

Role of Fair Value Accounting in Shaping Investor Confidence: Primary Evidence from Kathmandu Valley

Purushottam Subedi & Alok Kumar

Singhania University, Rajasthan, India

puru.subedi6@gmail.com

Article Info:

Submitted:	Revised:	Accepted:	Published:
Jun 5, 2025	Jun 30, 2025	Jul 12, 2025	Jul 17, 2025

Abstract

Fair Value Accounting (FVA) plays a critical role in financial reporting by aiming to reflect the accurate economic value of assets and liabilities. However, its influence on investor confidence remains underexplored in emerging economies such as Nepal. This study examines investor perceptions of FVA and investigates the relationship between key accounting dimensions and investor confidence. Employing a cross-sectional, quantitative research design, data were collected via a structured questionnaire from 385 respondents, including BBS and MBS students, freelance investors, and teaching faculty using convenience sampling within the Kathmandu Valley. The results reveal significant positive relationships between FVA components and investor confidence. Specifically, transparency, valuation reliability, and frequent revaluation significantly enhance investor confidence, whereas volatility does not show a meaningful effect. The regression model accounted for over 54% of the variance in investor confidence. The study concludes that enhancing the clarity, reliability, and frequency of fair value reporting can substantially improve investor trust in Nepal's financial markets, offering practical implications for policymakers, regulators, and accounting professionals.

Keywords: Fair Value Accounting; Investor Confidence; Transparency; Valuation Reliability; Financial Reporting

INTRODUCTION

Fair Value Accounting (FVA) is an accounting method in which assets and liabilities are measured and reported at their current market value rather than their historical cost. This approach reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable and willing parties at the measurement date (Dusan et al., 2021). The main purpose of FVA is to provide more relevant and timely information to users of financial statements by capturing real-time changes in market conditions. Under fair value accounting, values are determined using a hierarchy of inputs: observable market prices (Level 1), observable inputs other than quoted prices (Level 2), and unobservable inputs based on management estimates (Level 3). FVA is widely applied in financial reporting, especially for financial instruments, investment properties, and other market-sensitive items under standards such as IFRS and US GAAP. While it enhances transparency and comparability, fair value accounting can also introduce earnings volatility and requires careful judgment, particularly when market data is limited or unavailable (Pompili & Tutino, 2019). Given these features and applications, fair value accounting not only serves technical and regulatory functions but also carries broader implications for how stakeholders, particularly investors, interpret and respond to financial information (Dalwadi, 2023).

Fair Value Accounting (FVA) plays a significant role in enhancing investor confidence by providing more transparent, timely, and relevant financial information. Unlike historical cost accounting, which records assets and liabilities based on their original purchase price, FVA reflects the current market value, offering a more accurate picture of a company's financial position (Costa & Guzzo, 2013). This real-time valuation helps investors assess the true worth of a company's resources and obligations, making it easier to evaluate performance, risks, and future potential. When financial statements reflect fair values, investors can make more informed decisions based on up-to-date market realities rather than outdated or understated figures (Procházka, 2011). This improves trust in the reliability of financial reporting. However, fair value accounting can also introduce volatility in reported

earnings, especially during economic downturns or in illiquid markets, which may create uncertainty if not properly explained. Despite this, the overall impact of fair value accounting is generally positive in boosting investor confidence, as it promotes transparency, accountability, and comparability across companies (McDonough et al., 2020).

Fair Value Accounting (FVA) has a significant influence on investor confidence, as demonstrated by various empirical studies. Mert (2013) examined firms in Turkey and Romania and found that the use of FVA increased investor optimism and their willingness to invest, although it did not significantly improve perceptions of transparency. Similarly, Shehu and Olukeye (2025) reported that FVA enhanced the decision usefulness of financial statements and improved investor evaluation under IFRS, though concerns about reliability remained, especially in volatile markets. McGregor (2022), in a study of the U.S. insurance industry, found that the adoption of FVA led to increased earnings volatility and higher analyst forecast errors, which initially reduced the value relevance of earnings and raised concerns among investors. In contrast, Elsiefy and ElGammal (2017) showed that in emerging economies like Qatar, FVA significantly affected key financial indicators such as net income and return on equity, directly influencing investors' fundamental analysis. Likewise, Elfaki and Hammad (2015) found that FVA improved the quality, comparability, and usefulness of financial statements for companies listed on the Khartoum Stock Exchange, thereby increasing investor trust. Overall, while fair value accounting can cause short-term volatility and subjective valuations, it generally promotes greater transparency and market relevance, which boosts long-term investor confidence.

In recent years, there has been a growing academic and professional interest in the study of Fair Value Accounting (FVA), particularly regarding its implications for enhancing the quality of financial reporting and decision-making. One of the key areas that has gained attention is the relationship between fair value accounting and investor confidence. Numerous studies suggest that when financial statements reflect current market realities through fair valuation, they offer greater transparency, timeliness, and relevance, which in turn can positively influence investor perceptions and decision-making. However, despite the increasing discourse on this topic globally, there remains a notable lack of context-specific empirical evidence, especially in emerging markets like Nepal.

This study, titled "Fair Value Accounting in Shaping Investor Confidence: Primary Evidence from Kathmandu Valley," seeks to bridge that gap by exploring how investors in

the Kathmandu Valley perceive the role of FVA in building their trust in financial statements. While prior research has often focused on developed economies or relied heavily on secondary data, many of these studies fail to capture the fresh perspectives of local investors, practitioners, and early-career professionals in contexts where fair value practices are still evolving. The current study emphasizes these underrepresented voices and investigates how FVA practices influence investor confidence in a dynamic, transitional market environment. By doing so, it provides timely insights that can inform both policy and practice in Nepal's accounting and financial reporting landscape. Based on the above background, the following research framework was adopted.

Research Framework

The research framework illustrated above is designed to explore the relationship between Fair Value Accounting (FVA) and Investor Confidence. This conceptual model identifies five key dimensions of fair value accounting that may influence how investors perceive the trustworthiness, relevance, and utility of financial information provided by firms.



- Market-Based Valuation refers to the use of current market prices to assess the value of assets and liabilities, providing investors with real-time indicators of a company's financial standing.

- Frequent Revaluation ensures that financial statements reflect up-to-date valuations, increasing the relevance and timeliness of financial data available to investors.

- Transparency enhances the clarity of financial disclosures, enabling investors to better understand the underlying valuation processes and assumptions.

- Volatility captures the potential fluctuations in earnings caused by changes in market value, which may either increase perceived risk or reflect the realistic dynamics of the market.

- Valuation Reliability addresses the accuracy and dependability of reported values, particularly when observable market data is limited and estimates are used.

Together, these five factors serve as the independent variables that collectively define the practice of fair value accounting. The dependent variable in the model is Investor Confidence, which reflects the degree to which investors trust and rely on financial statements to make informed investment decisions.

This framework, adapted from Henderson and Mamo (2025), Goh et al. (2021), and Mert (2013), provides the basis for examining how each component of fair value accounting contributes to shaping investor perceptions in dynamic financial environments. By assessing these relationships empirically, the study aims to offer insights into how FVA can be leveraged to enhance investor trust, particularly in emerging market contexts.

METHODS

The study adopts a positivist research philosophy and follows a cross-sectional design. It employs a combination of descriptive, correlational, and causal-comparative research designs to examine the relationship between fair value accounting and investor confidence. Based on the investor population in Kathmandu Valley and applying the formula for an unknown population size, a final sample size of 385 respondents was determined. The participants included BBS and MBS students from Shanker Dev Campus and Peoples Campus who are initial investors, as well as freelance investors and college or campus teaching faculty engaged in investment activities.

A five-point Likert scale was used in the questionnaire, ranging from 1 = Strongly Agree to 5 = Strongly Disagree. This reverse coding approach was adopted because the items were negatively worded. Data were collected through both Google Forms and printed questionnaires. The responses were analyzed using SPSS, applying statistical techniques such as frequency distribution, percentage, mean, Pearson correlation, and regression analysis. Ethical considerations were upheld by obtaining informed consent, and voluntary participation was ensured throughout the study.

To ensure the reliability of the questionnaire, the internal consistency of each construct was measured using Cronbach's Alpha. Cronbach's Alpha assesses how closely related the set of items are as a group, indicating the reliability of the scale. Generally, a

Cronbach's Alpha value above 0.7 is considered acceptable, although values between 0.6 and 0.7 may be acceptable in exploratory research contexts.

The results of the reliability test for the variables in this study are as follows:

Table 1: Reliability Statistics

Variable	Cronbach's Alpha	N of Items
Market Based Valuation	.696	5
Frequent Revaluation	.755	5
Transparency	.639	5
Volatility	.778	5
Valuation Reliability	.692	4
Investor Confidence	.629	4

RESULTS

This section highlight outcome of research.

Table 2: Demographic Profile

Gender					
		Frequency		Percent	
Valid	Male	316		82.1	
	Female	69		17.9	
	Total	385		100.0	
Education					
Valid	Bachelor	203		52.7	
	Master	182		47.3	
	Total	385		100.0	
Profession					
		Frequency		Percent	
Valid	student	295		76.6	
	Freelancer	51		13.2	
	Teaching Faculty	39		10.1	
	Total	385		100.0	
Descriptive Statistics					
N		Minimum	Maximum	Mean	Std. Deviation
Age	385	22.00	51.00	28.6779	6.37134

The demographic profile of the 385 respondents shows that the majority were male, accounting for 82.1% (316 participants), while females represented 17.9% (69 participants) of the sample. Regarding education, 52.7% (203) of the respondents held a bachelor's degree, and 47.3% (182) had a master's degree. In terms of profession, most respondents were

students (76.6%, or 295 individuals), followed by freelancers at 13.2% (51 individuals), and teaching faculty at 10.1% (39 individuals). The age of participants ranged from 22 to 51 years, with a mean age of approximately 28.68 years and a standard deviation of 6.37 years.

Descriptive Statistics

Respondents Perception

The respondents' perceptions regarding various aspects of fair value accounting were measured using a five-point Likert scale, with scores ranging from 1 (Strongly Agree) to 5 (Strongly Disagree). The mean scores for all variables fall between approximately 2.5 and 2.6, indicating a tendency towards agreement with the statements, given the reverse-coded scale.

Table 3: Respondents Perception

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Market Based Valuation (MBV)	385	1.00	4.60	2.5969	.64225
Frequent Revaluation (FR)	385	1.00	5.00	2.4971	.66302
Transparency (T)	385	1.00	4.60	2.5932	.63217
Volatility (V)	385	1.00	5.00	2.5273	.73194
Valuation Reliability (VR)	385	1.00	5.00	2.5734	.69829
Investor Confidence (IC)	385	1.00	4.25	2.5227	.65969

Specifically, the perception of Market Based Valuation had a mean of 2.60 (SD = 0.64), while Frequent Revaluation scored slightly lower with a mean of 2.50 (SD = 0.66), suggesting moderate agreement on the importance and impact of these practices. Similarly, respondents rated Transparency at a mean of 2.59 (SD = 0.63), and Volatility at 2.53 (SD = 0.73), indicating a balanced perception of these factors in fair value accounting. The variables Valuation Reliability and Investor Confidence received mean scores of 2.57 (SD = 0.70) and 2.52 (SD = 0.66), respectively, showing that respondents moderately agreed on the reliability of valuations and the influence on investor confidence. The relatively consistent standard deviations across all variables suggest moderate variability in responses, reflecting a diversity of opinions among participants.

Correlations

The correlation analysis reveals significant positive relationships among all the key variables related to fair value accounting and investor confidence.

Table 4: Correlation

Variables	MBV	FR	T	V	VR	IC
Market Based Valuation (MBV)	1					
	385					
Frequent Revaluation (FR)	.545**	1				
	.000					
	385	385				
Transparency (T)	.616**	.503**	1			
	.000	.000				
	385	385	385			
Volatility (V)	.595**	.498**	.532**	1		
	.000	.000	.000			
	385	385	385	385		
Valuation Reliability (VR)	.637**	.550**	.603**	.662**	1	
	.000	.000	.000	.000		
	385	385	385	385	385	
Investor Confidence (IC)	.619**	.531**	.621**	.554**	.650**	1
	.000	.000	.000	.000	.000	
	385	385	385	385	385	385

** . Correlation is significant at the 0.01 level (2-tailed).

Market Based Valuation (MBV) showed a strong positive correlation with Frequent Revaluation (FR) ($r = 0.545$, $p < 0.01$), Transparency (T) ($r = 0.616$, $p < 0.01$), Volatility (V) ($r = 0.595$, $p < 0.01$), Valuation Reliability (VR) ($r = 0.637$, $p < 0.01$), and Investor Confidence (IC) ($r = 0.619$, $p < 0.01$). This suggests that as perceptions of market-based valuation improve, so do perceptions of frequent revaluation, transparency, volatility management, valuation reliability, and investor confidence. Similarly, Frequent Revaluation was positively correlated with Transparency ($r = 0.503$, $p < 0.01$), Volatility ($r = 0.498$, $p < 0.01$), Valuation Reliability ($r = 0.550$, $p < 0.01$), and Investor Confidence ($r = 0.531$, $p < 0.01$). These significant correlations indicate that frequent revaluation is closely associated with improved transparency and reliability, which in turn relate to higher investor confidence.

Further, Transparency correlated strongly with Volatility ($r = 0.532$, $p < 0.01$), Valuation Reliability ($r = 0.603$, $p < 0.01$), and Investor Confidence ($r = 0.621$, $p < 0.01$), emphasizing the importance of transparent practices in enhancing valuation reliability and boosting investor trust. The strongest correlation was observed between Valuation Reliability and Investor Confidence ($r = 0.650$, $p < 0.01$), highlighting that investors' confidence is highly dependent on the perceived reliability of valuation practices.

All correlations were significant at the 0.01 level, confirming that these relationships are statistically meaningful and supportive of the study's hypotheses regarding the interconnectedness of fair value accounting components and their impact on investor confidence.

Regression Analysis

Table 5: Regression Analysis

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.740 ^a	.547	.541	.44691	
a. Predictors: (Constant), Valuation Reliability, Frequent Revaluation, Transparency, Volatility, Market Based Valuation						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	91.415	5	18.283	91.538	.000 ^b
	Residual	75.698	379	.200		
	Total	167.114	384			
a. Dependent Variable: Investor Confidence						
b. Predictors: (Constant), Valuation Reliability, Frequent Revaluation, Transparency, Volatility, Market Based Valuation						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.241	.111		2.164	.031
	Market Based Valuation	.193	.052	.188	3.693	.000
	Frequent Revaluation	.121	.044	.122	2.748	.006
	Transparency	.253	.050	.243	5.088	.000
	Volatility	.068	.044	.075	1.534	.126
	Valuation Reliability	.253	.050	.267	5.030	.000
a. Dependent Variable: Investor Confidence						

The regression model shows a strong overall relationship between the independent variables and investor confidence, with a multiple correlation coefficient (R) of 0.740. The model explains 54.7% of the variance in investor confidence, as indicated by the R Square value of 0.547, and the Adjusted R Square of 0.541 confirms the model's robustness after adjusting for the number of predictors. The standard error of the estimate is 0.44691, reflecting the average deviation of the observed values from the predicted values. The

ANOVA results indicate that the model is statistically significant ($F = 91.538$, $p < 0.001$), meaning the predictors collectively provide a meaningful explanation of investor confidence.

Among the predictors, Transparency and Valuation Reliability have the strongest positive impacts on investor confidence, with standardized beta coefficients of 0.243 ($t = 5.088$, $p < 0.001$) and 0.267 ($t = 5.030$, $p < 0.001$), respectively. Market Based Valuation also significantly contributes to investor confidence ($\beta = 0.188$, $t = 3.693$, $p < 0.001$), followed by Frequent Revaluation ($\beta = 0.122$, $t = 2.748$, $p = 0.006$). However, Volatility does not have a statistically significant effect ($\beta = 0.075$, $t = 1.534$, $p = 0.126$). The constant term is significant as well ($B = 0.241$, $t = 2.164$, $p = 0.031$), indicating a baseline level of investor confidence when all other variables are zero. These results highlight that transparency and valuation reliability are key drivers in boosting investor confidence, while market-based valuation and frequent revaluation also play positive, though smaller, roles. Volatility, however, appears to have no significant impact in this model.

DISCUSSION

This study aimed to explore respondents' perceptions regarding fair value accounting, examine the relationships between key accounting variables and investor confidence, and assess the impact of these variables on investor confidence. The findings contribute to a better understanding of how fair value accounting influences investor behavior in the context of Nepal's financial environment.

The respondents generally showed moderate agreement on the importance and influence of market-based valuation, frequent revaluation, transparency, volatility, valuation reliability, and investor confidence. The mean scores, hovering around 2.5 on a reverse-coded Likert scale, suggest cautious optimism regarding these accounting practices. This aligns with the findings of Barth (1994), who reported that investors perceive fair value measures as relevant but remain concerned about volatility and reliability issues in financial reporting. Similarly, Laux and Leuz (2009) emphasized that transparency and reliability are crucial in shaping investors' trust in accounting information. Our findings reaffirm that transparency remains a critical factor affecting investor perception, especially in emerging markets like Nepal.

The correlation analysis revealed strong, significant positive relationships among the variables, with all correlations significant at the 0.01 level. Transparency and valuation

reliability were especially strongly correlated with investor confidence, consistent with prior research. For instance, Goh et al. (2021) found that transparent disclosure and reliable valuations significantly enhance investor trust and market efficiency. The positive correlation between frequent revaluation and market-based valuation also supports prior assertions by Mert (2013) that regular adjustments to asset values improve the relevance of financial statements and reduce information asymmetry.

The regression analysis showed that transparency and valuation reliability had the most substantial positive effects on investor confidence, followed by market-based valuation and frequent revaluation. Volatility did not significantly influence investor confidence in this study. These results echo those of Barth (1994), who demonstrated that valuation reliability plays a pivotal role in investor decision-making, often outweighing concerns about volatility. The insignificant impact of volatility might be due to investors' increased tolerance or adaptation to market fluctuations, which is also suggested by prior studies in emerging economies (Christensen & Nikolaev, 2013).

Limitations

The sample is limited to investors and academic participants from the Kathmandu Valley, which may affect the generalizability of the findings to other regions or populations.

Convenience sampling was used to select participants, which may introduce sampling bias and limit the representativeness of the results.

CONCLUSION

This study examined the perceptions of investors regarding fair value accounting and its influence on investor confidence in Kathmandu Valley. The findings reveal that transparency and valuation reliability are the most significant factors enhancing investor confidence, while market-based valuation and frequent revaluation also contribute positively. Volatility, however, showed no significant impact. The positive relationships among the key variables emphasize the interconnected nature of fair value accounting components in shaping investor trust. Despite some limitations, including the use of convenience sampling and a cross-sectional design, the results provide valuable understanding for financial authorities and market participants aiming to improve financial reporting standards in Nepal. Strengthening transparency and valuation reliability can enhance investor confidence and

potentially stimulate investment activity. Future research should explore these relationships longitudinally and include diverse populations to improve generalizability.

REFERENCES

- Barth, M. E. (1994). Fair value accounting: Evidence from investment securities and the market valuation of banks. *The Accounting Review*, 69, 1–25.
- Christensen, H. B., & Nikolaev, V. V. (2013). Does fair value accounting for non-financial assets pass the market test? *Review of Accounting Studies*, 18(3), 734–775. <https://doi.org/10.1007/s11142-013-9232-3>
- Costa, M., & Guzzo, G. (2013). Fair value accounting versus historical cost accounting: A theoretical framework for judgment in financial crisis. *Corporate Ownership and Control*, 11(1), 147–153. <https://doi.org/10.22495/cocv11i1conf2p6>
- Dalwadi, P. (2023). Fair value accounting: Benefits, challenges and implications for financial reporting. *VIDYA - A Journal of Gujarat University*, 2(2), 121–124. <https://doi.org/10.47413/vidya.v2i2.226>
- Dusan, A., Gurcharan, S., & Anwar, H. (2021). Fair value accounting: Perspective on stewardship function. *Journal of Accounting and Taxation*, 13(4), 226–242. <https://doi.org/10.5897/jat2021.0483>
- Elfaki, A. A. A., & Hammad, S. M. E. (2015). The impact of the application of fair value accounting on the quality of accounting information: An empirical study on a group of companies listed on the Khartoum Stock Exchange. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 5(1), 197–214. <https://doi.org/10.6007/IJARAFMS/v5-i1/1517>
- Elsiefy, E., & ElGammal, W. (2017). The effect of using fair value accounting on fundamental analysis: Some evidence from the emerging economies. *Journal of Developing Areas*, 51(3), 103–121. <https://doi.org/10.1353/jda.2017.0073>
- Goh, C., Lim, C. Y., Ng, J., Pan, G., & Ow Yong, K. (2021, September). Trust in fair value accounting: Evidence from the field. *Paper presented at the Third International Conference on Accounting and Finance, Singapore*. Ministry of Education (Singapore) Tier 2 grant (MOE2014-T2-2-137).
- Laux, C., & Leuz, C. (2009). The crisis of fair-value accounting: Making sense of the recent debate. *Accounting, Organizations and Society*, 34(6–7), 826–834. <https://doi.org/10.1016/j.aos.2009.04.003>
- McDonough, R., Panaretou, A., & Shakespeare, C. (2020). Fair value accounting: Current practice and perspectives for future research. *Journal of Business Finance & Accounting*, 47(3–4), 303–332. <https://doi.org/10.1111/jbfa.12447>
- McGregor, S. (2022). Fair value accounting impact on decision-usefulness of accounting information: Evidence from accounting standards update 2016–01 on the US insurance industry. *Journal of Financial Reporting and Accounting*, 20(5), 926–952. <https://doi.org/10.1108/jfra-12-2020-0352>

- Mert, I. (2013). The use of fair value accounting, business outcomes, and investor confidence for selected Romanian and Turkish firms. *Annales Universitatis Apulensis*, 1(15), 54–61. <https://doi.org/10.29302/oeconomica.2013.15.1.4>
- Pompili, M., & Tutino, M. (2019). Fair value accounting and earning management: The impact of unobservable inputs on earning quality. Evidence from the US. *Corporate Ownership and Control*, 16(2), 8–18. <https://doi.org/10.22495/cocv16i2art1>
- Procházka, D. (2011). The role of fair value measurement in the recent financial crunch. *Prague Economic Papers*, 20(1), 71–88. <https://doi.org/10.18267/j.pep.388>
- Shehu, T. S., & Olukeye, O. (2025). The impact of fair value accounting on financial statement reliability and investor decision-making: A comparative study of IFRS and local GAAP. *International Journal of Modern Science and Research Technology*, 3(5), 487–498.