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## DO FAIR VALUE DECISIONS INCREASE IDIOSYNCRATIC RISK?

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### ABSTRACT

Systematic and non-systematic risk can both cause investment risk. Internal company conditions typically cause non-systematic risk. Diversification can help to mitigate this risk. This research aims to look into applying fair value to idiosyncratic risk. This quantitative study employs secondary data from manufacturing financial statements and stock data from the IDX. In addition, this study uses monthly data on 10-year government bond yields. Information on financial statements was obtained from [www.idnfinancials.com](http://www.idnfinancials.com), stock prices from [www.finance.yahoo.com](http://www.finance.yahoo.com), and monthly 10-year government bond yields from [www.bloomberg.com](http://www.bloomberg.com). In total, 575 observations were used in this study (firm-year). We used multiple linear regression analysis on panel data to test the research hypothesis. The study finds that managers' fair value accounting relates to idiosyncratic risk. The results of this test apply to both the market and the Fama-French models. This study contributes to knowledge development concerning fair value testing, which still needs to be improved in developing countries.

**Keywords:** Fair Value, Market Model, Fama-French Model, Non-Systematic Risk.

## INTRODUCTION

The investment objective expected by investors is to obtain a high rate of return (Brigham & Houston, 2019). However, it is followed by a high level of risk (Brigham & Houston, 2019). Ideally, the company stands to continue operating, but the company's risk results in a level of uncertainty in the future (Firmansyah et al., 2020). Companies that are more at risk have a potential risk of sustainability of their operations in the future due to the financial difficulties they have to endure (Firmansyah et al., 2020). Company risk can occur due to external and internal factors influence (Firmansyah et al., 2020). Risks originating from external factors are difficult to diversify, while risks originating from internal factors are easier to diversify or reduce (Firmansyah et al., 2020).

The volatility of stock prices or stock returns can indicate a company's capital market risk. Significant changes in stock prices and returns demonstrate the capital market's concern about the company's condition. This condition can be influenced by financial and non-financial information from capital market shareholders or investors. (Firmansyah et al., 2020). Financial information is related to the company's financial condition in financial statements.

Risk is influenced by market, industry, and company factors (Prakosa et al., 2022). It harms both the company and the investor because it raises concerns about profitability and sustainability for the company while it adds uncertainty to future expected returns for investors. The overall risks in the capital market are made up of both systematic and unsystematic risks (Jones & Jensen, 2016). According to Jones & Jensen (2016), systematic risk is an external risk that causes variability in the total return of security directly related to all market or economic movements. Unsystematic or idiosyncratic risk is a company-specific risk that can be mitigated by diversifying one's portfolio.

The proportion of systematic and unsystematic risk in a single stock changes over time due to external and internal factors (Prakosa et al., 2022). Several market/industry-wide factors, such as the global stock market crash, widespread supply chain disruption, and economic and political instability, contribute to systematic risk because they affect the entire market/industry. On the other hand, companies have demonstrated varying levels of resilience in the face of occurring shock and uncertainty, resulting in variability of company-specific costs and operations. In-depth research has concluded that management decisions and strategies significantly impact the company's future (Petra & Spieler, 2020). Proper management decisions and strategies can keep a portion of a company's risk from correlating and fluctuating with market shock. In contrast, as recent scandals have shown, poor and opportunistic decisions have led to the demise of several companies, exposing them to company-specific risk.

Idiosyncratic risk forecasts the company's future because it reflects current information about its governance and strategy, whereas systematic risk reflects the market's collective uncertainty. Stock prices imply that managers have some influence over price formation because they have access to and control over information. Manager opportunism distorts publicly available information on purpose. When managers are incentivized to prioritize their interests over those of investors, they are more likely to exert control over the company for personal gain. Managers benefit from controlling and possessing internal information because they are the entity in charge of running the

company. They may use their authority to present a favorable performance, resulting in information asymmetry.

The stock price in an efficient market reflects all of the market's available information. Because of the trading mechanism, stock prices will continue to shift toward a new equilibrium. Information is treated as a commodity in this ideal market, which means the same for investors (Prakosa et al., 2022). There are "a large number of rational, profit-maximizing competitors actively competing, each attempting to forecast future market values of individual securities, and where important current information is almost freely available to all participants" in an efficient market (Fama, 1970). According to this theory, all effects of new information on intrinsic values will be "instantly" reflected in average actual prices due to competition.

Stock prices in an efficient market are said to fluctuate randomly since information is constantly updated. As a result, it is difficult for investors to gain anomalous returns in the securities market through arbitrage constantly, resulting in actual returns that differ from expected returns. Investors consider information as a high-priced commodity in this situation. As a result, while abnormal returns for insider investors are more likely, ordinary investors expect the board and regulators to audit and supervise publicly available information.

The theory of market efficiency does not assert that stock prices are always "correct," only that they are not mispriced in a "systematic" or predictable manner (Hartzmark & Solomon, 2022). Even if the market is truly efficient, stock prices may deviate from accurately reflecting a company's fundamentals without high-quality publicly traded data. Another crucial concept in this theory is investor rationality. Investors must always be rational and unbiased information users to derive the intrinsic value of shares from all available information. Rational investors can assess and optimize risk/reward outcomes quickly and accurately, and they are always looking for profit opportunities—their efforts to make money lead to market efficiency (Hartzmark & Solomon, 2022). However, when there is information asymmetry, the stock price does not adequately reflect all critical information, causing it to diverge from its fundamentals and become expensive. Like other publicly available information, accounting data explains and anticipates a company's current and future conditions as reflected in the stock market.

Price variation is enabled by accounting information distortion. Price deviations from fundamental values can persist over time, meaning that projected returns might be influenced not just by fundamental risk, as reflected by a typical asset pricing model, but also by asset mispricing that varies with idiosyncratic risk (Chen, 2021). The company's performance has been disguised, resulting in greater stock price volatility and company-specific risk. Agency relationships are contracts between agents and principals that contain incentives, monitoring devices, bonds, and other forms of social control to lower agency expenses (Li & Zuo, 2020). It is a dyadic contract with mutual rights and obligations for agents and principals. The principal owns economic resources, and the agent agrees to perform duties in the principal's best interests (Jensen & Meckling, 1976). Principals are obligated to transfer some of their wealth to the agent for a profit on their investment, constituting the agents' obligation to maximize investors' wealth in exchange for specific compensation. The ideal relationship, or "Pareto-optimality," of the agent-principal contract arises when neither party can enhance their wealth at the expense of the other (Jensen & Meckling, 1976). When there

is a conflict of interest between agents and principals, the agents frequently profit from having more inside information than the principal because they are the entity that controls the company. As a result, agency expenditures may be expended to achieve "Pareto-optimality" by reducing the agent-principal interest gap or guaranteeing that the agent exceeds the agreed-upon effort rather than shirking.

The agency's cost is a solution to the agency's difficulty. An agency problem arises when agents are motivated to behave against the principal interest to acquire private benefits. They encouraged the agent's greed, endangering the company's investment and shareholders. Performance manipulation, embezzlement, and fraud are all examples of harmful practices used by opportunistic managers. As a result, the agency problem increases a company's internal risk.

In contrast, the principal should have complete control over the resources. When the principal and agent's contract is outcome-based, the agent is more likely to act in the principal's best interests. It was inspired by Jensen & Meckling (1976), who stated how increasing managers' ownership of the company reduces managers' opportunism. Second, when the principal has information that may be utilized to validate the agent's conduct, the agent is more likely to behave in the principal's best interests.

Risk aversion and risk tolerance influenced differences in agency problems and costs by identifying two types of agents. Risk-averse agents cannot diversify their employment, whereas principals can diversify their investments, thus justifying risk aversion (Saputra, 2020). This agent is less likely to undertake high-risk projects that could jeopardize the company's performance. Excessive caution, however, frequently costs businesses dynamic growth from risky but higher-return projects in which investors had yet to make plans to invest. Due to the agency fee, this manager is forced to work outside their comfort zone.

On the other hand, agents who are risk-tolerant or seek risk are more appealing to projects with high risks and high returns. They occasionally put their interests ahead of the principal's. As a result, agency costs are incurred to monitor and realign the self-interest of such agents.

Because an agent can also operate as a principal, the agent's and principal's duties should not be viewed separately. A contract may require the corporation to hire a CEO to act as both an agent for investors and a principal within the corporation (Jensen & Meckling, 1976). While the agent believes that having multiple principals and agents increases information asymmetry and monitoring challenges, he also believes it helps correct imbalances. Jones & Jensen (2016) state that the former is an external risk associated with all market or economic fluctuations. In contrast, the latter is a company-specific risk that can be managed by portfolio diversification. Instead of systematic risk, idiosyncratic risk is endogenous to a single asset or group of assets. The stock price in an efficient market reflects all of the market's available information. Because of the trading mechanism, stock prices will continue to move toward a new equilibrium. In this ideal market, information is treated as a commodity, which means the same for investors. An efficient market, according to Fama (1970), has "a large number of rational, profit-maximizing competitors actively competing, each attempting to forecast future market values of individual securities, and where important current information is almost freely available to all participants." Due to competition, all effects of new information on intrinsic values will be "instantly" reflected in average actual prices, according to this theory.

Because information is constantly updated, stock prices in an efficient market are said to move randomly. As a result, obtaining abnormal returns in the securities market through arbitrage consistently is problematic, resulting in actual returns that differ from expected returns. Investors regard information as a high-priced commodity in this situation. As a result, while abnormal returns for insider investors are more likely, ordinary investors expect the board and regulators to audit and supervise publicly available information. The theory of market efficiency does not assert that stock prices are always "correct," only that they are not mispriced in a "systematic" or predictable manner (Hartzmark & Solomon, 2022). Even if the market is truly efficient, stock prices may deviate from accurately reflecting a company's fundamentals without high-quality publicly traded data.

Another essential concept in this theory is investor rationality. Investors must always be rational and unbiased information users for all available information to form the intrinsic value of their shares. Rational investors can quickly and effectively analyze and maximize risk/reward outcomes, and they are continually looking for profit opportunities their efforts to make money lead to market efficiency (Hartzmark & Solomon, 2022). When there is information asymmetry, the stock price does not adequately reflect all critical information, causing it to vary from its fundamentals and become expensive. Like publicly available data, accounting data explains and forecasts a company's current and future financial situation.

Internal company information obtained from company information provided by the public and considered dangerous by investors is reflected as idiosyncratic risk (Firmansyah et al., 2020). It is the volatility of individual stocks caused by company-specific uncertainty (Bartram et al., 2017). Firmansyah et al. (2020) defined idiosyncratic risk as a diversifiable internal corporate risk that fluctuates with market shares, management ranks, and annual profit. Idiosyncratic risk reflects the company's specific information and will fluctuate based on that information (Firmansyah et al., 2020). They also refer to idiosyncratic risk as the residual variance in Capital Asset Pricing Model (CAPM) regression, which means that it is the remaining risk after all market risk has been considered. It is relevant to Kong et al. (2020), who defined idiosyncratic risk as stock return volatility above and beyond systematic risk, reflecting a company's unique risk.

Thus, idiosyncratic risk is an endogenous risk derived from company-specific complexities unrelated to market risk. A higher correlation among stocks leads to higher risk because the average assets in the portfolio move in the same proportion, impounding more substantial influence on each other. Albeit the traditional belief that idiosyncratic risk can be eliminated through diversification, several researches suggest that it can be costly.

Idiosyncratic risk research is very impactful and dynamic in financial accounting research, especially in market-based accounting research, because idiosyncratic risk directly impacts investment and corporate policy (Mihov & Naranjo, 2017). Previous research depicted two lines of inquiry: what affects and is affected by idiosyncratic risk. Various studies in the early stream attempted to explain the determinants of idiosyncratic risk. Companies with a less diverse customer base face greater idiosyncratic risk due to their greater reliance on a few key customers, making them more vulnerable to market disruption (Mihov & Naranjo, 2017). When institutional investors find it more expensive to hold a particular stock, the stock buy-sell rhythm

quickens, and the idiosyncratic risk rises (Chichernea et al., 2015). Several studies examined idiosyncratic risk by hedging policy (Chng et al., 2017), corporate social responsibility (Chen et al., 2018; Hasan & Habib, 2019; Kong et al., 2020; Tzouvanas et al., 2020), earnings management (Prakosa et al., 2022; Suhanda & Firmansyah, 2020), and corporate governance (Chen et al., 2016; Ghafoor et al., 2019).

This research aims to look into fair value decisions based on idiosyncratic risk. This discretion can be used with the company's diversification strategy and fair value accounting policies. The company's management establishes accounting policies and strategies for presenting earnings information to investors by financial statements. Fair value accounting policies and the company's diversification strategy can be used to exercise this discretion. Financial statements are a source of information for investors because this information can be used as a source of relevant information in decision-making (Firmansyah et al., 2021). Since Indonesia adopted IFRS-based financial accounting standards in 2012, applying fair value accounting is permitted instead of just using historical cost-based accounting (Geno & Firmansyah, 2022). Fair value is one of the IASB's breakthroughs in developing accounting standards that protect the interests of financial report users (Fajriana & Aviyanti, 2019). Wu et al. (2020) proved that applying fair value can decrease firm risk.

Fair value is a term in accounting standards where assets and liabilities are recorded in financial reports based on a revaluation model (Pascayanti et al., 2017). According to IFRS No. 68, assets or liabilities are the main object in fair value measurement (Institute of Indonesia Chartered Accountants, 2015). Based on assessment technique input, IFRS No. 68 divides fair value measurements for assets and liabilities into three levels of fair value hierarchy categories (Institute of Indonesia Chartered Accountants, 2015). The existence of category levels in the fair value hierarchy is based on the level of priority given. Level 1 is the highest priority using quoted prices to assess assets or liabilities, while level 3 is the lowest priority using unobservable input as input for assessing assets or liabilities (Institute of Indonesia Chartered Accountants, 2015).

Management may choose an opportunistic asset valuation method, such as unobservable fair value. Previous studies tested fair value decisions on systematic risk (Khan, 2019), while this study tested fair value decisions on unsystematic risk because these decisions are related to managers' decisions in running the company's business, so this test is very relevant. Management may choose an opportunistic asset valuation method, such as unobservable fair value. Meanwhile, the company's financial stability and diversification strategy can relieve management of the pressure to generate high-quality profits in the interests of investors.

Accounting standards allow companies to present their financial statements in several ways. In certain transactions in the primary market on the measurement date, fair value is the price paid to transfer a liability or the price received to sell an asset, regardless of whether the price can be directly observed or estimated (Kieso et al., 2018). It makes use of additional evaluation techniques. Palasari (2018) defined fair value as "an amount that can be used to exchange assets or settle obligations between knowledgeable and willing parties to conduct fair transactions free of pressure or coercion." Meanwhile, China's Ministry of Finance issued accounting principles that define fair value as the amount of money exchanged for the exchange of capital or payment of debt involving both parties in a fair transaction situation, where both parties

are companies with no plans to liquidate, reduce business scale, or conduct transactions under forced circumstances. Based on the preceding, it is concluded that fair value is the price agreed upon by both parties in a fair transaction in the primary market to sell an asset or the price paid to transfer a liability, regardless of the price observed or estimated using other valuation techniques.

Because emerging market capital markets differ from those in developed economies, it is critical to investigate idiosyncratic risk in emerging markets such as Indonesia. Emerging economies are less economically and politically stable than developed economies, making effective capital market regulation difficult for policymakers.

## RESEARCH METHODS

This study uses IDX-listed manufacturing companies' financial statement data and stock price information. This study's data is derived from manufacturing companies listed on the IDX. The research sample is as follows:

**Table 1. Research Samples**

Criteria	Amount
As of July 31, 2021, all Indonesian Stock Exchange-listed manufacturing companies (IDX)	195
Less: Companies that went public after December 31, 2014	-59
From 2015 to 2020, companies with missing data (financial reports and historical stock prices)	-10
Companies whose stocks have been inactive for at least a year	-11
Number of fulfilled companies	115
Number of research years	5
Total Sample	575

Source: Data Processed, 2023

The dependent variable in this study is an idiosyncratic risk. This study uses the Fama (1970) 3-factor model to assess idiosyncratic risk. Regression was performed in a time series for each company in the study's sample. Here is the Fama-French 3-factor model equation:

$$R_{it} - R_{Ft} = \beta_0 + \beta_1(R_{Mt} - R_{Ft}) + \beta_2SMB_t + \beta_3HML_t + \varepsilon_{it}$$

The Fama-French 3-factor model is used to quantify the idiosyncratic risk, which is then standardized and annualized (multiplied by 12) (Firmansyah et al., 2020). The idiosyncratic risk formula is translated into the following formula:

$$IRFF3 = \sqrt{\frac{\sum_{i=1}^n [\varepsilon_{it} - (\varepsilon_{it} - \bar{\varepsilon})]^2}{n}} \times \sqrt{12}$$

This study compares an additional proxy for idiosyncratic risk variables to the primary proxy, namely the market model. Several studies have used the proxy market or single index model (Ghafoor et al., 2019; Hasan & Habib, 2019; Januardi & Arfianto, 2017). The market model equation can be described as follows.

$$R_{it} = \beta_0 + \beta_1 RM_t + \varepsilon_{it}$$

Where  $R_{it}$  denotes the monthly stock return of company I,  $RM_t$  the monthly return of the Indonesian Composite Index, and the company's residual value. After using the market model to run the regression, the value of idiosyncratic risk ( $\varepsilon_{it}$ ) is calculated, which is then standardized and annualized (multiplied by 12) (Firmansyah et al., 2020). The following formula translates the elaboration of the idiosyncratic risk formula:

$$IRMM = \sqrt{\frac{\sum_{i=1}^n [\varepsilon_{it} - (\varepsilon_{it} - \bar{\varepsilon})]^2}{n}} \times \sqrt{12}$$

The independent variable in this study is fair value. The variable in this study is the proportion of fair-value financial assets to total assets for company I at the end of fiscal year t. The independent variable in this study is fair value. The variable in this study is the proportion of fair-value financial assets to total assets at the end of fiscal year t for company I. It is the model described below by Adwan et al. (2020) and Pamungkas et al. (2021):

$$FV_{it} = \frac{\text{Total Financial Assets Measured at Fair Value}}{\text{Total Assets}}$$

Control variables in this study include leverage, profitability, and firm size. Leverage indicates the amount of equity available to guarantee debt. Maurice et al. (2020) suggested that companies with high leverage will face higher liquidity risk. The control variable in this study is leverage because companies with higher leverage are more likely to disclose more information to persuade debt holders that their interests are protected. In this study, the company's leverage variable is measured by proxy according to research conducted by Pamungkas et al. (2021), as follows:

$$LEV = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Profitability is a company's ability to generate profit from total sales, assets, and equity. Profitability refers to how effectively a business generates earnings from its operations. The proxy used is the return on assets (ROA) as Pamungkas et al. (2021):

$$ROA = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Firm size is a scale that categorizes the size of a company in various ways, one of which is total assets (Rey et al., 2020). As for this study, the company size variable is measured by a natural logarithmic proxy ( $\ln$ ) of total assets with a full rupiah value, and this proxy follows Pamungkas et al. (2021). Measurement of the firm in this study is calculated using the following formula:

$$SIZE = \ln(\text{Total Assets})$$

The findings of this study's hypothesis testing using multiple linear regression. The main models of this research are as follows:

$$IRFF3_{it} = \beta_0 + \beta_1 FVA_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \dots\dots\dots(1)$$

Furthermore, the additional model of this research is as follows:



$$IRMM_{it} = \beta_0 + \beta_1 FVA_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + \epsilon_{it} \dots\dots\dots (2)$$

## RESULTS AND DISCUSSION

The descriptive statistics for all variables used in the study are summarized in the table 2 as follows:

**Table 2. Descriptive Statistics**

Variable	Mean	Med.	Max.	Min.	Std. Dev.	Obs.
IRFF3	0.3567	0.2688	2.6578	0.0242	0.3030	575
IRMM	0.4046	0.3037	2.9557	0.0190	0.3549	575
FVA	0.2400	0.2141	0.9583	0.0000	0.1842	575
LEV	0.5141	0.4778	5.1677	0.0665	0.4910	575
ROA	0.0435	0.0328	0.7160	-1.0498	0.1056	575
SIZE	28.7722	28.5402	33.494	25.6404	1.57047	575

Source: Data Processed, 2023

Table 3 also includes a summary of the hypothesis testing results, using a fixed effect model for the primary and additional models as follows:

**Table 3. Summary of Hypothesis Testing Results**

Variable	FF Model				Market Model			
	Coeff.	T-Stat.	Prob.		Coeff.	T-Stat.	Prob.	
C	-1.9048	-3.2457	0.0006	***	-2.5690	-3.9848	0.0000	***
FVA	0.0881	1.5470	0.0613	*	0.0942	1.5524	0.0606	*
LEV	0.1154	3.5706	0.0002	***	0.1047	2.6089	0.0047	***
ROA	0.1558	2.4709	0.0069	***	0.1120	1.5007	0.0670	*
SIZE	0.0755	3.7501	0.0001	***	0.1005	4.5382	0.0000	***
R <sup>2</sup>	0.5822				0.5922			
Adj. R <sup>2</sup>	0.4741				0.4867			
F-stat.	5.3860				5.6128			
Prob(F-stat.)	0.000				0.0000			

Source: Data Processed, 2023

Hypothesis testing result suggests that fair value decisions positively affect idiosyncratic risk. The test result shows robust results when using the market model. This result is not relevant to the findings of Wu et al. (2020). According to agency theory, managers are motivated to maximize their needs; principals, on the other hand, are urged to enter into contracts so that they might grow with ever-increasing profits (Ng & Daromes, 2016). An agency conflict can occur when managers and shareholders have competing interests (agency problem).

Due to agency issues, managers do not continuously operate in shareholders' best interests. Setting fair values for the company's financial assets may lead to knowledge asymmetry between managers and shareholders. These decisions may not be in the shareholders' best interests. Furthermore, managers' fair value decisions are viewed as unilateral decisions that are not always in shareholders' best interests. According to Scott (2015), because of differences in goals, agency relationships can result in both

information asymmetry and conflict of interest (when managers' actions are not always aligned with the owners' interests).

Fair value accounting is a financial reporting approach in which businesses seek opportunities to measure and report financial assets and liabilities at their estimated value to determine the status and performance of business units if assets are sold, or liabilities are paid off (Ghanbari et al., 2018). In a complete information set, fair value accounting is an exit market price that occurs in near-ideal market conditions and for transactions between knowledgeable, independent, and economically rational parties (Wang & Zhang, 2017).

Fair value accounting is a two-edged sword in terms of decision usefulness for users of financial statements (Magnan et al., 2022). On the one hand, fair value is more important because it provides timely updates on a company's financial position and enables prompt corrective action if necessary. Furthermore, fair value is more conceptually reliable because market price-based measurement is free of manipulation. Fair value inputs based on quoted active market prices are comparable across firms.

However, some fair value inputs (Levels 2 and 3) are based on guesswork and managerial discretion (Magnan et al., 2022). As a result, fair-value inputs are thought to have low dependability—fair-value accounting results in higher current balance sheet account values. However, there needs to be more stable and persistent net income (Adwan et al., 2020). Due to this condition, investors lost faith in the manager's decision to present financial assets at fair value. Furthermore, fair value input involving management discretion and estimates can question financial statement comparability and understandability (Annisa & Taqwa, 2020).

Fair value accounting emphasizes using exit market prices to measure a company's financial assets and liabilities based on an appropriate hierarchy of fair value inputs. The degree of exposure to fair value accounting demonstrates how much management relies on fair value inputs at Levels 2 and 3. According to this study, the manager's choice of a higher fair value can increase idiosyncratic risk

The manager's decision to choose to present financial assets using fair value can encourage the emergence of idiosyncratic risks. Although financial accounting standards allow for fair value presentation, selecting fair value inputs at levels 2 and 3 has a high level of subjectivity so that it can bias investors' decision making the existence of information asymmetry in the presentation of financial statements results in the assumption. Managers have certain motives in presenting financial statement information, especially in increasing the value of assets. Increasing the value of assets can encourage recognition of manager performance in improving company performance because managers are considered successful in utilizing company resources.

## CONCLUSION

This study finds that the manager's decision to present a company's financial assets can lead to idiosyncratic risks. The decision was deemed not in the shareholders' best interests. In addition, even though it is permitted in financial accounting standards, the decision is considered to have a high level of subjectivity, which can lead to investor decision-making bias. Therefore, fair value decisions by managers are considered

harmful to the company's business operations. Managers are considered to have certain motives that differ from shareholders regarding the presentation of fair value for financial assets, so the information presented can lead to bias in decision-making.

Because of the use of specific criteria in obtaining research samples, there were fewer samples in this study, which has limitations. Future studies can use non-financial companies and longer time horizons to obtain more comprehensive test results. This study also suggests that the capital market regulator monitors managers' decisions that may harm investors, even if they do not violate financial accounting standards.

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