The Value Relevance of Fair Value: Evidence from B-share Companies

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This study investigates how fair value of investments disclosed under IAS 39 is reflected in share prices and how the disclosure influences the value relevance of accounting information. By examining how share prices reflect fair values, evidence is provided on the measures' reliability and investors' judgments of the fair value. The findings indicate that fair value disclosure significantly increases the value relevance of accounting earnings. Holding gains and losses of investments from fair value measurement have moderate explanatory power beyond historical costs. However, investments' fair value adjustments are found to have no incremental explanatory power over book value. The possible reason for the lack of strong value-relevance of fair value disclosures lies in the errors of fair value estimation and investors' awareness of the measurement errors.

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