs especially where observable market inputs are unavailable, portends a moral hazard and incentive to manage earnings.

Fair value has been blamed for increased volatility in earnings which may influence market's perception of risk and uncertainty in earnings components and managers' compensation (Barth,

Gomez-Biscarri, Kasznik, & Lopez-Espinosa, 2012). This volatility has been observed amongst financial institutions, bank especially; since they hold mostly financial instruments measured at fair value (Barth *et. al.*, 2012). The arbitrary use of unobservable inputs in financial instruments valuation process may assist in earnings management and create agency problems and moral hazard behavior, especially where there is motivation for earnings management, smoothing and adjustment in order to derive desired results (Tutito & Pompili, 2018).

1.2 Statement of the Problem

In a developing economy as Nigeria, where the market for various financial instruments are less fairly active, the absence of active markets (primary and secondary) for such Fair valued assets allows for the use of unobservable entity generated inputs in asset valuation especially for the second and third tier Fair value assets. The end result of the asset valuation is mostly a Fair value gain or loss recognized under net income or other comprehensive income. Given that some of the inputs that result in these gains or losses are at management discretion, they might be subject to manipulations. This may create a leeway for the manipulation of earnings. This can be done in circumstances where pre-recognition earnings (earnings before fair value gains or losses) do not meet expectations and there is an incentive to meet earnings target, take a big bath or smooth earnings. Therefore, when Banks reporting Fair value gains or losses report small earnings increases that meet or slightly beat prior year earnings, earnings management might be suspected.

Fair value accounting as a tool for earnings management is a new development in Nigeria. Fair value studies in Nigeria have been in other dimensions while previous studies on earnings management in the Banking industry in Nigeria have concentrated on Loan loss provisions as the earnings management tool. Also, empirical studies on Fair value accounting and earnings management conducted in other countries have produced mixed and inconsistent results. There is therefore the need to obtain empirical evidence on the issue of possible manipulation of earnings given the leeway created by fair valuation, using data from Nigerian Deposit Money Banks from 2015 – 2021

1.3 Objectives of the Study

The main objective of this study is to obtain evidence on the influence of fair valuation on earnings management amongst Deposit Money Banks in Nigeria. The specific objectives are to:

i. Ascertain the influence of Level two Fair values on earnings management
ii. Ascertain the influence of level three fair values on earnings management
iii. Determine the influence of fair value intensity on earnings management

1.4 Research Questions

To guide the researcher in realizing the objectives of the study, the following research questions are raised:

i. Is earnings managements influenced by level two fair values?
ii. Do level three fair values influence earnings management?
iii. What is the influence of fair value intensity on earnings management?

1.5 Research Hypotheses

In order to ascertain empirically and address the questions raised, the following hypotheses were formulated:

Ho_1: Earnings management is not significantly influenced by level two fair values

Ho_2: Earnings management is not significantly influenced by level three fair values

Ho_3: There is no significant relationship between fair value intensity and earnings management.

1.6 Significance of the Study

Findings from this study are expected to provide managers with insight on the increasing concern about the use of internally generated inputs in asset valuation and will help managers appreciate the need for transparency and the use of more observable inputs in asset valuation. It will enlighten the stakeholders in Nigeria's Banking and Financial services industry on the influence of Fair value accounting on reported earnings and earnings management. The study will contribute to the robustness of literature on Fair value and guide scholars and researchers on this important research areas. This study will provide a basis for a rethink on the usefulness of fair valuation. It will also provide standard setters and policy makers insight on the implication of fair valuation on financial reporting.

1.7 Scope and Limitations of the Study

This study was conducted to obtain empirical evidence on the extent to which fair valuation is used in the manipulation of earnings amongst Deposit money banks in Nigeria. The study examined Deposit Money Banks listed in the Nigerian stock Exchange (NSE) under the financial services sector. The fair value measurement attributes considered in this study are the Fair value financial assets of the three (3) levels of Fair value hierarchy. The period for the study is from 2015 to 2021. This period represents the post IFRS adoption era which banks are expected to report fair values.

The observation period (2015 – 2021) represents the earliest period within which Fair value measurement was adopted in Nigeria. Results and findings on this study are hinged on this observation period and may become more robust as the observation period is extended. Hence, the study is limited to the Deposit money Banks, and the period 2015-2021

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

This section involves the description of the key concepts, factors, variables and elements of the study.

2.1.1 Fair Value and Fair Value Accounting (FVA)

Fair value was born out of the need to address the shortcomings of Historical cost accounting. Amanamah and Owusu (2016) opined that historical cost measure an asset at the cost of acquisition; as such, it provides a reliable basis for measurement. However, the problem, according to them, is that as price changes subsequent to acquisition, the relevance of historical cost declines if the objective of measurement is to reflect the current economic reality represented by the asset. Jaijairam (2013) observed that comprehending the concept of Historical cost is easy since they have a fixed price arising from the actual amount paid by a company. Historical cost accounting is believed to be generally easier to follow since it is based on fixed and certain inputs but Sodan (2015) argues that while this eliminates uncertainty from the initial valuation decision, it creates uncertainty in future periods about the true value of

assets. Also, Bessong and Charles (2012) stated that the Historical cost system determines profit by comparing actual costs and sales revenues and this had led accountants to believe that a firm was better off where it recovers more than the actual amount paid as costs for the assets from which the revenue was generated. However, this practice does not reflect current economic conditions and results in the overstatement of profits. The effect of this, is overstated profit and understated value of assets which will make replacement difficult. For Ene, Chilarez and Dindire (2014), one shortcoming of the historical coast accounting approach is that in times of inflation; especially when price variations are very high, presenting the assets and the liabilities at historical costs, leads to distortions of the information presented in the financial statements.

The position of the international Accounting Standards Board (IASB) on fair value was published in the International Financial Reporting Standard 13 (IFRS 13). Fair value measurement was premised on the following features:

a. **Active Market:** That is a market in which transactions for the asset and liability take place with sufficient frequency and volume to provide pricing information on ongoing basis.
b. **Exit Price:** The price that would be received to sell an asset or paid to transfer a liability.
c. **Highest and Best Use:** The use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities within which the asset would be used.
d. **Most Advantageous Market:** The market that maximizes the amount that would be received to sell the asset or minimizes the amount the would be paid to transfer the liabilities after taking into account transaction cost and transport costs.
e. **Principal Market:** The market with the greatest volume and level of activity for the asset or liability.

2.1.4 Valuation Techniques

IFRS 13 recommends three (3) approaches to valuation depending on the availability of sufficient data which maximizes the use of observable inputs and minimize the use of unobservable inputs. The three approaches are:

a. **Market approach:** Which uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)
b. **Cost approach** which reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost)
c. **Income approach** which converts futures amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

2.1.2 The Fair Value Hierarchy

IFRS 13 prescribes a Fair value hierarchy which categories the inputs used in valuation techniques into three levels. The hierarchy give the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are:

a. **Level 1:** A Fair Value measurement is classified as Level 1 in the fair value hierarchy, if the fair values is determined as the unadjusted Quoted price in the active market. It is important to remember that for a Quoted price in an active market:
   i. There should be actual and regularly occurring market transactions.
   ii. The prices of those transactions should be regularly and readily available. Also, the fair value should be the unadjusted quoted price (not measurement based on quoted rate or index) observed in the active market. In case the quoted price is adjusted to arrive at a fair value, then it is not a Level 1 measurement. When fair value is not available due to lack of an actual transaction, it is recommended to use information from an active market.

b. **Level 2:** If quoted prices are not available for identical assets or liabilities and the fair value is estimated using quoted prices of similar assets or liabilities (market equivalents) and other observable inputs that require no significant adjustments based on unobservable inputs, then the resulting fair value measurement is classified as Level 2 measurement

c. **Level 3:** If quoted prices of identical or similar assets or liabilities are not available or not objectively determinable, fair value is estimated using valuation methods based on present value techniques of future earnings, or cash flows and valuation techniques taking into account the significant unobservable inputs. This is classified a Level 3 measurement. The "unobservable inputs" are not based on independent sources but on "the reporting entity's own assumptions about the assumptions market participants would use". The entity may only rely on internal information if the cost and effort to obtain external information is too high.
   Fair value based on the judgement of future cash flows is entity-specific, which means that the same asset can be measured differently for two companies because of different borrowing rates and managerial appraisals. This hierarchy is thought to arise from the belief of higher quality and decision relevance of market-based measures (Hitz, 2007). However, this assumption may not hold in all circumstances, especially in financial reporting environment with inactive and inefficient markets (Sodan, 2015). Thus, the reliability of fair value estimates declines with the shift from liquid markets to non-traded items.

2.1.7 Earning Management

Earning management is generally viewed as unethical behaviour as it involves the use of managerial discretion on accounting numbers, which may result in the distortion of financial information provided to stakeholders. Shad (1996) defined earnings management as communication techniques having in view the amelioration of the information provided to the investors. This involves the use of certain techniques in the presentation of financial statements where information is tailored to create a more favourable image of the entity to investors and prospective investors in respect of operating results and future potentials. A firm can intentionally alter reported financial result, i.e. income statement and statement of cash flows, or statement of financial position in some desired amount and or some desired direction. According to Lin (2006), earnings management involves those techniques which are openly displayed (window dressing) as well as those which are sophisticated (off-balance sheet financing). Merchant and Rockness (2004) defined earnings management as any action from management which can distort profits and which is not a consequences of the economic reality. Earnings management comes from the flexibilities in accrual accounting that allow managers

to use their own knowledge to enhance the decision usefulness of financial statements. Earnings managements is primarily accomplished through accounting transactions that are designed to achieve desired earnings level. Prior research suggest that managers have both personal and business motivations to display impressive or at the very least satisfactory performance in their reports on a consistent basis (Ijeoma, 2013). However, due to a variety of reasons, the sustainability of such a performance is sometimes impossible. In these circumstances, managers may decide to use their discretion in the application of accounting principles and procedures which can result in altering the business operations to a more favourable outcome. Fiecher *et. al.*, (2011) noted that earnings management undermines financial reporting quality when managers use judgments in financial reporting and in structural transaction to alter financial reports to either mislead some stakeholders about the underlying performance of the company or to influence contractual outcomes that depend on reported accounting numbers. Similarly, Schipper (2009) noted that earnings management results in low quality financial reporting resulting from a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain. These definitions take an opportunistic view of creative accounting as the basis for level of reporting quality whereby the intent of management is to obtain some private gain by misleading stakeholders or influencing contractual outcomes.

There are two noticeable dimensions to earnings management; the opportunistic dimension and the informational dimension. The opportunistic dimension entails circumstances where managers through the manipulation of income avoid adverse results. Consequently, information about positive result and meeting expectations are transmitted to the stakeholders. Hence, result based compensation contracts fulfilled and personal profit is maximized. More so, managing earning offers lifeline to managers in difficult times to retains their positions on the job.

The informational dimension regards earnings management as a signaling tool on the company's present and future performance to the stakeholders an capital market at large. As such, managers through managed earnings can convey optimistic information about the entity's performance. This trends is often observed before some capital transactions such as mergers and acquisitions (Erickson & Wang, 1999). This phenomenon supports the signal theory.

2.1.7.1 Internal causes of earnings management

From some previous studies, the leading causes of earnings management are contracting motivations, compensation and lending contracts, capital market motivation, and type of company. Jaggi and Lee (2002) showed that manager will have greater incentives to manipulate earnings if they have debt covenants based on the profitability of the company, in order to avoid the risk of cancellation or the renegotiation of the debt conditions. Other studies suggest that manager's compensation is prone to being an incentive to manipulate earnings, since it is likely to increase their compensation or bonus plans (Shuto, 2007).

Further review of the academic literature revealed three main motivations which encourage the manager to follow such behaviour incentives related to executives, incentives associated with the company and incentives linked to investors and financial analysts.

i. Incentives related to company executives

ii. Incentives related to the company
iii. Incentives related to investors and financial analysts

2.1.7.2 External causes of earnings management

The external causes of earnings management are driven mainly by the institutional framework; the degree of investor protection in the country where the company is located, legal framework (i.e code versus common law) which is the base of the countries investor protection (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998). There is evidence showing that the legal framework of a country has a impact on earnings management and the firms in code law countries manipulate in a different manner to common law countries due to the level of investor protection (Archambault & Archambault, 2003; Leuz, Nanda, Wysocki, & Peter 2003; Soderstrom & Sun, 2007; Enomoto, Kimura & Yamaguchi, 2015). For instance, it has been found that accrual manipulation decrease in countries with stronger investor protection (Leuz *et. al.* 2003). In a similar vein, some researchers suggest that companies from code law countries are more willing to smooth out earnings than their common law peers (Garcia-Lara, Garcia Osma & Mora, 2005), while others find evidence of the use of real activity manipulation as a substitute for accrual manipulation in countries with stronger investor protection (Enomoto *et. al.*, 2015).

Related to the bankruptcy proceedings, there is evidence that suggests that bankrupt companies manipulated results more than healthy firms (Rosner, 2003; Garcia-Lara *et. al.*, 2005; Camp & Camaocho-Minano, 2014). However, the economic situation could also be an incentive. In this regard, extant literature finds that during periods of crisis, managers have more incentive to engage in downwards earnings management and blames the economic situation for such descent (Smith, Kestel & Robinson, 2001; Saleh & Ahmed, 2005).

2.1.8 Fair value and Earnings Management

It is believed that fair value estimate with less discretion are more value-relevant to investors, but all three fail value levels are significantly associated with share price (Glasscock, 2014). This implies that even fair value disclosures with the most discretion (Level 3 assets/liabilities) are priced by capital markets, giving aggressive managers an incentive to report biased (outstated) fair value estimates for Level 3 assets. There is still contention as to whether managers abuse the discretion they have in the determination of the Fair value of level 3 assets. It has been observed that banks reporting higher recurring basis fair values, especially level 2 fair values and banks reporting increased fair values were more likely to manger earnings, highlighting that level 2 fair values are associated with upward earnings management and with downward earnings management through discretionary security gains or losses (Ziaolu, 2013). Similar opinion has emerged suggesting that the use of less observable inputs in Fair valuation creates opportunity for the manipulation of financial statements by managers, especially for level 2 and level 3 fair values (Alaryan, Haija and Ali 2014). This is observed in the manner in which gains and losses from Available for sale (AFS) assets are treated, which creates opportunity for discretionary timing of sales to suit reporting objectives.

2.1.6 Fair Value Accounting Proxies

For purpose of research, Fair value exposure can be measured using two approaches; the income statement approach and the Balance Sheet (Statement of Financial Position) approach (Sodan2015; Bratten, Causholli, & Myers, 2017 & Paolini, Paolucci, & Menicucci, 2017). In

the income statement approach, reported fair value gains (losses) at Fair Value Through Profit or Loss and at Fair Value through Other Comprehensive income scaled by Net income are applied to measure the extent of Fair Value recognized in banks' income statements. The Balance sheet approach applies the sum of Fair Value assets of each of the three level of the Fair Value hierarchy scaled by total assets or the sum total of assets and liabilities recognized or disclosed at Fair value scaled by total assets to measure exposure to Fair Value. The sum total of assets and liabilities recognized at Fair value has been described as 'Fair value intensity (Badenhorst, 2017, Uyanna, Adeyemi and Yusuf 2017). Fair value intensity is the extent to which the financial statement of an entity is exposed to fair value estimates (Badenhorst, 2017). The Balance sheet approach shall be adopted over the income statement approach in the study. This approach is more suitable because the objectives of this study deal with the influence of the different levels of the fair value hierarchy on earnings management. Secondly, available data of Nigerian banks show that fair value income (gains or losses) through net income are mostly not reported as separate figures but are embedded in the amount of net changes in assets held for trading/net gains in investment securities which include other components of earnings. Therefore, for the purpose of this study, the total fair value financial assets of the individual level two and three fair value hierarches divided by total assets of the selected banks will be used to represent level two and level three fair value respectively in testing the hypothesis. Similarly, the combine total fair value assets of the fair value hierarchies (levels one, two and three) divided by total assets of the selected banks will be represent fair value intensity in the test of hypothesis. These parameters have also been adopted in prior research (Uyanna, Adeyemi & Yusuf, 2017, Xiaolu, 2013; Jasper, 2012; Daifei, Majella, Janny & Fang, 2015).

2.1.7.3 Earnings management measures

Three key proxies can be used to measure earnings management: Accrual manipulation (DA), Real activities manipulation (RAM) and (MBE) Meet or beat earnings (Lo, Ramos & Rogo, 2017; Glasscock, 2014).

In Accrual manipulation, a residual is obtained from a model (Jones models) which separates the discretionary portion from total accruals (Jones, 1991). A modified Jones model was later developed to correct errors related to discretional revenues (Dechow, Sloan, & Sweeney, 1995). The residual thereafter obtained, is used as a measure of earnings management.

Earnings management can also be seen in Real activities manipulation. Real activities manipulation relates to actions by management which shift from normally observed business practices with the aim of meeting certain earnings benchmarks. This can be observed when managers give price discounts to drive sales in the short run, produce in large quantities to reduce costs, and delay certain discretionary expenses like research and development and advertising costs in order to improve earnings (Roychowdhury, 2006). Higher incidences of these manipulation activities result in more positive values for RAM.

Meet or beat earnings (MBE) refers to circumstances where earnings are tailored to meet or beat predetermined earnings benchmarks or thresholds. This is based on the three (3) earnings thresholds that drive earnings management. The first is to report positive earnings (earnings above zero), the second is to recent performance (make at least last year's earnings) and finally, meet analysts' consensus forecasts (Badenhorst, 2017; Degeorge, Patel & Zeckhauser, 1999). It has been suggested that firms are rewarded for reporting positive earnings changes and that

managers provide earnings comparisons which emphasize improvements (Dechow, Myers, & Shakespeare, 2009). Also, firms with unbroken, consistent earnings increases pattern command higher price-to- earnings multiples (Barth, Elliot & Finn, 2010). Hence, there is a strong incentive to manage earnings to avoid earnings decreases. For MBE, a string of earnings is observed within stipulated reporting periods and are compared with prior period earnings, analysts' consensus forecasts and other earnings thresholds. If the increase or changes in earnings fall within these thresholds in the neighbourhood of zero or zero changes in earnings, i.e. between 0 and 0.005 (an earnings range defining small earnings increase) earnings management is entertained. Badenhorst (2017) opined that earnings management is reflected by a series of small positive earnings revolving around the vicinity of zero changes or zero levels of earnings. This is a result of manipulations to avoid earnings decreases. Beatty *et al.* (2002) further opined that the increased pattern of small earning increases than decreases earlier observed by Badenhorst, (2017) is attributable to earnings management and not a function of underlying distribution of earnings changes

In order to ascertain the influence of Fair valuation on earnings management, the approach of Degeorge *et al., (*1999), Beatty, Ke and Petroni (2002), Xiaolu (2013), Chen *et al.*,(2015) and Lo, Ramos and Rogo (2017) in measuring earnings management as small earnings increases that just meet or beat earnings thresholds, particularly, prior year earnings is adopted. This is because prior studies have used this measure considerably in detecting earnings management amongst banks and other industries. Interestingly, this measure has rarely been used in earnings management studies in Nigeria.

2.2. The Signaling Theory

The signaling theory was developed by Spence (1973). The signal theory is useful for describing behaviour when two parties (stakeholders and organizations) have access to different information. Typically, one party, the sender, must choose whether to communicate (or signal) the information and how. The other party, the receiver, must choose how to interpret the signal. In circumstances of information asymmetry, signaling theory suggests that companies may use private financial information, in this case, managed earnings to send positive signals to the market. This is because they expect the information to provide (and to be interpreted as) a good signal about their company's performance to the market. Spence (1973), however, demonstrated that signals from good companies may be credible if the costs of the signals are high as bad companies may be discouraged. For instance, if a good company intends to send signals of superior performance to the market, it may declare high dividend payout. Bad companies performing poorly may not follow suit as the cost of a high dividend payout may be too much and counterproductive for the company.

2.2.2 The Prospect Theory

The prospect theory was propounded by Kahneman and Tversky (1979). It is based on the concepts of loss aversion and risk aversion. The theory observes that people react differently between potential losses and potential gains and that the value function of an individual is concave in gains and convex in losses. It suggests that decision-makers (shareholders and stakeholders) derive value from gains or losses with respect to a reference point, rather than from absolute levels of wealth Hence, increase in value is at park when moving from a reference point i.e. from a loss to a gain (avoiding losses) or from a benchmark (avoiding decrease in earnings). This demonstrates that given the value function, there is a strong incentive for managers to manage earnings in order to move from points of loss to a

point of gain or to meet or beat a particular earning benchmark since doing so would influence the value function and perception of decision makers. Some earlier studies hinged on the prospect theory to explain that zero change in earnings is a natural reference point for decision makers who calculate wealth as a multiple of earnings. This stated that if managers manage earnings to influence stakeholders' perception, managed earnings increases would revolve around the vicinity of zero levels of earnings. This theory supports the threshold management theory.

2.3. Empirical Review Summary

The empirical review is carried out in a tabular form as shown on Table 1.

Table 1.a: Summary of Empirical Review

S/N	AUTHOR(S) AND YEAR	TITLE	METHODOLOGY	FINDINGS AND RECOMMENDATIONS
1	Dickinson and Liedtke (2004)	Impact of a fair value financial reporting system on insurance companies: A Survey	Analyzed data using descriptive statistics, bar chart and histogram	Found that the introduction of a full fair value reporting system would significantly change the business strategies, corporate policies and systems overtime in a way that most companies consider would reduce their competitiveness
2	Hodder, Hopkins, Wahlen(2006)	Risk-Relevance of Fair-Value Income Measures for Commercial Banks	Descriptive statistics, cross sectional standard deviation and regression analysis	Findings suggest that full fair value income is risk relevant and reflects elements of risk not captured by net income and comprehensive income.
3	Dechow, Myers and Shakespeare (1995)	Fair value accounting and gains from asset securitizations: a convenient earnings management tool with compensation side-benefits	Obtained results using regression analysis	Found that firms report larger gains when pre-securitization earnings are low and when pre-securitization earnings are below the prior year's level
4	Barth and Taylor (2010)	In Defense of Fair Value: Weighing the Evidence on Earnings Management and Assets securitizations	Used descriptive analysis to analyse results obtained by Dechow, Myers, and Shakespeare (2009)	Concluded that "real" earnings management and mechanical relation were alternative explanations for the correlation obtained by Dechow, Myers, and Shakespeare(2009)

Source: Researchers' Compilation (2022)

Table 2.1.a: Summary of Empirical Review

S/N	AUTHOR(S) AND YEAR	TITLE	METHODOLOGY	FINDINGS AND RECOMMENDATIONS
5.	Schijndel (2010)	Fair Value Accounting and Pro- Cyclicality	Analyzed 55 European financial institutions using two developed simulation models and graphical description	Found that fair value accounting has introduced pro-Cyclicality into the financial statements of financial institutions
6.	Blankespoor, Linismeier, Petroni, Shakespeare (2010)	Fair Value Accounting for Financial Instruments: does it improve the Association between Bank Leverage and Credit Risk	Logistic regression analysis and descriptive statistics	Found that leverage measured using the fair values of financial instruments explains significantly more variation in bond yield spreads and bank failure than the other less fair-value-based leverage ratios in both univariate and multivariate analyses
7.	Zhuo (2011)	income statements effects of derivative fair value accounting: Evidence from Bank Holding Companies	Regression analysis	Found evidence that the newly recognized earnings component following the adoption of the fair-value based hedging performance measure (SFAS 133 improves the value and risk relevance of accounting earnings
8.	Bessong and Charles (2002)	Comparative Analysis of Fair Value and Historical Cost Accounting on reported Profit: A Study of Selected Manufacturing Companies in Nigeria	Analyzed data using Ordinary Least Square regression	Findings revealed that both historical cost and fair-value accounting have significant effect on reported profit
9	Barth *et al.* *(2012)*	Fair Value Accounting, Earnings Management and the use of Available for Sale Instruments by Bank Managers	Analyzed data using descriptive statistics and the ordinary least square with two-way cluster errors	Found that banks' holding of available- for-sale assets is related to banks earnings management through realized gains and losses on available-for-sale assets.

Source: Researchers' Compilation (2022)

Table 1b: Summary of Empirical Review

S/N	AUTHOR(S) AND YEAR	TITLE	METHODOLOGY	FINDINGS AND RECOMMEN DATIONS
10	Fiechter and Meyer (2012)	Discretionary measurement of Level 3 fair values during the 2008 financial crisis	Regression analysis	Result obtained indicate that certain U.S. banks managed their earnings during the 2008 Financial Crisis
11	Xiaolu (2013)	Fair value measurements and earning management: evidence from banking industry	Analyzed data using logistic regression analysis	Found that banks reporting higher recurring basis fair values, especially level 2 fair values and banks reporting increased fair values are more likely to report small earnings increases both in the current year and one year ahead consistent with earning management
12	Ijeoma (2013)	The impact of Fair Value Measurement on Financial Instrument of Firms in Nigeria	Analyzed questionnaire data using the Kruskal-Wallis rank sum test statistic	Concluded that Fair value is the best reflection of the expected future cash flow as it predicts the ability of the entity to take advantages of opportunities to react to adverse situations.
13	Xiaoyan and Yanqing (2013)	Impact in earnings Management of Fair Value measurement: Based on Electric power industry	Descriptive statistic and regression analysis	Found the existence of earning management behaviour in the power industry.
14	Alayan *et. al.*, (2014)	The Relationship between Fair Value Accounting and Presence of Manipulation in Financial Statements	Logistic regression and Chi-Square	Findings indicate that the number of firms that manipulated information in the financial statements has increased after applying for value accounting
15	Al-Khadash and Khasawneh (2014)	The effect of the Fair value option under IAS 40 on the Volatility of Earning	The Ohlson Valuation model (1995) and the Theil technique (1971) were utilized	Findings revealed that unrealized gains and losses affect the net income and that incremental information of net incomes is greater than that of book values in income increases the explanatory power of the model.

Source: Researcher's Compilation (2022)

Table 2.1c: Summary of Empirical Review

S/N	AUTHOR(S) AND YEAR	TITLE	METHODOLOGY	FINDING AND RECOMMENDATION
16	Glasscock (2014)	Management's Aggressiveness and Fair Value Accounting: An Examination of Realized and Unrealized Gains and Losses on ASC 820 Level 3 Assets	Regression Analysis	Found a positive relationship between aggressiveness in financial reporting and Level 3 gains/losses on sales and Level 3 Valuations.
17	Hsu and Lin (2015)	Fair Value Accounting and Earnings Management	Multiple regression technique	Found that firms with more Level 3 fair value assets and liabilities and more. Likely to recognized positive
18	Sodan (2015)	The impact of fair value accounting on earnings quality in eastern European Countries	Analyzed data using the ordinary least square regression model	Result suggest that both firms and banks with increased exposure to fair value accounting in financial reporting have lower level of aggregate earnings quality.
19	Elfaki and Hammand (2015)	The impact of the application of Fair Value Accounting on the quality of Accounting Information	AVONA statistics	The study shows a positive relationship between the application of fair value of the appropriateness of accounting information in decision making and a positive relationship between the application of fair value and reliability of accounting information
20	Ahmad and Aladwan (2015)	The effect of Fair value Accounting on Jordanian Investment Properties: An empirical study on Jordanian Listed real estate companies	Multiple technique regression	Findings revealed that financial performance of Jordanian estate companies is significantly positively related to investment properties valued of fair values.
21.	Amanamah and Owusu (2016)	Perception of Fair Value Measurement in Ghana: Evidence from account Personnel	Descriptive statistics using SPSS software	The study holds that the price of shares in most listed companies might not represent the true and fair value of company's shares in the Ghanaian stock market because the marker is young and inefficient.

Source: Researchers' Compilation (2022)

TABLE 2.1d: Summary of Empirical Review

S/N	AUTHOR (S) AND YEAR	TITLE	METHODOLOGY	FINDINGS AND RECOMMENDATION
22.	Uyanna, Adeyemi and Yusuf (2017)	Fair Value Accounting and Earnings Predictability of Listed Deposit Money Banks in Nigeria	Descriptive statistics, correlation analysis and a panel multiple regression analysis	Found that Fair Value Accounting significantly influences earnings predictability and that whereas fair value hierarchy level one does not significantly enhance earnings predictability of listed DMBs in Nigeria, level two and three were found to negatively and significantly influence earning predictability.
23.	Tutino and Pompili (2018)	Fair Value Accounting And Management Opportunism on Earnings Management in Banking Sector: First Evidence	Regression analysis	Results show a negative and strong relationship between FVA and earnings quality for US banks; results for European listed banks do not provide any strong evidence
24.	Badenhorst (2018)	Fair value intensity and analyst forecast	Multivariate regression analysis	Results show that greater fair value intensity decreases the 12-month analyst forecast accuracy for earnings in both countries and some evidence that higher fair value intensity decreases the accuracy of analysts' book value forecasts.

Source: Researchers' Compilation (2022)

2.4 Gap in the Literature

From the foregoing, the review of existing literature on Fair valuation and earnings management creates meaningful insight on the influence of fair value accounting on reported earnings. However, the findings of these prior research works have produced mixed results. While some results suggest that Fair value accounting is value and risk relevant (Hodder, Hopkins, & Wahlen, 2006; Blankespoor *et al.* 2010; Zhuo, 2011, Ijeoma, 2013, Elfaki & Hammand, 2015) others show strong evidence of earnings management amongst banks reporting fair values (Dechow *et. al.* 2009; Shijndel, 2010; Bath *et. al.* 2012; Xiaolu, 2013; Sodan, 2015; Tutino & Pompili, 2018). It is important to note that majority of these studies were conducted in developed nations (U.S and Europe) with developed stock markets where there is access to timely information and multiple financial information databases. Only few studies on fair value accounting have been conducted in developing economics and markets like Nigeria (Ijeoma, 2013; Uyanna *et al.* 2017). Hence, this study is timely and imperative given that the IFRS has been adopted in Nigeria since 2011 and banks have been reporting fair values since 2012.

3.0 METHODOLOGY

3.1 Research Design

This study used data from secondary sources and adopted the *Ex-post Facto* research design as historical information is neither influenced nor controlled.

3.2 Population of the Study

The study area covers the Banking industry in Nigeria; the target population consists of Twenty-two (22) Commercial Banks as listed by the Central Bank of Nigeria.

3.3 Sample and Sampling Technique

Thirteen (13) Deposit Money Banks were selected for the purpose of this study using the purposive sampling technique. These are the Deposit Money Banks listed on the Nigerian Stock Exchange as at time of this study. They were selected because of the availability of data of these banks over the stated period of study and their exposure to a wider range of stakeholders. The banks selected include:

1. Access Bank
2. Ecobank Nigeria Plc
3. Fidelity Bank
4. First Bank of Nigeria Plc
5. First City Monument Bank Plc
6. Guaranty Trust Bank Plc
7. Stanbic Bank Plc
8. Sterling Bank Plc
9. Union Bank of Nigeria Plc
10. United Bank for Africa Plc
11. Unity Bank Plc
12. Wema Bank Plc
13. Zenith Bank Plc

3.4 Variable Description and Measurement

The definition of the dependent and independent variable, their measurement criteria and the a priori expectation are given in the Table 2:

Table 2: Measurement and Description of Variables of the Study

S/N	PROXY	TYPE OF VARIABLE	MEASUREMENT	SOURCE	*A PRIORI* EXPECTATION
1	Earnings management (MBE-Meet or Beat Earnings)	Dependent	A variable which equals one if the firm has a ROA between 0 and 0.005, an earnings range defining small earnings increases and zero otherwise; where ROA is defined as current year's net income minus previous year's net income, divided by total assets	(Chen *et. al.*, 2015) Xiaolu (2013)	

2	Fair Value Level two (FVA2)	Independent	Level two fair value financial assets divided by total assets	Uyanna, Adeyemi and Yusuf (2017)	+
3	Fair value level	Independent	Level three fair value financial assets	Uyanna, Adeyemi and Yusuf (2017)	+
4	Fair value intensity (FVSITY)	Independent	Total fair valued financial assets divided by total assets	Uyanna, Adeyemi and Yusuf (2017)	+
5	Firm's Leverage (LEV)	Control	Total liabilities divided by total assets	Paolini, Paolucci, and Menicucci (2017)	+
6	Firm size (SIZE)	Control	Log of total assets	Paolini, Paolucci and Menicucci (2017)	+

Source: Researchers' Compilation (2022)

3.5 Model Specification

The model used in the study is adopted from the works of Hsu and Lin (2015) which was based on Fair value accounting and earnings management to meet or beat analysts forecasts. The model is modified in line with the objectives of the study.

Drawing from the Threshold management theory of Burgstahler and Dichev (1997) and Degeorge *et. al.*, (1999), and the empirical works of Xialu (2013), Hsu and Lin (2015), and Chen *et. al.* (2015), earnings management is thus specified as a function of fair value and other control variables include in the model with regards to the hypotheses of the study.

Hypothesis one:

$$MBE_{it} = \alpha + \beta_0 FVA2_{it} + \beta_1 LEV_{it} + \beta_2 SIZE_{it} + \varepsilon it \qquad \text{Equation 3.1}$$

Hypothesis two:

$$MBE_{it} = \alpha + \beta_0 FVA3_{it} + \beta_1 LEV_{it} + \beta_2 SIZE_{it} + \varepsilon it \qquad \text{Equation 3.2}$$

Hypothesis three:

$$MBE_{it} = \alpha + \beta_0 FVSITY + \beta_1 LEV_{it} + \beta_2 SIZE_{it} + \varepsilon it \qquad \text{Equation 3.3}$$

Where:

MBE_{it}	=	Earnings Management
$FVA2_{it}$	=	Level two fair value assets
$FVA3_{it}$	=	Level three fair value assets
$FVSITY_{it}$	=	Fair value intensity
LEV_{it}	=	Firm's Leverage
$SIZE_{it}$	=	Log of total assets
Eit	=	Error term

3.6 Sources of Data and Nature of Data

This study uses secondary information (data) obtained in the audited annual accounts and financial reports of banks listed on the Nigerian Stock Exchanged (NSE) and website database of the individual banks. A cross sectional data of the Thirteen (13) quoted banks covering a period of Seven (7) years (2015 – 2021) were employed. The data were obtained from audited financial statements of Thirteen (13) listed Deposit money banks in Nigeria and analyzed using multiple regression analysis.

3.7 Method of Data Analysis

Descriptive statistics and multiple regression analysis was applied in order to determine whether a significant relationship exists between the dependent and independent variables in the model. In analyzing the data collected and reaching a valid conclusion for the study, the statistical package for social science (SPSS) was used. All hypotheses will tested at 5% of significance. A null-hypothesis will be rejected at 5% level of significance. A null-hypothesis will be rejected if the probability value is less than 0.05 ($p<0.05$) and the F-cal is greater than the critical value of F.

Table 4.2: Descriptive Statistics,

	N	Minimum	Maximum	Mean	Std. Deviation
EARNINGS MANAGEMENT	91	.00	1.00	.6484	.48013
FAIR VALUE LEVEL ONE (N'000)	91	51.00	595,246,031.00	69,712,537.9878	140,066,777.42470
FAIR VALUE LEVEL TWO (N'000)	91	397.00	1,011,039,000.00	61,748,756.9500	198,229,089.75151
FAIR VALUE LEVEL THREE (N'000)	91	59.00	1o9,461,917.00	5,155,302.3148	18,907,695.02624
FAIR VALUE INTENSITY(N'000)	91	9405.00	1,011,039,000.00	120.161,703.2537	231,591,731.23200

Source. Researchers' Computation (2022).

The earning management had a minimum value of 0 implying that earning were not managed during a particular year while the maximum was implying the presence of earning management. The minimum value of Fair value Level one reported by the banks was ₦51,000, the maximum value for Fair Level one was ₦595,246,031,000.00 while the average value of Fair value Level one was ₦69,712,537,980

The minimum value of Fair value level two reported by the banks was ₦397,000, The maximum value for Fair value level two was ₦1,011,039,000,000.00 while the average value of Fair value for Fair one was ₦61, 748,756,950.00.

The minimum value of Fair value level three reported by the banks was N59,000, the maximum value for Fair value level three was N109,461,917,000.00 while the average value of Fair value for level one was N 5,155,302,314.00

The minimum value of Fair value intensity by the banks was N9,405,000, the maximum value for Fair value level two was N1,011,039,000.00 while the average value of Fair value level one was N120,161,703,252.00

4.2 Test of Hypotheses

The hypotheses formulated for this study were tested using multiple regression analysis and the result as follows:

Hypotheses One

Ho_1: Earnings management is not significantly influenced by level 2 fair values.

The regression output for test of the hypothesis are shown on the tables that follows:

Table 1 Model Summary

Model	R	R Square	Adjusted R. Square	Std. Error of Estimate
1	.836[a]	.699	.688	.91436
a. Predictors:	(Constant),	LEVERAGE,	FIRM SIZE,	FAIR VALUE 2

Source: Researchers' Computation (2022).

TABLE 2: ANOVA[a]

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	168.643.	3	56.214	67.237	.000b
	Residual	72.737.	.87	.836		
	Total	241.380	90			

a. Earning Management
b. Predictors: (constant), L EVERAGE, FIRM SIZE, FAIR VALUE 2
Source: Researcher's Computation (2022)

Table 3: Coefficient

Model	Unstandardized Coefficients		Standardized Coefficient	t	sig
	B	Std. Error	Beta		
(Constant	2.101	.546		3.848	.000
1 FAIR VALUE 2	.505	.084	.483	5.986	.000
FIRM SIZE	.000	.000	.416	5.157	.000
LEVERAGE	1.097	.451	.146	2.433	.017

a. Dependent Variable: Earning Management

Source: Researchers' Computation (2022).

The null hypothesis one state that Level 2 fair values have no significant influence on small earnings increase (earnings management). Based on the decision rule of the study, the null hypothesis one of the study is rejected and the alternate accepted because the p-value of 0.000 shown in Table 2 and Table 3 above is less than 0.05 and the F-cal value of 67.237 and t-cal value of 5.986 are greater than the critical value of F-tab (2. 709) and T-tab (1.9866) respectively.

Hypothesis Two

Ho_2: Earnings management is not significantly influenced by level 3 fair values

The regression output for test of hypothesis two are disclosed on the tables that follows:

Table 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.893a	.797	.790	.74996

a. Predictors: (Constant)LEVERAGE, FIRM SIZE, FAIR VALUE 3

Source: Researcher's Computation (2020).

Table 5 ANOVA

Model		**Sum of Squares**	**Df**	**Means Square**	**F**	**Sig.**
1	Regression	192.447	3	64.149	114.054	.000[b]
	Residual	48.933	87	.562		
	Total	241.380	90			

a. Dependent Variable: EARNINGS MANAGEMENT
b. Predictors: (Constant), LEVERAGE, FIRM SIZE, FAIR VALUE 3
Source: Researchers' Computation (2022).

Table 6 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	β	std. Error	Beta		
(Constant)	2.162	.401		5.388	.000
1 FAIR VALUE 3	.587	.060	.616	9.777	.000
FIRM SIZE	.000	.000	.365	5.870	.000

a. Dependent Variable: EARNING MANAGEMENT

Source: Researchers' Computation (2022).

The null hypothesis two states that Level three fair value have no significant influence on small earning increase (earning management). Based on the decision rule of the study, the null hypothesis two of the study is rejected and the alternate accepted because the p-value of

0.000 shown in Table 5 and Table 6 above is less than 0.05 and the F-cal value of 114.054 and T-cal value of 9.777 are greater than the critical value of F-tab (2.709) and T-tab (1.9866) respectively.

Hypothesis Three

Ho_3: There is no significant relationship between fair value intensity and earnings management.

The regression output for test of hypothesis three are contained on the tables that follows

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.820	.673	.662	.95251

a. Predictors: (Constant): (LEVERAGE, FAIR VALUE INTENSITY, FIRM SIZE

Source: Researchers' Computation (2022).

Table 8 ANOVA[a]

Model		Sum of squares	df	mean square	F	Sig
1	Regression	162.447	3	54.149	59.683	.000
	Residual	78.933	87.	.907		
	Total	241.380	90			

a. Dependent Variable: EARNING MANAGEMENT
b. Predictors: (Constants) LEVERAGE, FAIR VALUE INTENSITY, FIRM SIZE

Source: Researchers' Computation (2022).

Table 9: Coefficients [a]

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig
(Constant)	4.177	.435		9.609	.000
1 FAIR VALUE INTENSITY	.000	.000	.338	5.117	.000
FIRM SIZE	.000	.000	.620	9.370	.000
LEVERAGE	1.511	.462	.201	3.269	.002

a. Dependent Variable: EARNING MANAGEMENT

Source: Researchers' Computation (2022).

The null hypothesis three state that fair value intensity have no significant relationship on small earning increase (earning management). Based on the decision rule of the study, the

null hypothesis three of the study is rejected and the alternate accepted because the p-value of 0.000shown in Table 4.12 and Table 4.14 is less than 0.05 and the F-cal value of 59.683 and T-cal value of 5.117 are greater than the critical values of F-tab (2.709) and T-tab (1.9866) respectively.

4.3 Discussion of the Findings

The result of the analysis showed an adjusted R square of 0.688 for fair value level two. This implies that 68.8% of the variation in earnings management is accounted for by fair value level two. This positive influence means that the more fair value level two that a bank has, the more the likelihood of earnings management being carried out. The result indicated that the influence of Fair value level 2 on small earnings increases was very significant. The implication is that management can easily manipulate earnings via Fair value level two. Similarly, Xiaolu, (2013) found that firms reporting higher level two fair values were more likely to report small earnings increases. However, this is in contrast with Hsu and Lin (2015) who found the coefficients on level two fair value t be insignificant on earnings management. Furthermore, the decomposition of level two Fair values revealed that Available for sale and Derivative financial assets are key drivers of this category of Fair value.

For Fair value level three, the result of the analysis showed an adjusted R square of 0.790 for fair value level three. this implies that 79% of the variation in earnings management is accounted for by fair value three. This positive influence means that the more fair value level three that a bank has, the more the likelihood of earnings management being carried out. The result indicated that the influence of Fair value three on small earnings increases was very significant. The implication is that management can easily manipulate earnings via Fair value level three. This result demonstrates that Fair value level three provides leeway for management discretion. This is in consonance with the findings of Fiechter and Meyer (2012), Glasscock (2014) and Hsu and Lin (2015). In contrast, Xiaolu (2013) found that level 3 Fair values do not affect the probability that a firm manages earnings.

For Fair value intensity, the result of the analysis showed an adjusted R-square of 0.662 for Fair value intensity which is the sum of all the Fair values reported by an entity. This implies that 66.2% of the variation in earnings management in banks is accounted for by fair value intensity. This implies that the combined influence of fair value level 1, fair value level 2 and fair level 3 is 66.2%. This is a collective marker for the influence of Fair values on earning management.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The adoption and implementation of IFRS in Nigeria created a new reporting regime with which Fair value accounting is predominant. This study was undertaken to assess the influence of Fair valuation on earnings management amongst Deposit Money Banks in Nigeria between 2015 and 2021. Data for the study were obtained from the financial statements of thirteen Deposit Money banks in Nigeria between 2015 and 2021. Both descriptive statistical tools and regression analysis were adopted to analyses the data collected. This section summaries the results of major findings, draws conclusion, and makes recommendations.

5.1 Summary of the Findings

From the result of data analysis carried out in Chapter Four of this study, following findings were made:

i. Level two Fair values are positively associated with and significantly influence earnings management.
ii. Earnings management is significantly influenced by level three fair valves.
iii. Fair value intensity which is the combined sum of the different levels of Fair value has significant influence on earnings management
iv. Level two Fair values are driven by Available for sale and Derivative financial assets.

5.2 Conclusion

The main objective of this study was to obtain empirical evidence on the influence of Fair valuation on earnings management amongst deposit money bank in Nigeria from 2015 to 2021. Adopting the methodologies of Xiaolu (2013), and Chen *et.al* (2015), results showed positive association between Fair value at different levels and earnings management with significant influence from levels two and three Fair values only Similarly, Fair value intensity has significant on Earnings management. Since results showed a high level of significant of level two Fair values only. Similarly, Fair value intensity has significant influence on Earnings management. Since results showed a high level of significance of level two fair values, they were decomposed to reveal the driving components. Available for sale and Derivative financial assets are the main drivers of level two Fair values. This is particularly important because firms can recycle gains and losses from Available for sale assets in order to smooth earnings, avoid losses or take "a big bath" The overall results imply that the more Fair value firms report, the likely they are to manage earnings, indicating that the new financial reporting paradigm of fair value accounting comes with reasonable concerns and has implications on reported earnings.

5.3 Recommendation:

Recommendations

Based on the findings of this study, the following recommendations are made:

i. Investors and other stakeholders should pay close attention to banks reporting high level two and three fair values when making investment decision bases on reported earnings as these Fair values are likely media of earnings management.
ii. Investors, stakeholders and users of financial statements should be more circumspect and intensify scrutiny when assessing banks' performance based on reported earnings.
iii. Regulators and standard setters should encourage the adoption of uniform and which active market prices are unavailable.

iv. Standard setters, especially The Financial Reporting Council of Nigeria should encourage more disclosures on the nature and components of level two Fair values, particularly, Available for sale and Derivative financial assets since they are major drivers of earnings management.

v. Corporate governance measures should be established to ensure the use of more transparent and observable inputs in fair valuation and discourage the manipulation of reported earnings.

vi. There is need for Nigeria deposit money banks to disclose in clear and separate figures, Fair value gains and losses recognized under net income in order to enable the assessment of the influence of Fair value through net Income on reported earnings.

vii. The SEC and NSE should improve financial data accessibility through the establishment of vast database of financial information similar to the extensible Business Mark-up Language (XBRL) in the US which helps investors analyze the data in variety of using commercially available software.

5.4 Business Implication of Finding

The business implication of findings of this study is that investors and stakeholders at large will be more circumspect when assessing the performance of banks based on reported earnings, especially where Fair value financial assets constitute a significant portion of a bank's assets.

5.5 Contribution to Knowledge

This study contributes to knowledge is various streams;

Firstly to the best of the researcher's knowledge, this is pioneer study on the role of Fair value accounting in earnings management in Nigeria. This study has established that Fair valuation has significant influence on earnings management of deposit money banks in Nigeria. It highlights the emerging regarding the reliability and value relevance of Fair values and underscores critical policy implications for regulators and standard setters in the IFRS adoption era in Nigeria.

Secondly, this study attempts to reconcile conflicting findings from earlier studies. For instance, while Xiaolu (2013) found that levels one and three Fair values have no influence earnings financial firms in both US and other countries. This study found that levels two and three fair values significantly influence earnings management amongst deposit money bank in Nigeria. These findings add to the robustness of existing literature and depict the different scenarios in both developed and developing markets.

The high level of significance of the less observable levels of Fair value on earning management amongst deposit money banks in Nigeria found in this identifies the need for a more developed financial market and financial instrument pricing models in Nigeria. For instance, the extensive use if the black – Scholes and Implied volatility pricing models in European markets compensates to an extent, the absence of real markets for some financial assets especially the Derivatives (Marable *et. al.,* 2014).

Again, by decomposing level two Fair values because of its high level of significance on earnings management, this study found that while Available for sale assets was a major component of Banks' level two Fair values as earlier observed by Barth *et al.* (2012) and Xiaolu

(2013), Derivative financial assets was another major component consistently reported under level two financial assets, highlighting its increasing importance in earnings management.

5.6 Suggestions for Further Studies

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