Fair Value Hierarchy and Corporate Governance Mechanisms in Financial Institutions

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Abstract

The International Accounting Standard Board (IASB) has issued IFRS 13 regarding fair value measurement in a hierarchy. The fair value measurement in the hierarchy at level 3 for unobservable prices involves the largest estimate so that fair value information at level 3 is less reliable and less relevant in the company's valuation. Therefore, this study aims to re-examine whether fair value measurements at level 1 and level 2 are more relevant than at level 3, and whether corporate governance can strengthen the relevance of fair value information at level 3. By using a sample of 55 companies in financial institutions, the results of this study indicate that the fair value information of assets and liabilities at level 1 and 2 does not prove to be more relevant than the fair value information at level 3. In addition, corporate governance mechanisms, namely the number of independent commissioners and audit committee expertise, can strengthen the value relevance of assets and liabilities fair value information at level 3.

Keywords
Value Relevance, Fair Value Hierarchy, and Corporate Governance Mechanisms.

1. Introduction

The use of fair value as a measurement basis in accounting is an important and controversial issue in preparing financial reports. Proponents of fair value claim that the use of fair value is beneficial for investors and increases the relevance of accounting information, especially for financial instruments, better reflecting current information based on market prices (Barth, 2006; Linsmeier, 2011). However, on the other hand, opponents state that fair value is less relevant and creates excessive earnings volatility (Scott, 2010). With the aim of increasing the value relevance of accounting information, the International Accounting Standards Board (IASB) developed a fair value hierarchy. IFRS 13 requires companies to disclose financial instruments measured at fair value using a three-level hierarchy. The levels of the fair value hierarchy are based on the quality of the input factors used in the measurement process. Level 1 requires that the fair value of assets and liabilities be evaluated based on observable inputs such as quoted prices of identical assets and liabilities in active markets. Level 2 requires that, if quoted prices of identical items are not available, fair value evaluations should be based on observable inputs other than quoted prices of identical assets and liabilities. Level 3 allows the use of unobservable inputs for fair value disclosures if observable inputs at Level 1 or Level 2 are not available. Whether these fair value disclosure requirements provide reliable and relevant information for investors is debatable.

Sweet and Zhang (2015) study found that the value relevance of financial asset information at level 3 was lower than at level 1 and level 2. Billiot et al (2017) reveal that fair value asset measurements at level 1 and level 2 are relevant values and have a positive relationship with share prices, while fair value measurements at level 3 have a negative relationship with share prices. This may occur because fair value at level 3 is an estimated price and relies on inputs that are unobservable by the company, often in an inactive market. However, research by Daas and Jammal (2018) shows that only fair value at level 3 has a positive and significant influence on share prices. This research also shows that the estimated mark-to-model coefficient at level 3 is significantly higher than the mark-to-market at level 1 and level 2. Research by Goh et al. (2015) proves that market players do not value assets at level 2 and level 3 differently, but the market values assets at level 2 less than level 1, besides that there is a decrease in the level of reliability of the fair value of assets at level 2 and level 3 from the first quarter to the third quarter in 2008 was in line with the global financial crisis. Bosch (2012) reveals that based on what capital market players experience, fair value at level 1 can be more reliable than at level 3. In the study of Fahnestock and Bostwick (2011) it is stated that the input

values at level 1 and level 2 are referred to as mark-to-market model while level 3 is referred to as mark-to-model accounting. The input at level 3 reflects the fair value price which is entirely in accordance with management's assumptions and estimates so that the input value at level 3 is less neutral when compared with the input value at level 1 and level 2. Furthermore, Song et al. (2010) show that fair value estimates for companies that have strong internal controls in financial reporting have greater relevance.

In connection with the results of previous research (Song et al., 2010), corporate governance is a strong internal control that can increase the value relevance of information in financial reports. Corporate governance has many functions, including reducing information asymmetry, improving company performance, and increasing investor confidence in the information reported by management (Song et al., 2010). Research by Song et al (2010) shows that measuring the fair value of financial assets and liabilities based on financial accounting standards (FAS 157) has an effect on share prices, and finds that corporate governance is able to moderate the relevance of the fair value of assets and liabilities. Fair value measurements influence managers' opportunistic behavior, but strong corporate governance mechanisms have the potential to reduce the problem of managers' opportunistic behavior. The results of this study are supported by Sweet and Zhang (2015) which shows that there is a positive influence of the interaction between corporate governance and the fair value of assets/liabilities on share prices.

Based on the explanation outlined above, the aim of this study is to reexamine whether the relevance of the fair value of assets and liabilities at level 1 and level 2 is higher than at level 3. And can corporate governance strengthen the relevance of the fair value of assets and liabilities at level 3? By using data from companies in financial institutions listed on the Indonesia Stock Exchange, the results of this study are expected to provide an important contribution to the fair value accounting literature and corporate governance literature by providing more up-to-date and adequate fair value disclosure and corporate governance mechanisms data. In addition, this study is expected to provides important suggestions regarding the relevance of fair value information in hierarchies for decision making.

2. Literature Review And Hypothesis Development

The following describes a framework of thinking that explains the relationship between variables based on existing theories and previous research.

2.1 Value Relevance of Fair Value Hierarchy Information

Relevance is one of the two fundamental qualities that make accounting information useful for decision-making (Conceptual Framework IASB, 2018). To be relevant, accounting information must be capable of making a difference in a decision. Information with no bearing on a decision is irrelevant (Kieso *et al*, 2018). Value relevance is defined as the ability of financial statement information to capture and summarize firm value and is measured empirically as the statistical association between accounting numbers and share market values or returns (Francis and Schiper, 1999; Hellstrom, 2007). Fair value accounting is considered to provide more relevant information because assets and liabilities are valued at current value compared to historical cost.

The definition, measurement and disclosure requirements of fair value are specifically regulated in IFRS 13: Fair Value Measurement. Until now, the definition set for fair value in IFRS 13 is: "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 (ie exit price)". Even though there are several differences in words or terms in the meaning of fair value according to the FASB and IASB, IFRS 13 has been adopted by many countries, including Indonesia, so that in general it has the same meaning. In 2015, the Indonesian Accounting Association (IAI) established a statement of financial accounting standards (PSAK 68, 2015) regarding fair value measurement as the sole reference for fair value accounting in Indonesia with other PSAKs as supporting standards. Fair value is a market-based measure and IFRS has increasingly called for use of fair value measurements in the financial statements. The IASB believes that fair value information is more relevant to users than historical cost. Fair value measurement provides better insight into the value of a company's assets and liabilities and a better basis for assessing future cash flow prospects. Fair value more relevant than historical cost because it reflects the current cash equivalent value of financial instruments. As a result, companies now have to record fair value in their accounts for most financial instruments.

The use of fair value in financial reporting is increasing. However, measurements based on fair value introduces increased subjectivity into accounting reports when fair value information is not readily available (Kieso et al., 2018). To improve consistency and comparability in fair value measurements and related disclosures, the IASB established a fair value hierarchy that provides insight into the priority of valuation techniques to use to determine fair value. The fair value hierarchy is divided into three major levels (IFRS 13; PSAK 68). Level 1: observable inputs that reflect quoted prices for identical assets or liabilities in active markets. This level is the most reliable and non-subjective

measurement because it is based on quoted prices. Level 2: inputs other than quoted prices included in level 1 that can be observed for the asset or liability either directly or through collaboration with observable data. This level is more subjective and less reliable because it is not based on prevailing market prices for identical assets or liabilities and would rely on evaluating similar assets or liabilities in active markets. Level 3: unobservable input. This level is the most subjective and least reliable because level 3 inputs are based on company's own assumptions which are not observable for investors (FASB, 2006) and it requires a lot of judgment, based on the best information available, to arrive at a relevant and representationally faithful fair value measurement (Kieso et al., 2018).The first level of this hierarchy is also referred to as mark-to-market, while fair value measurement based on inputs at lower levels is called mark-to-model. The reduced reliability of fair value measurements at level 2 and level 3 arises from two factors. First, model-based fair values can be biased due to unintentional measurement errors. Second, management can deliberately use its discretion in fair value measurement for earnings management. Thus, fair value based on mark-to-model may be a noisy measures of true value (Bosch, 2012).

Consistent with signaling theory, level 3 fair value measurements for unobservable prices involve the greatest estimates by management and it can be expected that managers may behave opportunistically in estimating fair value for their own interests so that fair value information at level 3 is less reliable and is a bad signal. or that is viewed by investors as bad news that affects the company's valuation. The study of Goh et al. (2009) and Song et al. (2010) examine the value relevance of the fair value hierarchy for the US market. Their study show that the fair values of all hierarchy levels are relevant values. However, as expected, fair value based on inputs at level 2 or 3 is significantly less value relevant than fair value based on quoted prices. Bosch (2012) examines whether the values of assets and liabilities from all levels in the fair value hierarchy have relevant values. Using a sample of banking companies in Europe, the main result is that the fair value of financial instruments are value relevant, but fair value at level 3 is considered less reliable than fair value at level 1. It seems that investors perceive the reliability of level 3 fair values as significantly lower than the reliability of level 1 fair values.. Contrary to expectations, level 2 fair values are not considered less reliable. Thus, investors only doubt the reliability of fair values whose inputs are based on discretionary assumptions. Using quarterly data from the banking industry, Sweet and Zhang's (2015) study found that although both fair value disclosures and non-fair value disclosures provide decision-related information to investors, the value relevance of fair value assets is slightly greater than the value relevance of non-fair value assets. In addition, the value relevance of Level 3 financial assets, which are computed using the greatest amount of management discretion, is lower than the value relevance of Level 1 and Level 2 financial assets, and lower than the value relevance of non-financial assets. Billiot et al (2017) study provides evidence regarding the value relevance of of fair value asset and liability measurements for non-financial firms. The results show that Level 1 and 2 fair value asset measurements are value relevant and positively related to share prices. However, Level 3 fair value measurements are negatively related to share prices. This result suggests that investors penalize non-financial firms for investing in Level 3 fair value assets, perhaps because investors perceive that better investments are available. Finally, the results show that in contrast to evidence for financial firms, Level 3 fair value liability measurements are not value relevant.

H1: The value relevance of Level 1 and Level 2 fair values information is greater than the value relevance of Level 3 fair values information.

2.2 Corporate Governance Mechanisms and the Value Relevance of Fair Value Information

One of the assumptions of human nature in agency theory is that humans are generally self-interested. Management behavior in carrying out its duties as an agent can be viewed from the perspective of opportunistic behavior and efficiency contracting. From an opportunistic behavior perspective, management tends to prioritize its personal interests by disclosing information that can benefit itself and/or the company. Meanwhile, from an efficiency contracting perspective, management will tend to choose accounting methods that can minimize agency costs in order to optimize company value (Holthausen, 1990). By prioritizing its personal interests, management can make deliberate biases or errors in fair value measurements that can reduce investors' ability to rely on company fair value information in making decisions. Given that fair value measurement errors tend to be more severe for inputs without observable prices (i.e. inputs at Level 3 and possibly Level 2) than for inputs that are directly observable in active markets (inputs at Level 1), it is desirable that corporate governance mechanisms will be more effective in reducing problems associated with fair value measurement at level 3 (Song et al., 2010).

Penman (2007) discusses the importance of governance mechanisms (the competency and independence of the board and the effectiveness of the internal control system) in minimizing bias in level 3 fair value estimates. Goh et al. (2009) found that fair value asset pricing, especially mark-to-model assets, will be higher when banks are audited by better auditors. The study of Song et al. (2010) using quarterly reports of banking companies in 2008 found

evidence that the relevance of fair value (especially Level 3 fair value) was greater in companies with strong corporate governance. This study support the relevance of fair value measurements under FAS 157, and weaker corporate governance mechanisms may reduce the relevance of fair value measurements. Bhat (2013) provides evidence that market players consider information on fair value profits and losses of banks with strong corporate governance mechanisms to be more relevant and reliable. This shows that corporate governance helps market participants in evaluating the quality of fair value estimates. Sweet and Zhang's (2015) study found that corporate governance appears to have a positive impact on bank share prices, and fair value disclosure is more useful for companies with weak corporate governance. Overall, based on the results of previous research, it shows that the fair value hierarchy required in financial accounting standards provides useful information for investors and the strength of corporate governance can reduce information asymmetry problems arising from relatively less reliable fair value inputs.

H2: Corporate governance can strengthen the value relevance of assets and liabilities fair value information at Level 3.

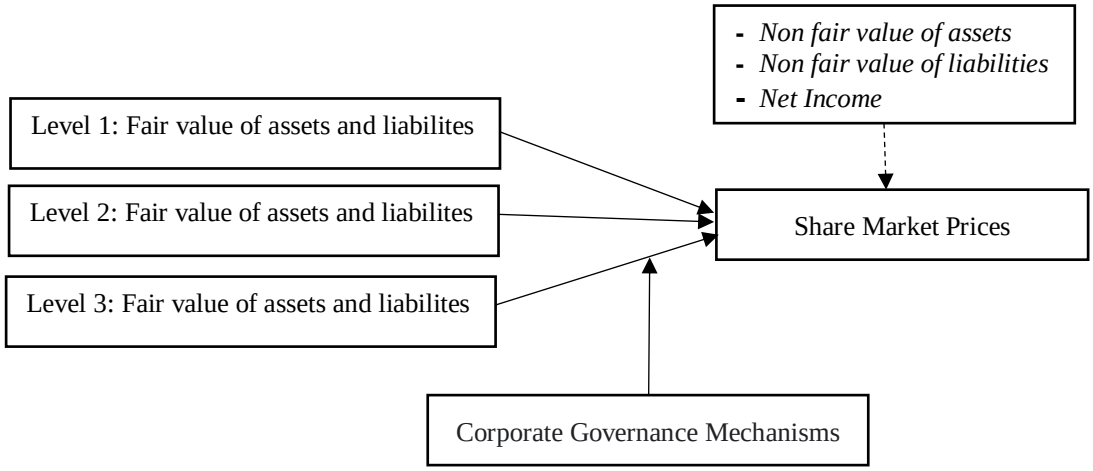

Figure 1. Research Framework

3. Methods

Hypothesis 1 regarding the value relevance of assets and liabilities fair value information in the hierarchy at level 1, level 2 and level 3 is tested using linear regression analysis as follows:

$$P_{it} = \alpha_0 + \alpha_1 FVA1_{it} + \alpha_2 FVA2_{it} + \alpha_3 FVA3_{it} + \alpha_4 FVL1_{it} + \alpha_5 FVL2_{it} + \alpha_6 FVL3_{it} + \alpha_7 NFVA_{it} + \alpha_8 NFVL_{it} + \alpha_9 NI_{it} + \varepsilon t$$

Where:

P	:	average share price for three months after the financial reporting date.
FVA123	:	fair value of assets at level 1, level 2 and level 3 divided by total assets
FVL123	:	fair value of liabilities at level 1, level 2 and level 3 divided by total liabilities.
NFVA	:	non-fair value of assets is equal to total assets minus the fair value of assets at levels 1, 2, and 3 then divided by total assets.
NFVL	:	non-fair value of liabilities is equal to total liabilities minus the fair value of assets and liabilities at levels 1, 2 and 3 then divided by total liabilities.
NI	:	net income divided by the number of shares outstanding.

Hypothesis 2: to test whether corporate governance (i.e., board of commissioners, independent commissioners and audit committee expertise) can strengthen the value relevance of assets and liabilities fair value information at level 3, the following linear regression equation is used:

$$P_{it} = \beta_0 + \beta_1 FVA1_{it} + \beta_2 FVA2_{it} + \beta_3 FVA3_{it} + \beta_4 FVL1_{it} + \beta_5 FVL2_{it} + \beta_6 FVL3_{it} + \alpha_7 NFVA_{it} + \alpha_8 NFVL_{it} + \alpha_9 NI_{it} + \beta_{10} FVA3_{it}*BOC + \beta_{11} FVA3_{it}*IC + \beta_{12} FVA3_{it}*ACE + \beta_{13} FVL3_{it}*BOC + \beta_{14} FVL3_{it}*IC + \beta_{15} FVA3_{it}*ACE + \varepsilon t$$

Where:

BOC	:	number of the company's board of commissioners members.
IC	:	percentage of independent commissioners
ACE	:	percentage of audit committee members who have expertise in accounting or finance out of the total number of audit committee members.
β10	:	interaction of assets fair value at level 3 and board of commissioners.
β11	:	interaction of assets fair value at level 3 and independent commissioner.
β12	:	interaction of assets fair value at level 3 and audit committee expertise.
β13	:	interaction of liabilities fair value at level 3 and board of commissioners.
β14	:	interaction of liabilities fair value at level 3 and independent commissioner.
β15	:	interaction of liabilities fair value at level 3 and audit committee expertise.

4. Data Collection

The object of this research is the financial reports of companies in financial institutions listed on the Indonesia Stock Exchange, including: banking, credit agencies other than banks, insurance and securities during the 2015-2020 period. The data used in this research is entirely secondary data obtained from: closing company share price data via https://finance.yahoo.com/, and total assets, total liabilities, assets and liabilities information in the fair value hierarchy, net profit, board of commissioners, independent commissioners and audit committee expertise in the company's financial reports via www.idx.co.id.

The sampling technique used was a purposive sampling method with the following criteria: the company was listed on the Indonesia Stock Exchange on January 1 2015 and published an annual report for 2015-2020; financial reports published in Rupiah currency and the year ending on December 31; the company has complete data for research purposes. During the research period, 77 companies in Financial Institutions had been listed on the Indonesian stock exchange, 22 companies were eliminated because the data was incomplete, so the final sample was 55 companies.

5. Results and Discussion

The results of the linear regression analysis for Model 1 are presented in the following table. Table 1 shows the significance value F= 0.000, meaning that this model is suitable (fit) to be used to explain company value (share price) with an explanatory power (R2) of 51.60%. The results of testing each variable (t test) show that the fair value of assets at level 1, level 2 and level 3 is not proven to have an influence on share prices. The results of this study do not support the proposed research hypothesis and previous research (Goh et al., 2009; Song et al., 2010; Bosch, 2012; Sweet and Zhang, 2015; Billiot et al, 2017) who found that the fair value of assets at levels 1, 2 and 3 has value relevance. The results of this research indicate that information on the fair value of assets at level 1, level 2 and level 3 does not have value relevance that can influence investor decisions.

For the fair value of liabilities, the test results (Table 1) show that the fair value of liabilities at level 1 (sig. 0.017, β -0.200) and at level 3 (sig. 0.000, β -0.244) has a significant negative effect on share prices. This indicates that the fair value of liabilities at level 1 and level 3 is assessed as a risk and used as a basis by investors in making decisions which results in a decline in share prices, especially at level 3 which uses the largest estimates by management and valuation techniques that are susceptible to managerial manipulation. Meanwhile, the fair value of level 2 liabilities is not proven to have an influence on share prices. This means that the fair value of level 2 liabilities has no additional value relevance for investors in assessing the company. The results of this research also show that the fair value of liabilities at level 3 is higher than the fair value of assets and liabilities at levels 1 and 2. This does not support the proposed research hypothesis and previous research (Song et al, 2010). This indicates that financial institutional investors in Indonesia pay more attention to information on the fair value of liabilities at level 3 and react negatively to this information which is reflected in a decline in the company's share price. It seems that investors still lack confidence in management's estimates and judgments in determining the fair value of its liabilities and consider the company to be very risky. In connection with signaling theory, reporting liability accounting at fair value in a hierarchy, especially at level 3, provides negative signals (bad news) to investors about the company's future risks. In addition, net income as a control variable in the model shows the greatest influence on share prices. This indicates that

investors rely more on net income information in making decisions than information regarding measuring company assets and liabilities using fair value.

Table 1. Results of Model 1 Regression Analysis

Model	Unstandardized Coefficients		Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1994,564	7924,509		,252	,801
FVA1	3672,401	8066,107	,101	,455	,649
FVA2	-528,923	7869,312	-,038	-,067	,946
FVA3	2345,782	7823,466	,173	,300	,764
FVL1	-1936,899	808,128	-,200	-2,397	,017
FVL2	-1317,760	924,408	-,097	-1,426	,155
FVL3	-4165,451	1154,160	-,244	-3,609	,000
NFVA	-727,906	7886,812	-,059	-,092	,927
NFVL	-1331,224	793,922	-,148	-1,677	,095
NI	9,231	,553	,678	16,687	,000
Sig. F :	,000				
R Square :	,516	Adj. R Square :	,502		

a. Dependent Variable: Share price

b. Predictors : FVA1 = fair value of assets at level 1, FVA2 = fair value of assets at level 2, FVA3 = fair value of assets at level 3, FVL1 = fair value of liabilities at level 1, FVL2 = fair value of liabilities at level 2, FVL3 = fair value of liabilities at level 3, NFVA = Non fair value assets, NFVL = Non fair value liabilities, NI = net income

* Sig α (0,05)

Model 2 test results regarding corporate governance and fair value measurement using the interaction model are presented in the following table. Table 2 shows that the research model used is fit or suitable for use in this research (F sig. 0.000, R square 0.516). The t test results show that only the interaction between audit committee expertise and the fair value of assets at level 3 has a significant effect on share prices (sig. 0.009). Meanwhile, the interaction between other corporate governance mechanisms (board of commissioners and independent commissioners) and the fair value of assets has no effect on share prices. The results regarding the interaction between corporate governance mechanisms and the fair value of liabilities show that the interaction between the independent board of commissioners and audit committee expertise with the fair value of liabilities at level 3 has a significant positive correlation (sig. 0.000) on share prices. These results indicate that the number of independent commissioners and audit committee expertise can strengthen the relevance of the fair value of assets and liabilities at level 3.

The interaction between the board of commissioners and the fair value of assets and liabilities at level 3 (FVA3*BOC and FVA3*BOC in Table 2) was not proven to have a significant effect on share prices. This means that the number of board of commissioners does not strengthen the relevance of the fair value of assets and liabilities at level 3. The results of this study do not support the proposed hypothesis and previous research (Song et al, 2010). This implies that information on the fair value of assets and liabilities of companies with a larger board of commissioners tends to have lower relevance in company valuation. Relating to agency theory, management's subjective estimates in determining fair value can give rise to a conflict of interest which causes fair value information to be unreliable. The quality of fair value information at level 3 is lower for companies with a larger board of commissioners. This may be caused by a lack of coordination by the board of commissioners or too much interference from board members in determining the estimated fair value of assets and liabilities at level 3 so that the board's supervisory function is not effective.

The interaction between independent commissioners and the fair value of assets at level 3 (FVA3*IC) has no significant effect on share prices, but the interaction between independent commissioners and the fair value of liabilities at level 3 (FVL3*IC) has a significant positive correlation with share prices (sig.= 0.000). These results support the hypothesis which states that independent commissioners are able to strengthen the relevance of liability fair value information at level 3. This indicates that companies with a greater percentage of independent commissioners tend to produce more relevant liability fair value estimates. In relation to agency theory, these results

imply that management policy plays a major role and it appears that investors have more confidence in the fair value estimates of liabilities made by companies with a greater number of independent commissioners.

Table 2. Results of Model 2 Regression Analysis

Model	Unstandardized Coefficients		Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-9295.511	8212.875		-1,132	,259
FVA1	15468.841	8374.343	.424	1.847	.066
FVA2	10739.630	8154.475	.779	1.317	.189
FVA3	1089.776	7556.443	.080	.144	.885
FVL1	-1603.195	764.537	-.166	-2.097	.037
FVL2	-1247.020	873.117	-.092	-1.428	.154
FVL3	7843.522	4608.076	.459	1.702	.090
NFVA	10302.895	8159.911	.837	1.263	.208
NFVL	-1208.791	750.814	-.134	-1.610	.108
NI	8.364	.540	.615	15.499	.000*
FVA3*BOC	-178.289	318.932	-.067	-.559	.577
FVA3*IC	122.870	663.875	.028	.185	.853
FVA3*ACE	16584.981	6264.860	.592	2.647	.009*
FVL3*BOC	-10480.130	6689.252	-.309	-1.567	.118
FVL3*IC	10961.584	2532.540	.561	4.328	.000*
FVL3*ACE	14332.769	3824.643	.585	3.747	.000*
Sig. F : .000					
R Square : .516		Adj. R Square: .502			

a. Dependent variable: Price (share price)

b. Predictors: FVA1: fair value of level 1 assets, FVA2: fair value of level 2 assets, FVA3: fair value of level 3 assets, FVL1: fair value of level 1 liabilities, FVL2: fair value of level 2 liabilities, FVL3: fair value of level 3 liabilities, NFVA: non-fair value assets, NFVL: non-fair value liabilities, NI = net income, FVA3*BOC: interaction of fair value of level 3 assets and board of commissioners, FVA3*IC: interaction of fair value of level 3 assets and independent commissioners, FVA3*ACE: interaction of fair value of level 3 assets and audit committee expertise, FVL3*BOC: interaction of fair value of level 3 liabilities and board of commissioners, FVL3*IC: interaction of fair value of level 3 liabilities and independent commissioners, FVL3*ACE: interaction of fair value of level 3 liabilities and audit committee expertise.

* Sig at α 0.05

The test results show that there is a significant positive effect of the interaction between audit committee expertise and the fair value of assets and liabilities at level 3 (see in Table 2: FVA3*ACE and FVL3*ACE) on share prices. The results of this research support the proposed hypothesis and previous research (Song et al, 2010) which found that audit committee expertise is able to strengthen the relevance of the fair value of assets and liabilities at level 3. This shows that companies with audit committees that have accounting or financial expertise produce the estimated fair value of assets and liabilities at level 3 is more relevant. Consistent with the results of testing model 1 above, net income as a control variable in model 2 shows the greatest influence on stock prices. Earnings information is the most relevant information in decision making and is the parameter most widely used by investors in assessing companies (Ball and Brown, 1968).

6. Conclusion

Fair value measurement at level 3 for unobservable prices involves the greatest estimation by management and it can be suspected that managers may behave opportunistically in estimating fair value for their own interests so that fair value information at level 3 is less reliable and is considered less relevant for investors in assessing company. Consistent with previous research (Billiot et al. 2017; Song et al. (2010), this study hypothesizes that the relevance of fair value information on assets and liabilities at level 1 and level 2 is higher than at level 3. The results of this study did not obtain evidence that supports this hypothesis. The test results show that only the fair value of liabilities at level 1 and level 3 has additional value relevance for investors in assessing the company. This indicates that financial institutional investors in Indonesia pay more attention to information on the fair value of liabilities, especially at level 3, and react negatively to this information which is reflected in the decline in company share prices. Based on the results of Model 2 testing, the research results can be concluded that independent commissioners and audit committee expertise can strengthen the relevance of liability fair value information at level 3.

The implication of the results of this research is that to increase the value relevance of information on assets and liabilities measured at fair value, it is necessary to consider better rules regarding how to present or disclose information on the fair value of assets and liabilities in the fair value hierarchy in order to provide information that is more understandable and useful for users of financial reports. The limitation of this research is that data regarding the measurement of the fair value of assets and liabilities is still not presented completely and clearly in the annual financial reports so that many companies are not included in the sample selection criteria. In addition, this research is only limited to financial institutions so the model and research results cannot be generalized to all industries. It is recommended for similar and further research to expand the sample of companies in sectors other than financial institutions.

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