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Implementation of IFRS 13 Fair Value Measurement: Issues and Challenges faced by the Islamic Financial Institutions in Malaysia

(Pelaksanaan IFRS 13 Pengukuran Nilai Saksama: Isu dan Cabaran dihadapi oleh Institusi Kewangan Islam di Malaysia)

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ABSTRACT

Fair value (FV) is claimed to be superior to other forms of measurement mainly because the former is easily understood by investors and stakeholders. However, the challenges faced in deploying International Financial Reporting Standards (IFRS) 13 FV Measurement could result in inconsistent application and unexpected costs related to the requirements of the standard. As such, this study explored the issues and challenges of implementing IFRS 13 FV Measurement faced by financial instruments, particularly within the context of Islamic Financial Institutions (IFIs). Upon adopting the qualitative approach, in-depth interview sessions were held with several academicians, accountants, auditors, and professional body representatives. The study outcomes revealed that issues in implementation of FV measurement were related to the relevance of measurement and hierarchy of level of FV measurement. Notably, issues pertaining to FV measurement were highlighted from the Shariah perspective. Valuable insights on the issues revolving around IFRS 13 implementation, particularly on financial instruments in Malaysia, are presented in this study.

Keywords: IFRS 13; fair value measurement; fair value; financial instruments; Islamic financial institutions

ABSTRAK

Nilai saksama dikatakan lebih unggul berbanding bentuk ukuran lain kerana mudah difahami oleh pelabur dan pihak berkepentingan. Walau bagaimanapun, pelaksanaan IFRS 13 Pengukuran Nilai Saksama mengemukakan cabaran yang mungkin mengakibatkan aplikasi tidak konsisten dan kos yang tidak dapat dijangka yang berkaitan dengan keperluan standard. Kajian ini menyelidik isu-isu pelaksanaan Pengukuran Nilai Saksama IFRS 13 dalam konteks Malaysia. Kajian ini menggunakan pendekatan kualitatif dalam bentuk wawancara mendalam mengenai ahli akademik, akauntan, juruaudit dan wakil badan profesional. Kajian ini mendapati bahawa isu-isu dalam pelaksanaan pengukuran nilai saksama berkait dengan relevansi pengukuran dan hierarki tahap pengukuran nilai saksama. Kajian ini turut menengahkan isu berkaitan nilai saksama berdasarkan pandangan Shariah. Pandangan berharga mengenai isu pelaksanaan IFRS 13, terutama mengenai instrumen kewangan di Malaysia dikemukakan oleh kajian ini.

Kata kunci: IFRS 13; pengukuran nilai saksama; nilai saksama; instrumen kewangan; institusi kewangan Islam

INTRODUCTION

The collapse of banking sector in 2008 due to global financial crisis had stemmed from the lending activities of commercial and investment banks. To ascertain financial stability, both Financial Accounting Standard Board (FASB) and International Accounting Standards Board (IASB) had collaboratively taken measures to address the emerging issues. One of the measures refers to the replacement of International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement with International Financial Reporting Standards (IFRS) 9 Financial Instruments. Based on IFRS 9, financial assets and liabilities of an entity should be measured in terms of FV.

Several financial reporting issues were highlighted in relation to financial crisis, in which fair value (FV) was one of them (Barth & Landsman 2010). The on-going debate over the concept of FV accounting also leads to regulators of international accounting continue to go forward with fair value projects. IASB issued IFRS 13 Fair Value Measurement in May 12, 2011. The standard is effective for annual report published starting from January 1, 2013, inclusive of early deployment. In the joint announcement of IFRS 13 by IASB and FASB, the two boards stipulated the following: *"Harmonisation of FV measurement and disclosure requirements internationally are crucial aspects from the board to address global financial crisis"* (FASB 2011). As the sole source of guidance for FV measurement, the main objective of IFRS 13 is to enhance both the comparability and consistency aspects of FV measurement in financial reporting. This particular standard not only clarifies FV definition, but also improves disclosure on estimates of reported FV. Prior to the issuance of IFRS 13, the definition of FV was imprecise and vague with numerous inconsistent standards dictating the measurement of FV. As such, IFRS 13 offers a comprehensive definition for FV in a standard framework for better FV measurement and its disclosure. Meanwhile, Malaysian Financial Reporting Standard (MFRS) 13 was issued by the Malaysian Accounting Standard (MASB) in November 2011, which is equivalent to IFRS 13. Essentially, compliance with MFRS 13 denotes compliance with IFRS 13.

The issuance of IFRS 13 Fair Value Measurement has by no means ended the debate of FV as one of issue in the global financial crisis. Several important issues relating to the practicality FV markets, and the identification of a "fair value hierarchy" of measurements involving increasing degrees of subjectivity, continuing to raise concerns. The IASB executed a Post-Implementation Review (PIR) on IFRS 13 in 2017 to determine the usefulness of information sought by IFRS 13 to financial reporting users (IASB 2018). The purpose of the review is to assess the effect of the IFRS 13 FV measurement on financial reporting. The PIR also identified challenges found in deploying IFRS 13 that could incur additional cost and application inconsistency when complying with the standard.

This present study provides the views on FV measurement issues in the context of financial asset in Islamic Financial Institutions (IFIs). This study focuses on the international debate on IFRS 13 and consistent with the aims of PIR. PIR has set four areas for further assessment in the implementation of IFRS 13. As this study focuses on FV measurement of financial assets, this study only emphases on 1) disclosure about FV measurement and 2) application of judgment in specific areas. Thus, two areas of PIR are excluded, namely 1) application of the concept of the highest and best use for non-financial assets, and 2) the need for further guidance on measuring the fair value of biological assets and unquoted equity instruments. This paper also excludes studies on FV of financial liabilities and own credit risk as IFRS 9 has been updated in 2014.

Due to the unique nature and philosophy of IFIs, the applicability of fair value on the accounting and reporting of Islamic financial instruments and in the absence of active markets might posed Shariah concerns as the application involved specific judgements and measurement subjectivity. In order to do so, in-depth interviews were held with practitioners, academicians, and accounting bodies involved in IFRS 13. With its focus on IFIs, issues on specific judgement on Shariah principles is discussed as well.

Malaysia is an interesting study setting because it is one of the earliest Asian countries to completely adopt the IFRS. It is mandatory for entities in Malaysia to comply with IFRS, including IFIs, starting from year 2012. The Islamic finance sector has been identified by Bank Negara Malaysia and Securities Commission as having the potential to grow and is vital for Malaysia to capture more foreign direct investment (Mohd Hanefah & Singh 2012). The Islamic finance industry offers alternative offerings to nearly all conventional offerings with assets worth USD 2.44 tn; displaying a global upsurge even in countries with minority Muslims citizens (IFSB 2020). The IFIs may possibly face some issues in applying the standards of IFRS for their financial accounting and reporting. The issues are ascribed to inconsistent underlying measurement principles with Shariah principles (Wahyudi 2017).

This study contributes to the international debate on whether IFRS 13 can enhance the relevance and reliability of financial reporting, particularly on determining the usefulness of information sought by IFRS 13 to financial reporting users. Malaysia provides a unique institutional setting as their financial reporting standards are adopted from common law countries such as the UK and the US. However, as stated by Ball et al. (2003), Malaysia have institutional structures that are similar to code law countries, which can be characterized as having low enforcement, concentrated ownership and less shareholder activism.

The remaining of this paper as follows: Section 2 discusses the background of IFRS 13. The literature review presented in Section 3 looks into financial reporting based on reliability and relevance criteria. Section 4 describes the study methodology, while Section 5 discusses the study outcomes. This paper ends with Section 6.

LITERATURE REVIEW

BACKGROUND OF IFRS 13

The IFRS 13 demands an entity to determine certain inputs for FV measurement. IFRS 13 presents inputs hierarchy to attain comparability and consistency when measuring FV. The hierarchy reveals inputs with higher priority when determining FV. The four crucial aspects when applying the inputs are as follows:

1. Three input priority levels: Levels 1 to 3
2. The highest priority quotes market prices for identical liabilities and assets in active markets, whereas unobservable inputs have the lowest priority (paragraph 72)
3. Only relevant observable inputs must be applied (paragraph 67).
4. Although inputs availability and relative subjectivity can influence the selection of valuation method, the FV hierarchy emphasises on inputs to valuation methods; not the methods themselves

The inputs at Level 1 refer to unaltered quoted prices in the active market for identical liabilities and assets, in which an entity can access at the date of measurement. Liability and asset are transacted at active market with adequate volume and frequency; hence continuously providing essential pricing information. Next, Level 2 inputs denote all inputs (except Level 1 inputs), which can be observed indirectly or directly. Instances of Level 2 inputs are quoted prices for similar liabilities and assets in both active and inactive markets, as well as observable inputs for liability and asset. Unobservable inputs are placed in Level 3. Level 3 data could reflect the entities themselves with adjusted aspects so that the market players can look into the valuation or discard variable impact specific to the entities.

PRIOR STUDIES ON FV MEASUREMENT

Studies Related FV Hierarchy Previous studies mostly focused on real estate firms, which are related to the FV of investments properties under IAS 40 (Busso 2014; Sundgren et al. 2016; Tan et al. 2014). The implementation of IFRS 13 exerted a marginal effect on both the quantity and quality of disclosing FV measurement amidst real estate companies. Many entities did not alter their disclosure practices after deploying IFRS 13.

Only a few studies had assessed the reaction of capital markets and their players towards disclosure of financial instrument at Level 3 FV measurement in light of IFRS 13. Cannon (2015) examined the efficiency of FV sensitivity disclosure when informing risks for FV measurement at Level 3. As a result, 69 of Master of Business Administration (MBA) students with 3 years' work experience displayed lower investor perception of risk towards the FV estimates. Notably, aggressive management implies higher confidence among investors due to higher quantitative and qualitative sensitivity disclosure, as sought by IFRS 13.

Upon assessing 1615 US closed-end investment funds in 2010-2014 before and after the convergence between Accounting Standards Codification (ASC) 820 and IFRS 13, Hammami and Moldovan (2017) found decreased discounting of stock market values for closed-end funds, especially when it was mandatory in 2012 to disclose valuation methods and significant unobservable inputs for estimating Level 3 FV. They also discovered a decrease in stock market liquidity in 201-2014, when compared to that in 2010-2011 for Level 3 disclosed funds. A dip in stock liquidity reflects disagreement among market players; signifying higher information asymmetry among investors at Level 3 disclosures. It was concluded that additional Level 3 FV estimation disclosure is linked with valuation of stock market, while that for funds could lower stock liquidity and increase conflict among market players.

Value relevance is a crucial aspect in the accounting field as it determines if financial disclosure embeds relevant information for investors. Upon assessing financial firms across 34 countries in 2012-2014, Siekkinen (2016) found that FV liabilities and assets had value relevance based on the 985 firm-year observation regardless of level. Level 1 FV assets had higher relevancy than those of Levels 2 and 3. Meanwhile, FV liabilities at Levels 1 and 2 had more value relevance than those in Level 3. The FV liabilities and assets had value relevance for counties that offer medium and strong investor protection regardless of level.

In countries with weak investor protection, value relevancy was attributed to only assets measured and reported at market prices (Level 1), whereas differing value relevance caused distrust among investors towards FV estimates for Levels 2 and 3. The investors assumed that firm managers took advantage of their decision in arriving at FV estimates due to poor regulatory enforcement and monitoring. However, Level 2 FV estimates had higher value relevancy than Levels 1 and 3 when strong investor protection was present.

In a study conducted by Siekkinen (2017), 293 financial firms established across 29 European Economic Area countries were assessed for the initial year of deploying IFRS 13. It was found that the FV liabilities and asset had value relevance at all levels without any distinction. In the previous year, nevertheless, FV assets at Levels 1 and 2 had higher value relevance than Level 3. With IFRS 13 implementation, Level 3 assets of entities with weak corporate governance displayed lower value relevancy than those with strong corporate governance. The stronger the corporate governance, the better the monitoring of managers; thus hindering managers from taking advantage of the situation. The study discovered that poor managerial decision led to low value relevance for Level 3 FV measurement.

Studies Related to Relevancy and Reliability of FV Measurement The application of FV measurement may increase information asymmetry between firms and investors, especially when the measurement is subjected to those who prepare the report.

According to Dvořák (2017), firms established across Czech Republic did not report compulsory information sought by IFRS 13. The empirical study concluded that the fraction of FV measurement within the FV hierarchy was one third for each of the three levels, which did not change over time. Dignah et al. (2016) found a positive link between unquoted and quoted assets measured at FV and equity cost. Although FV accounting offers relevant and timely information to investors, FV assets can be risky (Dignah et al. 2016). Therefore, investors demand higher returns from the firms.

Based on 137 new staff during training session in a German Big 4 accounting firm, Lachmann and Herrmann (2017) identified the reasons for omitting certain FV estimation disclosure from investment decisions. With FV estimates being perceived as reliable on average, the study revealed a positive correlation between reliability and decision usefulness perception. When FV was gaining, variation was absent for FV estimates between information acquisition and presentation format (e.g., change and range values, qualitative data, & point). At losing FV, the estimates are disclosed as range and qualitative information is associated with high-level information, low perceived reliability, and reduced decision usefulness. Nonetheless, a dissimilar effect was noted when disclosing FV estimates as points. The respondents became aware of the uncertain FV estimates only when the FV assets were negative/incurred loss and when uncertainties were noted in the disclosure format.

Du et al. (2014) asserted that despite the uncertainty and subjectivity in FV estimates, they may not be seen less reliable. The study, which employed 114 MBA students, revealed that perceiving a point FV estimate with certain level of confidence had higher reliability than a precise point estimate. Hence, FV estimates are often not unreliable.

In 2016, Lim (2017) executed a survey that involved 704 accounting professionals with more than five years' work experience, who were also members of the Institute of Valuers and Appraisers of Singapore (IVAS) and the Institute of Singapore Chartered Accountants (ISCA). Despite their high confidence towards financial statement, the respondents perceived that FV accounting could decrease their level of trust towards financial reporting. In particular, the respondents expressed "high-level distrust towards Level 3 FV estimates." It was found that "more discussion of FV estimates derivation" enhanced FV accounting credibility amongst the respondents.

In a study that involved 20 experienced auditors and 202 masters students in financial and managerial accounting courses), Jana and Schmidt (2017) ranked five decision usefulness methods to determine risk premium for corporate bond in devising a model based on FV. The five methods showed varied reliability and relevance combinations; increment in a feature led to a decrease in another feature. The respondents preferred relevance over reliability. Additional analyses revealed that FV familiarity or uncertainty avoidance had nil effect on the preference of relevance.

According to Fiechter and Novotny-Farkas (2017), despite the value relevancy of FV information, stock market pricing may vary across institutional and firm-specific factors. The study arrived at such conclusion after comparing value relevance of several types of financial assets measured using FV, Available for Sale (AFS), FV Option (FVO), Held for Trading (HFT), and financial liabilities (FVO & HFT) in 2006-2009 across 46 countries. Apparently, three FV assets (FVO, HFT, & AFS) and two FV liabilities (FVO & HFT) displayed value relevancy with HFT scoring the highest value relevance.

In detail, the study reported the following: (1) FVO assets had lower value relevance than AFS and HFT assets, and (2) value relevance variation is more substantial in economies based on bank. Those outcomes were ascribed to the use of FV among investors; presumably lower confidence and ability to use FV in economies based on bank. Since assets measures at FV during financial glitch can display pronounced discount, the study highlighted that FV reliability, in general, demands further exploration.

Wang et al. (2017) assessed market reaction towards CAS 39 announcement – China's IFRS 13-converged standard. Significantly positive reaction was noted for draft exposure (2012), official announcement (January 2014), and CAS 39 enforcement (July 2014), while significantly adverse reactions for financial institutions. Clearly, investors were concerned about FV measurement precision in China's less-developed financial markets.

In can be concluded that four primary issues were discussed related to IFRS 13, namely: FV disclosure, impact of Level 3 FV measurement disclosure on capital market, perceptions of managers and investors towards FV disclosure, and value relevance of FV information under IFRS 13.

SHARIAH ISSUES IN THE USE OF FV MEASUREMENT

As highlighted above, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date. Observed market price is generally used in determining fair value. Thus, the principle of fair value apparently has no conflicting with Shariah. Shariah scholars agree on the role of experts and the use of estimation techniques in determining the fair value (Shafii et al, 2013). However, Shafii et al (2013) stated that controversies arise on the use if discount rates within the estimation techniques. The estimation process may involve speculation and prediction. Further the use of interest rate in the discounting process may remain controversial. When there is an active market, fair value equals to the observed market price. There are many instances where Shariah scholars requires fair values in giving out rulings. For examples, (i) in determining the amount of zakat payment, jurist prefers to use cash equivalent value or fair value instead of net realisable value or historical cost; (ii) the use of fair value in determining subsistence allowance during travelling which is chargeable to the mudarabah contract; and (iii) the use of market value in determining the value of the property in the event of default, when the property is pledged under the Islamic financing (Shafii et al. 2013).

However, the issue raises when financial assets are to be valued at fair value in the absence of active market benchmark, that is when level 2 (based on quoted market process of similar or related assets and liabilities) and level 3 (based on company estimates) asset valuation techniques are to be applied. Further, fair value application based on the market for every transaction is not always possible as many assets are not tradable or quoted. Thus, issues related to the non-availability of some specific markets and market characteristic are extremely critical.

Referring to Islamic literature, Islamic jurists would refer to customary practices in determining the fair value. However, in the absence of market price, Islamic scholars would refer to alternative benchmark to get the equivalent price (fair value) in determining the value of an asset or a commodity (Ibn Taymiyyah 1998). In certain circumstances, Shariah recognises the use of expert to estimate the price of the asset or commodity.

The application of fair value Level 2 and Level 3 become an issue when it involves the use of valuation model to estimate the value on financial instruments (Shafii et al. 2013). IFRS allows certain reliance of discounted cash flow models to arrive at a fair value whereby the discount rate (discounted cash flows when calculating value in use for impairment and valuation techniques for their financial transactions measured at fair value) is used in the valuation model or measurement method. The use of discounted cash flows at an appropriate rate of interest to derive an approximation of a fair value remains a controversial question under Shariah framework. This is because it is an estimation process that involves speculation, prediction, use of interest rate in the discounting process and other procedures. These procedures indicate the involvement if risk, ambiguity and complexity that can increase Shariah concerns.

RESEARCH METHODOLOGY

The study adopted a qualitative research method, in particular an in-depth interview method. The interview approach assisted the research in recognise how an individual phenomenon is affected by external conditions, which met the objective of the study. The method provided more in-depth information from various interviewees, which enhances the ability of the researchers to gain the data for the study (Shields & Rangarajan 2013). The in-depth interview technique was employed in this study by placing focus on three respondent categories: practitioners, academicians, and an accounting body involved in IFRS 13 deployment. The study used an in-depth interview method focusing on four parties of respondents who are knowledgeable and have experiences with standards that relate to IFRS 15. Convenience sampling was adopted to select the respondents in this study (Sekaran & Bougie 2010).

Consistent with the objective of this research, which is to gain in-depth views of practitioners, academicians and regulators on the challenges and issues IFRS 15 in IFIs, this study determined a potential list of interviewees from all the parties. Afterward, the study selected 10 interviewees consisted of 2 chief financial officers, 3 auditors, 4 academicians and 1 main regulator. For the practitioners, the selection made were based on their experience in adopting the standards. The chief financial officers are from the Islamic banking and finance sector, while the auditors are senior partners and in charge of Islamic banking and finance industry. Meanwhile, the academicians were selected based on the number of years teaching financial reporting standards, familiarity with the IFRS 15 and IFRS 9 standards and number of research studies done related to IFRS adoption in Malaysia. The academicians consisted of one academician who has less than five years of experience and three senior academician who have more than 10 years of experience in teaching financial reporting standards and hold the title of Associate Professor and Professor. There is one regulator that been chosen as the regulator is directly involved in regulating financial reporting standards and ensuring the adoption of the standards in Malaysia.Table 1 lists the details of the respondents.

According to Guion (2001), as in-depth interviews use an open-ended and discovery-oriented. Based on the review of literature, an interview protocol was developed, which contained several guiding questions. The protocol serves as a guide for researchers to flexibly delve into emerging issues during the course of each interview session. Data were captured from the respondents by tape recording the semi-structured interview sessions. Each session ranged between one and two hours. All recorded interviews were reviewed a number of times prior to transcription. The length of the interviews ranged from 2 to 3 hours. In line with the aforementioned research objective, this study provided questions based on three main issues:

(1) The usefulness of FV measurement based on relevance and reliability principles

(2) FV Measurement Hierachy and Disclosure
(3) FV Judgement and Shariah Principles

To allow for a comprehensive discussion on these pertinent topics, some probing questions were also outlined in our interview guide. At the start of each interview session, the respondents were assured of their anonymity in all publications. The assurance permits the interviewees to feel more comfortable in answering the questions freely and honestly. After obtaining data from the interview sessions, this study transcribed the data to attain general ideas of what the interviewees were responding to. This is done to further reflect on response and its meaning before the data was encoded into themes.

TABLE 1. The respondents

No.	Positions	Years of Experience
Respondent 1	Academician	More than 20 years
Respondent 2	Academician	More than 20 years
Respondent 3	Academician	More than 12 years
Respondent 4	Academician	4 years
Respondent 5	Audit Partner International Accounting Firm	More than 20 years
Respondent 6	Audit Partner International Accounting Firm	More than 15 years
Respondent 7	Regulatory of Accounting Bodies	More than 15 years
Respondent 8	Audit Partner Local Accounting Firm	More than 17 years
Respondent 9	Chief Financial Officer Islamic Banking Industry	More than 18 years
Respondent 10	Chief Financial Officer Takaful Industry	More than 20 years

FINDINGS AND DISCUSSION

THE USEFULNESS OF FV MEASUREMENT BASED ON RELEVANCE AND RELIABILITY PRINCIPLES

The *Conceptual Framework for Financial Reporting 2018* (known as the Framework after this) was initiated by IASB outlines the goals of financial reporting. The Framework depicts the main financial report users, including present and potential lenders, investors, and creditors. This financial information can be used to make informed decisions as important qualitative features of a useful financial report are listed in the Framework. Relevance and faithful representation are the basic qualitative features of beneficial financial information embedded in the Framework.

The use of FV in IFRS has been criticised due to several factors. FV could be irrelevant and even mislead for assets held for extended period, particularly to maturity. The FV prices may even be distorted by market inefficiencies and investor irrationality or liquidity issues. In fact, FVs based on models are unreliable (Laux & Leuz 2009). Several critics on FV accounting argue that FV has significantly contributed to financial crisis, besides exacerbating its severity for financial institutions in developed countries, such as the US. The construction of reliable FV estimates is costly due to their inherent lack of verifiability (Watts 2006). Subjectivity in non-verifiable FV estimates can be exploited opportunistically to manipulate reported performance, thus translating into agency costs borne by shareholders (Christensen & Nikolaev 2013).

As stipulated in IFRS 9, the measurement of financial assets and liabilities should be based on FV. Financial information is relevant when the information can make a difference in the decisions made by users. One of the many issues of FV measurement is whether the value is more relevant than other valuation. The usefulness of FV measurement, in comparison to historical cost, is stated by Respondent 8,

"Fair value measurement offers more relevant information than historical cost since it reflects the recent value of financial instruments. Historical cost is based on initial recognition without considering the present economic situation, which may impair the asset. The implication of this is that the asset may be above its realistic value."

Respondent 5 supports the usefulness of FV measurement by describing as follows,

"Because of that requirement disclosure (in IFRS 13), it sounded better than the cost. Because based on cost (measurement), I never knew that value can never determine the value. Although fair value has no observable input, it gives you all the key variables to compute. It's better to have that value rather than cost value, right?"

The pre-2010 framework lists four principal qualitative characteristics for financial information, namely: understandability, relevance, reliability, and comparability. The Framework had substituted the qualitative characteristics with two fundamental qualitative characteristics; relevance and faithful representation. Most studies state that reliability is reflective of faithful representation initiated in 2018. The faithful representation characteristic maximises underlying neutrality, completeness, and error-free characteristics. Thus, the reliability concept is used to describe faithful representation. Lachmann and Herrmann (2017) found that FV estimates, on average, can be viewed as reliable, wherein reliability has been positively related to decision usefulness perception.

Even though FV is said to convey more useful information than historical cost, the FV measurement might be less reliable due to uncertainty in the estimation of inputs. Nonetheless, Du, McEnroe, and Stevens (2014) asserted that FV estimates may be perceived as less reliable due to uncertainty and subjectivity that revolve around FV estimates. In support of this view, Respondent 5 had the following to say,

"I think it's still conveyed useful information provided that the disclosure is enough for people to make decision."

Respondent 8 claimed that substantial shareholders demand more information, in which FV measurement in financial reporting might not provide useful information.

"They (the substantial shareholders) do not rely solely on financial statement. They are probably not able to read the notes and understand. To me, (its) too simple. But the standard requires us those kinds of disclosure, it is still general"

There is a potential trade-off between relevance and reliability in FV measurement. Jana and Schmidt (2017) discovered that users preferred relevance over reliability. Respondent 5 supported this notion by stating that the relevancy of FV measurement is based on the timing of the financial information.

"If I put fair value now in the financial statement on 31st Dec, 6 months down the road what's the value of this to the investors? Because when we talk about fair value, the investors want to know the current fair value, and not the fair value at the particular point of time. However, fair value definitely fairly reflects the value of the instruments at any particular point of time. Because it's already based on fair value."

Respondent 5 asserted on the relevancy of FV measurement,

"So, you can compare two assets or liabilities, right? If you have the same basis, let's say fair value and fair value (of the assets), you actually need to always put fair value as fair value. If I compare an asset that I bought 5 years ago with an asset that I buy now, it would be the same value because I get to mark the market every financial end, financial month closing, etc. To me, that's more useful information if you look from those perspectives".

In summary, FV measurement is useful for decision-making. The respondents also are off the opinion that FV measurement is more relevance for financial statement users.

FV MEASUREMENT HIERACHY AND DISCLOSURE

The IFRS 13 stipulates 3 levels of hierarchy in accounting measurement of FV that need to be disclosed by an entity. In Level 1, the inputs are based on direct quoted price. For Level 2, the inputs are based on directly or indirectly observable inputs, which reflect identical assets and liabilities that could be quite difficult. Inputs in Level 3 are unobservable, such as cash flow and discount rates. Another issue in FV measurement is determining the three FV levels. Respondent 6 shared his experience when applying judgments to measure FV,

"The challenge to get fair value is (based on) the nature of the instruments."

Respondent 7 shared her experience related to measurement inputs,

"The challenge is to determine what level is the input. Levels 1 and 2 are clear, but confusion arises for Levels 2 and 3. There was one FRSIC (Financial Reporting Standards Implementation Committee) issue dealing with this. We can't resolve it and it's really judgmental."

Respondent 9 explained how judgement was applied for FV measurement,

"…… (we) based on external source of information and checked with counter parties."

As Level 3 uses unobservable inputs for FV measurement, past studies depicted that one's ability to access future cash flow emerges as a challenge in measuring FV. Hammami and Moldovan (2017) found that disclosure at Level 3 could cause information asymmetry. Siekkinen (2016) reported that Levels 1 and 2 FV liabilities had more value relevancy than those of Level 3. Respondent 5 highlighted this issue about Level 3 FV measurement,

"The 3rd one is a bit tricky; there is no observable market variable. This means; everything is based on what we think of the value. You don't even have discounting rate or productivity of the asset to determine the expected cash flow and other readily available information. Everything is not market observable. To me, if the risk is lower for asset, it is measured under the 1st level; asset is a confirm market and everything is observable. The 2nd level has observable features, so that people can rework the amount to get the number and they can perform sensitivity analysis and all that…."

Respondent 6 supported the challenge of valuing instruments in Level 3. He particularly emphasised on the importance of assumptions used in valuation.

"So, you have to disclose the fair values in Levels 1, 2, and 3 and any changes or in Level 3. For sure, (we) have to go through the assumptions, or else, the value would be easily over stipulated by them… Look in advance the financing by contract amortized cost."

Respondent 5 asserted on the importance of assumption and additional information for the reliability of levels in FV measurement,

"The 3rd one has no observable market. Almost as good as at cost because how can you asses the reliability of the information 'I wouldn't say it's not reliable'. So that's why IFRS 13 requires that if you have Level 3 financial instruments, you need to explain. (Additionally) What is the basis of your valuation, where you get the valuation from, what would be the stress test analysis that you need to perform… So, people (users) will have additional information to make their own assessment."

Assumptions and additional information required for Level 3 FV measurement may lead to another issue – expertise for fair measurement. Respondent 5 shared the following,

"Expertise, I agree. I don't think this is applicable to Big 4, but a small firm might not have enough experts for valuation. I am sure that our firm and other Big 4 have valuation unit. That is not just audit, but presenting business models for companies, financial risk decision that looks into values of other options and derivatives, so we have someone reliable to make that assessment. But when we talk about small firms, they might use other expert; they might engage a third party to work out the value."

Lim et al. (2017) reported that their respondents believed that FV accounting can create distrust in financial reporting, especially towards Level 3 FV estimates. Such The distrust could be due to inconsistent assumptions applied when measuring Levels 2 and 3 instruments. Respondent 7 also explained on the different assumptions (interpretation),

"So, when we review, we found that different banks have different interpretations for Levels 2 and 3, however not in Level 1 as it is very clear."

Lim et al.(2017) also found that the respondents often discussed FV estimates derivation to improve FV accounting credibility. Such discussion reflects disclosure. Respondent 5 stressed on the importance of disclosure,

"Companies must give us justification on why they arrive at those numbers as long as the variables, justification, stress test and sensitivity test are reasonable."

In summary, there is certain issue relating to Level 3 of FV measurement, as there is certain assumption to be made. This lead to the expertise in valuation, which might not be available to all companies.

JUDGEMENT AND SHARIAH PRINCIPLES

Since Islamic financial assets do not solely constitute principal and interest payments, FV-based measurements may pose conflicts in Shariah terms (Marzuki et al. 2021). Shafii and Abdul Rahman (2016) highlighted that the adoption of FV measurement at Levels 2 and 3 may include uncertainties or *gharar*, in comparison to Level 1. According to the Accounting and Auditing Organisations for Islamic Financial Institutions, cash equivalent value suits IFIs; as practised in the Gulf nation. This is because; IFRS 9 contradicts the Shariah regulation for Islamic financial assets (Shafii & Abdul Rahman 2016). However, Respondents 2 and 3 disagreed that FV measurement may involve *gharar* and IFRS 13 is unsuitable for Islamic financial assets. On the other hand, Respondent 1 claimed that IFRS 13 may be deployed by Islamic banks established in Malaysia as these banks need to adhere to standard requirements. Concurrently, Respondent 1 raised his concern on the implemented benchmark for Level 3 measurement,

"To me you can use it, but not the interest for measurements. Don't use interest as benchmark. Banks must explore more. I would say a reasonable, representative benchmark, because conventional (banks) tend to refer interest as benchmark."

Respondent 10 also agreed on the suitability of IFRS 13 for Islamic financial instruments, but questioned the technical aspect of the measurement.

"For general perspective, fair value measurement is appropriate for all industries and for all sectors. The key question here is who determines the fair value? Is there any difference in fair values between conventional and Islamic instruments? So, ideally of course historical Malaysia most Islamic instruments come from conventional counterpart. I think that should be the difference if you really apply."

Respondents 5 and 9 agreed on the adoption of IFRS 13 for Islamic financial instruments, but disagreed with cost-based measurement. Similarly, Respondent 4 claimed the following,

"I always get this kind of question, what do you think? Is fair value measurement Shariah compliant? Sometimes I think it depends on how you define Shariah compliant. Is it Halal? If it's related to gharar, I want you to go back to Levels 1 to 3 measurements. You know that Level 1 is quoted and you cannot change. Level 2 is market observable. So, it depends on how you use the inputs. What inputs do you use? If it is Level 3, what assumptions do you use for cash flow valuation? You can choose others instead of interest rate; you can choose profit rate. Instead of using growth rate of commercial bank, you can use Islamic bank. You have the freedom to choose."

Respondent 10 asserted that the issue of uncertainty or *gharar* is not the main issue in IFRS 13, consistent with the opinions given by the rest. In light of Shariah, the value underlying asset is a crucial aspect in measuring the value of Islamic financial instruments (Shafii & Abdul Rahman 2016). Respondent 10 raised his concern on Shariah-based FV measurement,

"If I really value commodity Mudharabah kind of instruments, I will think my fair valuation of financial asset as moving according to commodity prices movement rather than interest/profit rate movement. That's my personal view. But if you see the current (valuation), all the way all companies are doing now; the movement in fair value of Islamic instrument is quite consistent with the movement of the conventional. The way fair value valuation is right, but then, where is the basis? Is it going to be driven by profit/interest rate? I don't know I don't have the answer yet. I'm still figuring it out. Why is this rational? Do we worry about it, what is the underlying reason?"

Respondent 9 claimed that technical issues may affect FV measurement in Shariah.

"I'll use example of equity price; there are rooms for manipulation of value. The issue is how we improve fair value accounting, but not to abandon the standard. I totally disagree on the use of historical cost. What areas of improvement, and we need to plan a proposal. How to make fair value accounting more fairly and Islamic? We understand the process and what the people do. We must improve the process and the methodology, as whatever methodology that we have undertaken, such as discounted cash flow, might be meaningless. The numbers might be meaningless. It might be an accurate value, but is it fair from the stance of Shariah? There might be an element that the value is not 100% fair. If we understand the method and the practice, we can know if it's not fair from Islamic point of view but fair from accounting perspective only."

Marzuki et al. (2021) concluded that those preparing the financial reports must be aware that adherence to the code of ethics outlined in the Holy Quran and Shariah regulations is significant when performing their professional duties. Complying with Shariah is crucial for IFIs. Wahyudi (2017) asserted that ethics of accountants is important to reap rewards from Allah SWT, especially in the hereafter. Similarly, Respondent 4 viewed that manipulation of inputs, which could be the risk at Level 3, should not be an issue for IFIs. Respondent 4 added that IFI staff should hold the utmost high-level integrity, as highlighted below, *"So, if there is manipulation in the account, it itself does not have fair value. I always believe that if those accounts from Islamic financial institutions, I don't have to worry if the account has fair value, right? We should not worry whether there are corrupted people, fraudulent cases or any overstatement of assets. You are claiming that you are an Islamic financial institution and yet you cannot uphold the element of Shariah. To me, if you are working in an Islamic financial institution, I don't have to worry about people's integrity. If I was the CEO of an Islamic bank, I would not worry about the staff, as it is related to amanah."*

In summary, the study outcomes seem to support that FV measurement is more valuable that other measurements. However, there are several challenges imposed in adopting FV measurement that the industry is currently facing. It is noteworthy to highlight that FV measurement is more relevant and conveys more useful information to users of financial statements. Apparently, there is no issue for deploying IFRS 13 to measure Islamic financial instruments. The respondents agreed that the element of uncertainty or *gharar* is not at all an issue, but the ethical perspective of those preparing the financial statements is more crucial.

CONCLUSION

The initiation of IFRS 13 is a joint effort undertaken by IASB and FASB to mitigate financial instability, while simultaneously improving IFRS quality for FV measurement. Such an effort can increase cross-country comparability, thus reducing asymmetric information in economic decision among users. Nevertheless, the implementation of IFRS standards may pose several issues to accounting and reporting practices in Islamic financial institutions due contradiction with Shariah regulations. The primary goal of this study is investigating the issues of FV measurement, particularly for financial assets and liabilities of IFIs. As a result, several issues related to FV measurement were identified, including: reliability and relevancy of the measurement, assumption of inputs for FV measurement, and importance of additional disclosure. The adoption of IFRS 13 appears suitable for Islamic financial instruments as there was no issue related to uncertainty or *gharar*. However, both the process and methodology of FV measurement should be improved to achieve consistency with Shariah regulations. Thus, further attention is required from the standard setters and regulators in Malaysia to ensure that the accounting standards can be harmonised with the principles of Islamic finance.

This study significantly contributes to the body of knowledge, practitioners, and accounting regulators. Essentially, this study sheds light on the challenges faced when deploying FV measurements in light of IFIs. Unfortunately, this study is limited to the stances of financial statement auditors and those who prepare those statements. As such, future endeavour may capture the perspectives of other IFI financial statement users, particularly on the use of IFRS 13 within the Malaysian context. On top of that, this study is limited to the discussion of issues involving issues and challenges that are consistent with PIR. Hence, future studies may look into the methodological issue of FV measurements, along with risks of manipulation.

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