GATR Accounting and Finance Review
GATR JOURNALS
Journal homepage: http://gatrenterprise.com/GATRJournals/AFR/vol9_2024_issue1.html
Acc. Fin. Review 9(1) 42 – 53 (2024)

Value Relevance of Fair Value Measurement on Investment Property: Malaysian Evidence

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ABSTRACT

Objective - This research investigates the disclosure practices for fair value measurement of investment property and examines the value relevance of fair value information reported by Malaysian public listed companies.
Methodology/Technique - The study focuses on annual reports from 2018 of companies listed on the Main Market of Bursa Malaysia, excluding firms in the financial and unit trust sectors. The sample includes 71 companies that reported fair value gains on investment property.
Findings - Findings reveal that none of the companies used Level 1 inputs, 51% used Level 2 inputs, 39% used Level 3 inputs, and 10% used a combination of Level 2 and 3 inputs. The regression analysis indicates that fair value gains are not significantly related to stock returns, suggesting that Malaysian investors do not find this information useful. However, net income before fair value gains is significantly related to share returns, highlighting the importance of traditional earnings metrics.
Novelty - This study contributes to the literature by providing empirical evidence from Malaysia, revealing a gap in the perceived usefulness of fair value disclosures and underscoring the continued relevance of traditional financial metrics for investors.
Type of Paper: Empirical
JEL Classification: M41, M49.
Keywords: Fair Value Gain, Investment Property, Value Relevance, Disclosure
Reference to this paper should be referred to as follows: Shaari, H. (2024). Value Relevance of Fair Value Measurement on Investment Property: Malaysian Evidence, *Acc. Fin. Review*, 9(1), 42 – 53. https://doi.org/10.35609/afr.2024.9.1(2)

1. Introduction

For the last couple of decades, fair value accounting has been a topic of substantial debate among academics, policymakers, and practitioners. The Financial Accounting Standards Board (FASB), and the International Accounting Standards Board (IASB) are moving forward with rules that increase the use of fair value measurements. This is a significant change from the centuries-old practice of keeping historical records. Many scholars have criticized historical cost accounting, claiming that it does not reflect commercial realities or provide an up-to-date appraisal of net worth (Godfrey et al., 2010). The main objective of this shift is to improve reporting transparency. As a result, the accounting standards board around the world have been slowly, but steadily shifting from historical cost to fair value reporting.

* Paper info: Revised: April 06, 2024
Accepted: June 30, 2024
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At present, the financial reporting framework still follows both historical costs and fair value basis. However, FASB and IASB have made known their view that fair value reporting will likely become the main reporting basis for financial accounting in the future (Jordan et al., 2013). In the IASB's Conceptual Framework, it is stated that investors, lenders and creditors need information that helps them assess the amount, timing and uncertainty of future net cash inflows to the firm (IASB 2010). In this perspective, fair value information may help investors in predicting the ability of firms to generate such future cash flows. (Landsman, 2007) also concludes that prior studies provide evidence that fair value information is useful for investors but subject to measurement error. Thus, fair value plays a key role in providing useful information and reducing the informative asymmetry between firms and investors in improving the quality of information.

The former chairman of IASB, Mr. Tweedie, clarifies the shifting to fair values as follows:

> "For too long, earnings have been smoothed in an effort to show investors a steady upward trajectory of profits. While this approach provides a simple and understandable model, it simply is not consistent with reality. Publicly traded companies are complex entities, engaged in a wide range of activities and subject to different market pressures and fluctuations. Accounting should reflect these fluctuations and risks (...) The current direction we are taking will be what I like to call, "tell it like it is" accounting. This means an increasing reliance on fair values, when these values can be determined accurately".

(Palea, 2014) has a different view that historical cost is needed together with fair value accounting to provide information useful to evaluate stewardship. A dual measurement and financial reporting system could therefore deliver more complete and useful information to financial statement users.

This research aims to investigate the disclosure of input for fair value measurement of investment property. The study also examines the value relevance of fair value information on investment property reported by Malaysian public listed companies.

Literature Review and Hypotheses Development

In Malaysia, The Malaysian Accounting Standards Board (MASB) has issued several standards that require the recognition and disclosure of financial statement elements using fair values. Generally, the standards mandate measuring assets at fair value and reporting the changes in fair value as income in statement of profit or loss or as reserve. Among others are Malaysian Financial Reporting Standard (MFRS) 116 Property, Plant and Equipment, MFRS 140 Investment Property, MFRS 141 Agriculture, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 138 Intangible Assets. MFRS 13 Fair Value Measurements issued in 2013, provides considerably more comprehensive fair value measurement guidance than previous standards.

2.1 MFRS140 Investment Property and the related studies

MFRS 140 was issued in 2011 with the objective to provide guidance on how to account for investment property. The standard is applicable for properties such as land and building use for rental or capital appreciation. After the initial recognition of the investment property, the companies may choose either cost model or fair value model. If the companies choose fair value model, the carrying amount of the investment

property should be adjusted to its fair value as at the reporting date. Thus, the value of the assets in the balance sheet reflects its current value. The difference between the initial recognition and fair value at the reporting date will be reported in the statement of profit or loss for the current period.

Fair value measurement is a crucial concept in financial reporting, providing a standardized approach to determining the value of assets and liabilities. According to the MFRS 13 Fair Value Measurement, fair value 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. This definition emphasizes the exit price notion, focusing on the perspective of market participants rather than the entity-specific viewpoint.

Fair value measurement aims to provide a consistent and transparent basis for valuing assets and liabilities, facilitating comparability and reliability in financial statements. It considers the market conditions, market participants' perspectives, and the highest and best use of the asset or liability.

The Three Levels of Fair Value Hierarchy

The fair value hierarchy under IFRS is established to increase consistency and comparability in fair value measurements and related disclosures. The hierarchy categorizes the inputs used in valuation techniques into three levels. Level 1 inputs are the most reliable and readily available for fair value measurements. These inputs include quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. An active market is one where transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Some of the examples are listed equity securities, government bonds, and commodities traded on an exchange.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, and credit spreads. Level 2 inputs require some adjustments but are still based on observable data. These inputs are less reliable than Level 1 inputs but provide a reasonable basis for valuation. Corporate bonds, mortgage-backed securities, and over-the-counter derivatives are some example of the inputs

Level 3 inputs are the least reliable and involve significant management judgment and estimation. These inputs are unobservable and are used when observable inputs are not available. Level 3 inputs reflect the entity’s own assumptions about what market participants would use in pricing the asset or liability, including risk assumptions. For example private equity investments, complex derivatives with limited market activity, and real estate properties that require significant adjustments.

Under MFRS, investment property can be measured at fair value if it provides a more relevant measure of the property's economic benefits. The fair value model requires that investment property be measured at fair value at each reporting date, with changes in fair value recognized in profit or loss. In practice, entities will use the fair value hierarchy to determine the appropriate inputs for measuring the fair value of investment properties:

Level 1: Rarely applicable, as quoted prices in active markets for identical properties are uncommon.
Level 2: Commonly used for investment properties where there are observable market data for similar properties, albeit in less active markets.

Level 3: Frequently used, as investment properties often require significant adjustments based on unobservable inputs, especially for unique or specialized properties.

By categorizing inputs into this three-level hierarchy, MFRS ensures a systematic approach to fair value measurement, enhancing transparency and reliability in financial reporting.

Prior Studies in Investment Properties

Studies in value relevance of accounting information examine how investors value the information and incorporate it into their investment decisions. The (Ohlson, 1995) model has triggered considerable empirical research on the relationship between firm value and accounting information. The accounting number is considered value relevant if the positive association is found. Value relevance is often operationalized by the R2 from a regression of stock prices (or return) on accounting information. If the R2 from this regression is zero or approximately zero, the accounting number is not value relevant. Value relevance is a measure of accounting quality and this may explain the increasing research interest on the subject.

Prior studies on value relevance of fair value numbers focus largely on financial assets and liabilities. In the financial sector, (Barth et al., 1996) report that the fair value of bank loans is incrementally informative relative to their book values in explaining bank share prices. The study also reveals additional evidence that the fair values of loans reflect information related to the default and interest rate risk of those loans. (Venkatachalam, 1996) examines the value relevance of banks' derivatives disclosures provided under SFAS No. 119 for a sample of banks in 1993 and 1994. Findings from the study suggest that derivatives' fair value estimates explain cross-sectional variation in bank share prices incremental to fair values of the primary on-balance accounts (i.e., cash, investments, loans, deposits, and debt). Similarly, in recent study, (Altawalbeh, 2020) documented that Jordanian commercial banks provide fair value information that reflects the informational value to statekholders. (Hassan et al., 2006) investigate whether fair value information of financial instruments is value relevant within Australian firms in the extractive industries. In 2005, the Australian accounting standard on financial instruments, AASB 139 Financial Instruments: Recognition and Measurement, requires the measurement of financial instruments based on fair values. This study provides evidence that net fair value information is value relevant. However, the significance of net fair value is limited to the recognised financial instruments and some settings. Further analysis provides evidence that the explanatory power of net fair value and the unrealised gain or loss beyond the book value and earnings valued at historical costs is very low.

In the US, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurement. ASU 2010-06 mandates that firms provide disaggregated fair value information by class of financial instruments under each level of the fair value hierarchy. Using financial statements of publicly traded banks for the first quarters of 2009 and 2010, (Lu & Mande, 2014) find that fair value relevance increases under ASU 2010-06. Similarly, (Magnan et al., 2015) investigate whether fair value measurement and disclosure by US bank holding companies influences financial analysts' ability to forecast earnings. The study finds that the measurement basis disclosure (levels 1, 2 and 3) enacted by SFAS 157 translates into more accurate forecasts but has neutral effects for banks. Furthermore, it appears that analysts perceive that managers convey useful information through level 2 figures but act opportunistically in measuring level 3 fair value figures. In another study on the fair value hierarchy, (Rizki & Mita, 2021) examine the relevance of fair value based on all three (3) levels of the fair value hierarchy. The study also examines the role of the audit committee's effectiveness in strengthening the relevance of the financial assets' fair value. Using data from Indonesia, Malaysia, Singapore, and the Philippine the study shows that the level 3 fair value is more relevant after the implementation of IFRS 13. Moreover, the effectiveness of audit committee enhances the relevance of the level 3 fair value.

The later research in this area starts focussing on non-financial assets. In study on tangible and intangible assets, (Barth & Clinch, 1998) find revalued investments in the assets are incrementally priced. Contrary to the view that intangible asset revaluations are likely to be noisy and uninformative, the study finds a positive association between such revaluations and share prices. In a similar focus, (Aboody et al., 1999) examine the future firm performance and pricing implications of fixed asset revaluations for a sample of UK firms from 1983 to 1995. They finds that upward revaluations are significantly positively related to changes in future performance, measured by operating income and cash from operations. Regarding the value relevance of upward revaluation, using annual regressions similar to those employed in Easton et al. (1993) and (Barth & Clinch, 1998), the study finds that current-year revaluations are significantly positively related to annual stock returns, and current-year asset revaluation balances are significantly positively related to annual stock prices. Taken together, the research findings suggest that disclosed and recognised fair values are informative to investors, but that the level of informativeness is affected by the amount of measurement error and source of the estimates - management or external appraisers (Landsman, 2007).

In a recent study, (He et al., 2018) provide the first empirical evidence for the agricultural sector on the relevance of fair value accounting. It examines the forecasting power of the fair value of biological assets for future operating cash flows. Using all agribusinesses listed in Australia, the study finds that fair value of biological assets does not provide incremental forecasting power for future operating cash flows, whether market-determined prices or managerially estimated value is used.

Only a few studies focus on the value relevance of fair value changes in investment property. (Danbolt & Rees, 2008) use the UK real estate and investment fund industries to investigate the value relevance of historical cost and fair value accounting. The study finds that fair value income is considerably more value relevant than historic cost income. However, in the presence of changes in fair value accounting balance sheet values, income measures become largely irrelevant. This implies that there is no obvious advantage to adopting fair value income accounting if fair value balance sheet values are available to the user. The results indicate that fair values are highly relevant and largely unbiased where the values are unambiguous.

In Hong Kong, (So & Smith, 2009) study the value-relevance of the revision introduced in HKAS 40 (2004) ‘Investment Property’ on the presentation of changes in the fair value of investment properties. The standard requires that companies choosing to adopt the fair value model have to present changes in the fair value of investment properties in the income statement. Based on a sample of listed property companies in Hong Kong during 2004–2006, the results of this study show a significantly higher market price reaction and returns association when changes in fair value of investment properties are presented in the income statement. In the Malaysian setting, (Ishak et al., 2012) and (Pappu & Devi, 2011) examine the value relevance of fair value model for the treatment of investment property. Both studies find that the fair value model and cost model are perceived differently by investors.

The existence of a corporate governance mechanism is expected to be able to prevent managers from deviating so that the earnings information displayed in the financial statements can be relevant and fairly presented (Pratiwi et al., 2019). For example, the independence of the audit committee and the existence of financial directors' expertise, can increase the value relevance of the measurement of non-financial assets (Yao et al., 2015). (Tama-Sweet & Zhang, 2015) showed that corporate governance has a positive influence on banking stock prices. That is, corporate governance can increase the usefulness of information about fair value for investor decision-making. Based on the above findings, this study hypothesizes that:

H1: Fair value gain on investment property is value relevant.

3. Research Methodology

3.1 Sample selection procedure and data sources

The main source of information for this study is the annual reports of all listed companies in the Main Market of Bursa Malaysia. Only companies with gains in investment property reported in financial statements for the year 2018 were selected as samples. Firms in the financial and unit trust sectors were excluded as these companies are operated under different regulatory requirements. All companies (979 firms) listed on the main market for the year 2018 were initially selected. The annual reports of all companies can be viewed directly from the website and are downloaded when the firms with fair value gain are identified. The financial data were extracted from Datastream and data on corporate governance were collected manually from annual reports.

To identify firms with reported fair value gain, the financial statements for all companies were manually examined from the Bursa Malaysia website. Based on MFRS 140 Investment Property, the fair value gain should be reported in income statement. In financial statements, the fair value gain recognised during the year 2018 can be found in the Statement of Cash Flow prepared under the indirect approach or in the notes to the accounts for investment property.

A list of firms with fair value gain is obtained through a keyword search. The words used are “fair value gain on investment property” or “change in fair value of investment property” as the firms use different terms to report the account related with fair value gain in the financial statement. If the searching process fails to find the words entered, cash flow statements and/or notes to the accounts for investment property are examined in case companies use different terms to represent the fair value gain. All accruals items related to the income statements are presented in the cash flow statements for companies that prepare the statement under the indirect approach.

The amount of fair value gain on investment property and the carrying amounts of investment properties are collected, and are cross-checked in the notes of the accounts. Even though the data collection process is time-consuming, the data collected can be precisely identified. Following the above procedure, this study identifies an initial sample of 77 firms which reported fair value gain on investment property. 6 companies were then removed from the sample because of the incomplete data for other variables. The final sample of this study includes 71 companies from various industries.

Table 1: Summary of Industry Classification of Companies

No.	Category	No. of firm	Percentage
1	Construction	5	7%
2	Consumer Products and Services	15	21%
3	Industrial Products and Services	19	27%
4	Property	25	35%
5	Others	7	10%
	Total	71	100%

Table 1 reveals the sample firms breakdown by industry. This industry classification is based on the Bursa Malaysia sector classification. Other sector is referred to energy, health care, plantation, telecommunication and media, transportation and logistics and Utilities. In general, the sample comprises a range of industries, with most in property (25, or 35%), industry products and services (19, or 27%), and consumer products and services (15, or 21%). The other two sectors with the lowest frequency are construction (5, or 7%), and other

(7, or 10%). The proportion of the firms in the sample under study in each sector is also proportionate with those in the overall stock market except the property sector (not tabulated).

3.2 Research Model

This study defines value relevance as the association between accounting information and equity market value or stock returns (Francis & Schipper, 1999) (Barth et al., 2001). The positive coefficient on the accounting information variable indicates that the information is value relevant in setting a share price (Beaver, 2002). Consistent with this argument, if fair value gain on investment property is value relevant, the fair value change recognition should be positively associated with stock valuation.

In implementing the test of value relevance, this study follows prior studies and regresses the stock returns on fair value gain. As suggested by (Kothari & Zimmerman, 1995), this study uses return models to test the association between fair value gain with the change in stock value over a year as these models have less serious econometric problems. (Francis & Schipper, 1999) express the value relevance measured using long window as the ability of financial statement information to capture or summarise information, regardless of source, that effects share values. They claim that this interpretation does not require that financial statements to be the earliest source of information. Consistent with this argument, fair value gain used in this study is based solely on the financial statements reported in the annual reports of the firms as being the annual summary of financial information. Following (Aboody et al., 1999) and (Chen et al., 2009), this study regresses 12 month stock returns on fair value gain and expressed as follow:

$$AbReturn_t = \gamma 0 + \gamma_1 FVG_t + \gamma_2 NI_t + \gamma_3 BTM_t + u_t \quad (1)$$

where,

AbReturnt = adjusted returns beginning eight months before the financial year-end and ending four months after the financial year-end;

FGVt = fair value gain on investment property scaled by market value of equity at the end of year t-1;

NIt = net income before fair value gain on investment property in year t scaled by market value of equity at the end of year t-1;

BTMt = the book to market value ratio at the end of year t-1.

4. Results

Table 2 presents the fair value hierarchy related to the input used in fair value measurement disclosed by the Malaysian listed companies in 2018. The table shows that no companies reported the application of Level 1 inputs. This indicates that none of the companies found identical investment properties with quoted prices in active markets that could be used for fair value measurement. The largest group, with 36 companies (51%), used Level 2 inputs. These companies found sufficient observable market data for similar properties, which required some adjustments but were based on active market transactions or other observable data.

Table 2: Fair Value Hierarchy

Fair Value Hierarchy	No of companies	Percentage
Level 1	0	0%
Level 2	36	51%
Level 3	28	39%
Level 2 and 3	7	10%

A significant number, 28 companies (39%), used Level 3 inputs. These companies relied on unobservable inputs and internal models, reflecting the unique nature or limited market data availability for their investment properties. Only seven companies (10%) used a combination of both Level 2 and Level 3 inputs. This mixed approach suggests these companies had a diverse portfolio of investment properties, necessitating the use of both observable and unobservable inputs depending on the specific properties being valued.

The complete absence of Level 1 input adoption highlights the unique nature of investment properties. Unlike financial instruments, identical properties with active market quotes are virtually non-existent. This underscores the lack of standardized, highly liquid markets for real estate that would provide direct and comparable pricing information. The use of Level 2 inputs by 36 companies suggests a significant portion of the market can rely on observable data for similar properties. This indicates that while identical comparables are not available, there is enough market activity and data for properties that share similar characteristics. These inputs might come from comparable property sales, industry benchmarks, or observable market trends. One of the companies discloses the following:

Investment property at Level 2 fair value was determined by an external and independent property valuer, who is a member of The Hong Kong Institute of Surveyors. The professional valuer has adopted the comparison approach, making reference to relevant comparable transactions in the market, and the investment approach whereby the market value was calculated on the basis of capitalisation of the net income receivable with due allowance for reversion income potential. The valuation had resulted in a fair value gain of RM427,000 (2017: RM462,000) to the Group to reflect its fair value of RM5,031,000 or equivalent to HKD9,760,000 (2017: RM4,918,000 or equivalent to HKD8,940,000).

Padini Holdings Bhd

The reliance on Level 3 inputs by 28 companies shows that many properties are either highly unique or located in markets with insufficient observable data. These companies must use internal models and make significant estimates to determine fair value, reflecting the complexities and variations in property characteristics, locations, and market conditions. Disclosure by a sample presents the following:

Investment property of the Group comprises undeveloped land located at Langkawi and Axis Commercial Hub in progress. Investment property of the Company comprises serviced apartment that is leased to a subsidiary to earn rental income or held for capital appreciation. The fair value of the properties is classified as level 3 where there have been no recent transactions of similar properties at or near reporting date. Level 3 fair value is estimated using unobservable inputs for the investment properties. The valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models are disclosed in the following paragraphs.

Fair value is determined by the independent external valuer using the comparable approach with relevant adjustments being made to key attributes such as the timing of the transaction, land size and shape, accessibility of the location, zoning, tenure and etc. The most significant input into this valuation approach is price per square foot which would increase/(decrease) the estimated fair value if the price per square foot is higher/(lower).

Bina Darulaman Berhad

The mixed-use of both Level 2 and Level 3 inputs by 7 companies suggests that these companies have a heterogeneous portfolio of investment properties. Depending on the availability of market data, some properties could be valued using observable inputs, while others required more subjective estimations. This

dual approach ensures that the fair value measurement is as accurate and reflective of market conditions as possible for each specific property.

The data reflects the reality of the real estate market, where properties are often unique and market data can be limited or non-standardized. The reliance on Level 3 inputs for many companies indicates the complexity and subjectivity involved in valuing unique or less marketable properties. Companies with mixed inputs demonstrate the need for flexible valuation strategies to accurately capture the fair value of diverse property portfolios.

Overall, the adoption patterns of the fair value hierarchy levels among these companies illustrate the practical challenges and methodological approaches in applying fair value measurement to investment properties. The data underscores the importance of using the most relevant and reliable inputs available, given the unique and varied nature of real estate assets.

Table 3: Descriptive Statistics

Variables	N	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
Abreturn	71	-0.0945	0.2613	-0.6195	0.7515	0.8611	4.7612
FVG	71	0.0277	0.0624	0	0.2931	2.2033	6.7044
NI	71	0.0309	0.1703	-0.6402	0.2949	-2.0110	8.7858
BTM	71	1.8344	1.2127	0.2183	5.5556	1.1172	4.1986

Note: Abreturn is adjusted return, FVG is fair value gain on investment property, ACIN is audit committee independence, NI is net income before fair value gain on investment property, BTM is book to market.

Table 3 presents the descriptive statistics for key variables in the study. The variables include Abreturn (adjusted return), FVG (fair value gain on investment property), ACIN (audit committee independence), NI (net income before fair value gain on investment property), and BTM (book to market). For Abreturn, the mean is -0.0945 with a standard deviation of 0.2613, indicating a moderate level of skewness (0.8611) and kurtosis (4.7612). FVG, representing fair value gain on investment property, has a mean of 0.0277 and a standard deviation of 0.0624, exhibiting positive skewness (2.2033) and kurtosis (6.7044). Net income before fair value gain on investment property (NI) shows a mean of 0.0309 and a standard deviation of 0.1703, with skewness of -2.0110 and kurtosis of 8.7858. Lastly, BTM, representing book to market, has a mean of 1.8344 and a standard deviation of 1.2127, showing skewness of 1.1172 and kurtosis of 4.1986. These descriptive statistics provide a comprehensive overview of the central tendency, variability, and distribution characteristics of the variables under consideration in the study.

Table 4: Correlation Matrix

	Abreturn	FVG	NI	BTM
Abreturn	1.0000			
FVG	-0.0771	1.0000		
NI	0.2289	-0.4211	1.0000	
BTM	-0.0312	0.4708	0.0101	1.0000

Table 4 shows the correlation matrix for the study variables. Overall, the results reveal that multicolinearity does not pose a threat to the estimation variables. The strongest correlation amongst the

independent variables was 47% between FVG and BTM. This may be considered normal, as (Hair et al., 2014) have contended that a correlation of less than 90 percent might not be problematic for estimation.

Table 5: Regression for the variables

	Expected Sign	Coefficient	Std. Err	t-value	p-value
_cons		-0.0891	0.0442	-2.01	0.048
FVG	+	0.2468	0.7957	0.31	0.757
NI	+	0.3901	0.2075	1.88	0.065*
BTM	+	-0.0132	0.0239	-0.55	0.582
R^2	0.0556				
Prob> F	0.2577				

Notes: *Significant at 10% level

where,

AbReturnt = adjusted returns beginning eight months before the financial year-end and ending four months after the financial year-end;

FGVt = fair value gain on investment property scaled by market value of equity at the end of year t-1;

NIt = net income before fair value gain on investment property in year t scaled by market value of equity at the end of year t-1;

BTMt = the book to market value ratio at the end of year t-1.

This section tests the hypothesis of the study to determine whether fair value on investment properties is value relevant in a Malaysian setting. The results were obtained using parameters such as coefficient and robust standard error (moulded using marginal effect, which measures how estimated probabilities vary as the binary predictor variable changes from 0 to 1). t-values and p-values were also extracted for the purposes of interpretation. Table 5 presents the results of regression analysis for Equation 1. The regression is performed on a pooled data of 71 observations in 2018. The equation estimates an association between fair value gain on investment property and share returns. The result indicates that H1 is not supported where fair value gain on investment property (FVIP) is not significantly related to share returns. The coefficient on FVIP is positive but not significant. The result is consistent with (Ishak et al., 2012) and (Pappu & Devi, 2011) who found that fair value is not value relevant in Malaysian setting. Thus, the result provides evidence that Malaysian investors do not value the fair value information as useful. Table 4 also shows net income before fair value gain (NI) is positive and significantly related to share return. The result indicates that investors still perceived earnings as important factors in making their investment decisions. This is consistent with (Barth et al., 1996). The last control variable, BTM is found not significant.

5. Conclusion

This research investigates the disclosure practices for fair value measurement of investment property and examines the value relevance of fair value information reported by Malaysian public listed companies. The study analyzed annual reports from 2018 of companies listed on the Main Market of Bursa Malaysia, excluding those in the financial and unit trust sectors. The final sample consists of 71 companies that reported a fair value gain on investment property. The findings show that none of the companies used Level 1 inputs, while 36 companies (51%) used Level 2 inputs, 28 companies (39%) used Level 3 inputs, and 7 companies (10%) used a combination of both Level 2 and 3 inputs. This indicates a reliance on observable data for similar properties and internal models for unique properties.

The value relevance of fair value gains on investment properties was tested by regressing stock returns on fair value gains and other control variables. The results reveal that fair value gains are not significantly related to stock returns, suggesting that Malaysian investors do not find this information useful in their investment decisions. Conversely, net income before fair value gains was found to be significantly related to share returns, underscoring the importance of traditional earnings metrics for investors. This finding is consistent with previous studies and highlights a potential gap in the perceived usefulness of fair value disclosures among Malaysian investors.

This study contributes to the literature by providing empirical evidence from the Malaysian context, where fair value measurement practices and investor perceptions might differ from other markets. The results indicate that while fair value gains are disclosed, they do not significantly influence investor behavior, emphasizing the continued importance of traditional financial metrics. Limitations of the study include the use of data from only one year and a relatively small sample size. Future research should consider multiple years of data and larger samples to validate these findings and explore trends over time, as well as qualitative research to understand investor perceptions better.

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