Global Economics and Finance Insights, Vol. 1, No. 1, pp. 1–20, 2026

THE EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON FAIR VALUE ACCOUNTING MEASUREMENTS (CASE STUDY FROM UK BANKING COMPANIES)

Atiqa Malik[1]*, Farhanullah Khan[2]

[1] Department of Management Science, University of Azad Jammu and Kashmir, Muzaffarabad, Pakistan
[2] School of Business and Management, Institut Teknologi Bandung, Indonesia

*Corresponding author: Atiqa Malik, ummaya1malik121@gmail.com

ABSTRACT

This paper examines how corporate governance mechanisms impact the fair value accounting measurement, using the UK-listed banking and financial corporations. The study examines the impact of managerial ownership, institutional ownership, non-executive directors and the size of an audit committee on the application of Level 3 fair value inputs - those that involve high levels of managerial judgment and estimation. The quantitative research design and multiple regression analysis based on 11 firms in three years (2020-2022) was used to investigate how the variables of governance are related to opportunistic financial reporting practices. The results show that managerial ownership is significantly positively correlated with the level 3 fair value inputs, which may imply that managerial discretion exists in valuation practices. On the other hand, the negative relationships between Level 3 inputs and non-executive directors and larger audit committees indicate a strong negative correlation, meaning that good governance oversight prevents opportunistic behavior and increases reporting integrity. The institutional ownership, however, does not exhibit any substantial impact on fair value practices. The research adds to the existing body of literature on the interaction between corporate governance and fair value accounting and provides empirical evidence on the role of governance structure in determining transparency and accountability of financial reporting. The findings highlight the need to strengthen the governance structures to bring reliability and ethical provisions to the UK financial sector.

Keywords: Corporate Governance, Fair Value Accounting, Level 3 Inputs, Audit Committee, UK Banking Sector

1. INTRODUCTION

In the past decades, accounting standards and financial reporting frameworks have been the main focus of discussion in the global economies. The overall aim has been to enhance the transparency, reliability and accountability of financial information reported by corporations. One of the most important aspects of this development is the use of fair value accounting that has transformed the manner in which companies establish and report the value of their assets, liabilities, and equity instruments. This change is directly connected to the practices of corporate

© Global Economic and finance Insights and Scholaris Global Indonesia, 2025. This work is licensed under the terms of the Creative Commons Attribution (CC BY) (http://creativecommons.org/licenses/by/4.0/).

governance as both of them are supposed to promote trust and integrity in financial reports. Corporate governance is the mechanism by which organizations are managed. It gives a systematic arrangement of rules, policies, and procedures which seek to reconcile the interests of various stakeholders- shareholders, management, customers and regulators. In addition, it makes sure that corporate decisions are reached in a responsible manner and in accordance with the ethical and sustainable business practices. By having good governance, companies ensure transparency and accountability, which builds confidence among both the investors and the regulators.

Due to the increase in the use of International Financial Reporting Standards (IFRS), fair value accounting has taken a central stage in contemporary reporting. According to International Accounting Standards Board (IASB), fair value is determined as that amount that would be obtained in the orderly sale of an asset or paid to transfer a liability in the principal market (IASB, 2018). Although the concept is conceptually attractive, practical application of fair value accounting poses significant challenges- particularly in the developing economies where active market information or other similar transactions are usually inaccessible (Gebhardt, 2012).

The UK (United Kingdom) is an exceptionally good place to examine this interaction, with its well-developed financial system and accounting system accepted worldwide. In the UK, oversight of the fair value measurement is under the financial reporting council (FRC) which imposes standards consistent with IFRS. Thus, the research on the effects of corporate governance on the use and application of fair value accounting under this particular context is important and timely.

Valuation models are commonly used by financial institutions particularly those involved in banking and investment business in measuring the assets and liabilities at fair value. This dependence is increased in illiquid markets, where market prices can only be observed. In this situation, Level 3 inputs are frequently employed where the input makes significant assumptions and estimations by the management. Though these inputs allow flexibility, it also introduces the opportunities of subjective judgment and manipulated earnings (Chong et al., 2012).

There is empirical evidence that the intensity of the corporate governance mechanisms is related to the degree of managerial discretion in fair value measurement. Namely, those organizations that are well-established in terms of their governance structures are less likely to behave in an

opportunistic manner, and are more precise in their financial reporting. It is implied that good governance may serve as a protection against the abuse of discretionary valuation models, including Level 3 inputs (Zhang et al., 2020).

Based on these factors, it is important to explore how corporate governance structures influence the use of fair value accounting. This discovery is especially essential to banking and other financial institutions where one usually depends on sophisticated methods of valuation. Knowledge of this relationship would not only increase confidence in financial reporting but also help maintain sustainable market integrity and better decision making by the stakeholders.

Research Question:
The research will seek to respond to the following questions:

a. Does managerial ownership influence opportunistic behavior in regard to Level 3 fair value inputs in UK-listed banks and financial institutions?

b. How does institutional ownership impact such opportunistic behavior in such firms?

c. What is the effect of having non-executive directors on opportunistic reporting behavior that is related to Level 3 fair value inputs?

d. What is the impact of audit committee size on opportunistic behavior of Level 3 fair value inputs among UK banking and financial companies?

Research Objective:
This research has the following objectives:

a. To determine whether managerial ownership is associated with the level of opportunistic financial reporting behavior based on the application of Level 3 fair value inputs within the UK banking and financial industries.

b. To test the correlation between the institutional ownership and the propensity of the management to opportunistic behavior in Level 3 fair value reports.

c. To establish the impact of non-executive directors in the probability of opportunistic behaviors in fair value measurements of the UK listed banking and financial firms.

d. To examine the effect of audit committee size on the rate of opportunistic behavior in the utilization of Level 3 fair value inputs in UK financial institutions.

2. LITERATURE REVIEW

2.1 Theoretical Background

Agency Theory: The agency theory provides an in-depth basis of the analysis of how fair value accounting and corporate governance interrelate with the agency conflicts (Jensen and Meckling, 1976; Botosan, 2011). The theory describes how the principal-agent relationship works, whereby the shareholders (principal) give the managerial power to the executives (agent). This delegation might lead to the agency problem, where managers might have allied goals to that of shareholders, which is their own interests. These conflicts are common in terms of opportunistic decision making, biased reporting, and such issues as information asymmetry, moral hazard, and adverse selection.

In order to reduce those issues, the corporate governance frameworks serve as a control system that aligns the managerial efforts with the objectives of shareholders (Almarayeh et al., 2022). Fair value accounting is a major concern especially in terms of governance practices because the determination of the values of the asset particularly those of Level 3 estimates is based on what the management assumes and how the management wants it to be. Effective governance mechanisms guarantee ethical practices, improve accountability, and enhance transparency in reporting hence reducing the agency costs and protecting the wealth of shareholders (Zhang et al., 2020).

2.2. Fair Value

The use of fair value accounting has now been a significant part of modern financial reporting, highlighting the assessment of assets and liabilities in accordance with the prevailing market conditions (IASB, 2018). This approach, which is introduced and standardized by the International Financial Reporting Standards (IFRS), is a departure of the conventional approach of historical cost. Under the IFRS 13, fair value has been calculated using a three-level hierarchy, which includes Level 1, Level 2, and Level 3: Level 1 uses observable market data, Level 2 uses indirect market-based information, and Level 3 is based on the heavy reliance of the managerial assumptions and estimation methods.

Supporters of fair value accounting believe that it contributes to the relevance and timeliness of financial statements by ensuring that it reflects the actual market conditions and helps in the provision of better risk assessment (Penman, 2007). Nevertheless, critics argue that Level 3 valuations bring in a lot of subjectivity and bias since they are based on the discretion of the management and not on market evidence. This subjectivity can give room to earnings

manipulation or falsification of financial well-being. Thus, the issue of fair value balance between the transparency advantages and the disadvantages of fair value still remains under study (Penman, 2007). The difficulty is to have true and believable financial reporting, which will increase investor confidence without undermining stability.

2.3. Hypothesis Development

Corporate governance can be characterized as the system according to which organizations are managed, controlled, and responsible to their stakeholders (Tricker, 2015; Solomon, 2020). It covers a wide array of mechanisms that are used to guarantee ethical management, transparency and safeguard shareholder interests. Managerial ownership, institutional ownership, non-executive directors and audit committees are some of the elements that are critical in ensuring that effective oversight is done and enhancing financial reporting integrity. All of these mechanisms are aimed at reducing opportunistic managerial behavior and encouraging sound valuation practices, especially in aspects that contain a large degree of managerial discretion like fair value Level 3 inputs.

Impact of Managerial ownership on Fair value Level 3

Managerial ownership is the number of shares of a company that is owned by managers and executives (Alsmady, 2018). Increased degree of managerial ownership is more likely to align the financial interests of the management with the interest of the shareholders and minimize the self-serving behavior of the management. Managers who have large share of equity will tend to be conservative in accounting and uphold integrity in reporting because any form of misrepresentation will hurt their own wealth (Lafond and Roychowdhury, 2008). This correspondence also deters asset valuation inflation or misuse of discretionary accounting estimates (Saona, 2020).

The agency theory postulates that when managers own the business, it is an effective way of alleviating the principal- agency conflict by bringing together the economic interests of both parties (Jensen and Meckling, 1976). In this way, the higher the managerial ownership, the less the managers will be tempted to make short-term profit by manipulating Level 3 fair value measurements. They are more concerned with long term value creation and sustainability. According to this argument, the hypothesis presented below can be made:

Hypothesis 1: Managerial ownership negatively influences the use of fair value input Level 3.

Effects of institutional ownership on fair value level 3

The institutional ownership refers to the percentage of a company that is owned by an institutional investor, including pension funds, mutual funds, and insurance companies (Garcia-Meca and Pucheta-Martinez, 2018). The institutional investors are usually endowed with the knowledge, financial capability, and interests to check the behavior of the corporates. Their presence may encourage more rigorous control and questioning of the financial choices of the management (Wu et al., 2023). Transparency and credible reporting are required by institutional shareholders to protect their investments and serves as a discipline tool that deters any opportunistic accounting behavior (Klein, 2002).

The existence of institutional investors in the environment of fair value reporting, especially regarding the Level 3 estimates based on the discretion of the management, might limit the extreme discretion. Their supervision will also require managers to be able to explain their valuation procedures, and be objective, which results in more precise financial statements. Consequently, the dependence of Level 3 inputs is expected to be lower in firms having stronger institutional ownership. Thus, the research hypothesis is:

Hypothesis 2: The use of fair value input Level 3 is negatively affected by institutional ownership.

Effect of Non-executive Directors on Fair Value Level 3

Independent directors or non-executive directors are the directors of a company who do not form part of its day-to-day operations or management team (Monks and Minow, 2011). This is because of their autonomy, which allows them to offer impartial supervision and fair assessment of the activities of the management. The role of the non-executive directors is central in protecting the interests of the shareholders, overseeing the decision-making of the executives, and enhancing the quality of financial disclosure (Flynn, 2020).

It has been suggested by prior research that independent boards increase the reliability of financial reporting and eliminate opportunistic earnings management (Bebchuk et al., 2009). Under the environment of fair value accounting, especially where Level 3 valuations are to be made with a high degree of managerial judgment, non-executive directors help in supporting ethical decision making and checking assumptions applied during the measurement of the asset. They will prevent bias in valuation processes by providing an extra check on the valuation. The hypothesis is therefore as follows:

Hypothesis 3: The use of Level 3 fair value input is negatively influenced by the presence of non-executive directors.

The Impact of Audit Committees of Fair Value Level 3

Audit committees are important governance structures that seek to control the financial reporting procedures, internal controls, risk management systems, and auditing services of the company (Almasria, 2022; Lawrence et al., 2000; Perdana, 2019; Verriest et al., 2008). They are also involved in ensuring financial statements are accurate and transparent and that they adhere to accounting standards (Habib and Bhuiyan, 2016; Gebrayel et al., 2018). The presence of an active, experienced, and independent audit committee helps to boost confidence in reported figures, reduce manipulation, and increase the quality of audits (DeFond and Zhang, 2014).

Under fair value accounting, audit committees play a crucial role in determining the trustworthiness of valuation inputs and the reasonableness of the estimates made by the management and whether it is well supported by evidence. Such oversight is possible when the audit committee is bigger and more competent and it is less vulnerable to opportunistic behavior with respect to Level 3 inputs. This in turn results in quality and more believable financial reporting. The hypothesis is thus the following:

Hypothesis 4: The use of fair value input Level 3 is negatively affected by the size of the audit committee.

Managerial ownership, institutional ownership, independent directors, and audit committees as the components of corporate governance are all deterrents of opportunistic financial reporting behavior (Ghio et al., 2018; Song et al., 2010). Companies that have strong governance systems are more likely to use fair value Level 3 inputs more prudently so that the valuation of its assets are based on economic reality and not management bias. The studies have shown that there is an inverse relationship between good governance practices and dependence on Level 3 valuations, meaning that good governance systems increase accountability and ethical reporting practices (Zhang et al., 2020).

Good governance protects against managerial discretion misuse by ensuring transparency, enhancing monitoring procedures and aligning management incentives with the interests of the shareholders. In the end, such mechanisms make fair value accounting and the reliability of presented financial information to the stakeholders.

3. METHOD

3.1 Research Design:

This study examines the impact of corporate governance systems on opportunistic behavior among financial institutions and banking listed in the UK Stock Exchange with particular reference to the level 3 fair value inputs. The quantitative research design is taken, which will make it possible to have a systemic and objective evaluation of the numerical data that will be collected through the financial statements, corporate governance reports, and other public disclosures. This method offers an empirical and factual basis upon which the relationships between the variables can be examined and the results are reliable and replicable (Saunders et al., 2019).

The research uses deductive approach whereby it relies on the preexisting theories of corporate governance and fair value accounting to test the hypothesized relationships. This study is particularly appropriate to use quantitative data due to the fact that such data allow conducting statistical tests to determine the extent to which the following types of governance factors influence the opportunistic financial reporting behavior based on level 3 inputs as far as fair values are concerned: managerial ownership, institutional ownership, non-executive directors, and audit committee size.

3.2 Population and Sample:

This study is aimed at all the banking and financial companies listed on the London Stock Exchange (LSE). The time frame used will be three years (2020-2022) to capture the data of potential variations of the years and the latest governance practices. To increase the representativeness of the sample and reduce the selection bias, a random sampling method was used (Creswell & Creswell, 2018).

An overall of 11 companies were selected as the end sample. Since it is observed over a period of three years, there are 33 firm years that are observed (11 x 3 = 33). This choice guarantees the presence of a large enough range of characteristics of firms and financial systems, and the sample size is not huge to conduct a thorough statistical examination. It is reasonable to concentrate on financial institutions since they are very regulated, often apply fair value accounting, and hence they are appropriate in the research of opportunism associated with governance.

The purposive sampling of these companies facilitates a narrowed study of the relations of the governance systems with the fair value accounting procedures, especially the discretionary elements of Level 3 inputs, which are based on managerial discretion. This type of data-based selection improves the reliability and external validity of results.

3.3 Variables and Measurement:

3.1 Dependent Variable:

The dependent variable will be the level 3 fair value inputs, in the form of opportunistic behavior, whose measure is the ratio of Level 3 fair value assets to total fair value assets:

$$\text{FV level 3} = \frac{\text{Fair value financial asset level 3}}{\text{Total fair value of financial assets}}$$

Independent Variables:

Managerial Ownership (MO):

Managerial ownership is the share of shares in a company that is owned by the managers and executives of the company expressed as the number of shares that are owned by the management of the company and the total number of shares outstanding.

$$\text{MO} = \frac{\text{Management owned shares}}{\text{Total shares outstanding}} \text{x } 100\%$$

Institutional Ownership (IO):

The institutional ownership is a measure of the percentage of shares of a company that is owned by institutional investors calculated by dividing the number of shares held by the institutions by the total number of shares outstanding.

$$\text{IO} = \frac{\text{Institutional owned shares}}{\text{Total shares outstanding}} \text{x } 100\%$$

Non-Executive Director (NON-EXC):

Independent directors, as they are also known as non-executive directors, are members of the board of directors but are not in the executive management of the company. This variable is quantified by the ratio of the number of non-executive directors to the total number of directors.

$$\text{NON-EX} = \frac{\text{Non}-\text{executive directors}}{\text{Total board of commissioner}} \text{x } 100\%$$

Audit Committee Size (AC):

Audit Committee Size is used to refer to the number of people who sit on the audit committee of the company expressed as a percentage of the total number of board members.

$$AC = \frac{\text{Audit committee}}{\text{Total board of commissioner}} x\ 100\%$$

3.4 Data Analysis:

In order to test the relationship between the dependent variable (opportunistic behavior based on Level 3 fair value inputs) and the independent variables, the multiple linear regression analysis will be conducted using the SPSS version 25. The regression equation will be in the form below:

Where:

- FV_LV3 is the dependent variable, which is an indicator of opportunistic behavior as measured by Level 3 fair value inputs.
- b0 represents the intercept, and it represents the level of opportunistic behavior at the point when the independent variables take the value of zero.
- The regression coefficients are denoted by b1, b2, b3, and b4, which indicate the strength and direction of effects of the managerial ownership, institutional ownership, non-executive directors and the audit committee size respectively.
- The independent variables are MO, IO, NON-EX, and AC: managerial ownership, institutional ownership, the non-executive directors, and the size of the audit committee.
- FZ is the control variable that is the size of the firm.
- **ε** represents the error term, which includes all other unobserved factors that could have an effect on opportunistic behavior but which are not the independent variables.

4. RESULTS AND DISCUSSION

4.1 Descriptive Analysis:

Table1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	33	.00	.94	.2821	.36133
MO	33	.00	.24	.0202	.04840
IO	33	.03	.97	.2985	.20803
NON-EXC	33	.24	.80	.4610	.20065
AC	33	.17	1.00	.4438	.17493
Valid N (listwise)	33				

Table 1 provides the descriptive statistics of the dataset used, comprising of 33 observations of UK-listed financial and banking companies during the period of the research.

The average ratio of fair value (FV) assets based on the Level 3 inputs is 0.2821, and the standard deviation is 0.36133. It indicates a fair amount of variance in the use of Level 3 fair value measurements across the firms with the range of 0-94 percent of total fair value assets. The presence of such variation shows different degrees of subjectivity and discretion applied by companies in valuation practices.

Managerial ownership (MO) has a mean of 0.0202 and standard deviation of 0.04840, which means that, on the average, senior executives and managers own a very small portion of the company- 0 to 24 percent. This indicates that in most of the sampled companies, there is low direct congruency between managerial interests and the shareholder value.

Institutional ownership (IO) has a greater mean value of 0.2985 with a standard deviation of 0.20803 indicating that institutional investors have a major role in the structure of the ownership of these companies. Institutional holdings range widely between 3% and 97% indicating divergent external surveillance and control among the sample.

The average percentage of non-executive directors (NON-EXC) is 0.4610 with the standard deviation of 0.20065. It means that the average number of non-executive board

members is almost half with the range of 24-80. This kind of structure indicates that the majority of companies used as a sample have a proper amount of independent control.

Finally, the audit committee (AC) variable has a mean of 0.4438 and a standard deviation of 0.17493, which means that the audit committees constitute a significant part of the entire board- 17 to 100. The existence of powerful audit committee is important in making sure that accounting policies are monitored effectively and potential manipulation of earnings is prevented.

4.2 Model of Fit

Table 2: Model of Fit

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.589[a]	.347	.253	.31222	1.499

a. Predictors: (Constant), AC, MO, IO, NON-EXC

b. Dependent Variable: FV

The results of the model fit demonstrate the power and predictive ability of the regression model to explain the proportion of Level 3 fair value assets on the basis of corporate governance characteristics. The value of R square 0.347 indicates that the independent variables (MO, IO, NON-EXC and AC) explain the variation in the dependent variable (FV) by about 34.7%. The 65.3 percent that is left over can be explained by other factors that are not represented in the model.

The value of the Durbin-Watson is 1.499 which shows that the autocorrelation is not a problem, and the residuals are independent. The general model illustrates a fair degree of explanatory power as fair value accounting practices are complex.

4.3 Correlation Test

Table 3: Correlation Test

Coefficient Correlations[a]

Model			AC	MO	IO	NON-EXC
1	Correlations	AC	1.000	-.389	.196	.415

	MO	-.389	1.000	.176	-.427
	IO	.196	.176	1.000	-.132
	NON-EXC	.415	-.427	-.132	1.000
Covariances	AC	.144	-.198	.021	.051
	MO	-.198	1.790	.067	-.184
	IO	.021	.067	.082	-.012
	NON-EXC	.051	-.184	-.012	.104

a. Dependent Variable: FV

The correlation analysis shows the connections between the independent variables (AC, MO, IO, NON-EXC) and the way they can affect the fair value reporting practices.

Audit Committee Size (AC):

A negative relationship with managerial ownership (-0.389) and a positive relationship with non-executive directors (0.415) suggest that bigger audit committees tend to be associated with lower managerial shareholding and high board independence. The weak positive relationship with institutional ownership (0.196) also indicates that the larger the audit committee of firms, the more institutional presence they might have or retain.

Managerial Ownership (MO):

Shows negative relationships with AC (-0.389) and NON-EXC (-0.427), meaning that the larger the ownership of the management, the less the board independence and the smaller the audit committee. The low positive relationship with IO (0.176) indicates that there are a few companies who strike a balance between managerial control and institutional monitoring.

Institutional Ownership (IO):

Correlations have a weak positive relationship with AC (0.196) and MO (0.176), and a weak negative relationship with NON-EXC (-0.132). This would mean that institutional investors can co-exist with greater managerial ownership even though their presence is not always congruent with board independence.

The Non-Executive Directors (NON-EXC):

The positive correlation with AC (0.415) indicates that bigger audit committees are present in company boards that are independent. In the meantime, a negative correlation with MO (-0.427) supports an idea that the independent boards are more likely to limit the managerial control.

On the whole, the results of the correlation indicate that there is significant interaction between the corporate governance aspects of financial companies in the UK. They suggest that more powerful governance features, including independence of boards and bigger audit committees, can lead to improved transparency and less managerial opportunism in fair value accounting.

4.5 Regression Analysis

Table 4: Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.886	.280		3.161	.004		
	MO	4.914	1.338	.658	3.673	.001	.727	1.376
	IO	-.063	.286	-.036	-.222	.826	.862	1.160
	NON-EXC	-.680	.323	-.378	-2.104	.044	.724	1.381
	AC	-.835	.380	-.404	-2.200	.036	.690	1.449

a. Dependent Variable: FV

The regression model explores how the corporate governance mechanisms influence the application of Level 3 fair value measures. The constant (0.886) is not insignificant (p = 0.004), which means that a set of predictors being equal to zero would indicate the expected level of Level 3 fair value assets to be 0.886.

Tolerance value was observed to be greater than 0.6 and VIF was lower than 2 which substantiates the fact that the problem of multicollinearity is not present, which means that the regression results can be trusted.

Managerial Ownership (MO)

MO has a coefficient of 4.914 (p = 0.001), which shows that MO has a statistically significant and positive relationship with FV. As managerial ownership increases by one unit, the share of Level 3 inputs increases by 0.658, other things held constant. This result confirms the hypothesis that increased managerial ownership might serve to promote discretionary accounting, in the sense that managers might be motivated to manipulate valuation assumptions to serve their own interests or those of their firms.

Institutional Ownership (IO)

The IO coefficient (-0.063, p = 0.826) is not statistically significant, indicating that the institutional investors are not significantly affecting the Level 3 fair value reporting. This finding could indicate that institutional investors in the UK financial market are more dependent on periodic disclosures and less on the way of affecting the internal value decisions.

There are Non-Executive Directors (NON-EXC)

The NON-EXC coefficient = -0.680 (p = 0.044), which is a significant negative correlation between NON-EXC and FV. This indicates that an increased number of independent board members will decrease the chances of using Level 3 fair value inputs, and chances of managerial discretion will be limited. The conclusion is in line with the assumption that non-executive directors increase the oversight of the board and ensure proper financial reporting behaviors.

Audit Committee Size (AC)

AC shows a coefficient of -0.835 (p = 0.036), which shows that it has a significant negative correlation with FV. The subjective Level 3 valuations will be minimized as larger audit committees will perform better monitoring. This is in line with previous findings that properly operating audit committees enhance reliability of financial statements and curb the tendency of earnings management.

4.6 Discussion:

The regression analysis provides useful findings on the impact of corporate governance mechanisms in the implementation of Level 3 fair value inputs by the UK-listed banking and financial institutions. The hypotheses are discussed below in terms of the obtained statistical results.

Managerial Ownership (MO) and Fair Value Level 3 (Hypothesis 1):

The initial hypothesis was that an increase in the managerial ownership would have a negative influence on the application of Level 3 fair value inputs. But the results of the regression show a contrary movement and depict a statistically significant positive association between management ownership (MO) and the degree of Level 3 fair value assets (FV). The implication of this finding is that the higher the percentage of shares owned by managers, the more Level 3 valuations are used, which indicates that the ownership by managers can increase managerial discretion in valuation decisions. These findings are consistent with Black et al. (2022) who believe that increased managerial ownership may encourage managers to be more actively involved in the application of Level 3 fair value measurements when preparing financial statements. This observation points at agency problems in that the managers can take advantage of judgment-based valuation techniques to benefit themselves or performance-related benefits, which undermines the notion of ownership automatically aligning the interests of the managers and shareholders.

Institutional Ownership (IO) and Fair Value Level 3 (Hypothesis 2):

The second hypothesis was that there was a negative correlation between institutional ownership and the Level 3 fair value input. Nevertheless, the regression results indicate that institutional ownership (IO) does not play a significant part in determining the level of Level 3 fair value reporting. This indicates that the entry of institutional investors into the shares of a company does not mean that they will always prevent the adoption of more subjective ways of valuation, even when they have a large share of the company. One of them is that institutional investors are more concerned with general governance and strategic issues than with certain accounting choices, including the use of Level 3 fair value estimates. Besides, the sophisticated valuation procedures usually depend on managerial knowledge to a great extent, restricting the direct supervisory ability of institutional shareholders. Institutional investors often focus on broader governance issues and may not directly influence the detailed fair value measurement decisions made by management, especially in the context of more complex and subjective Level 3 inputs.

Non-Executive Directors (NONEC) and Fair Value Level 3 (Hypothesis 3):

The results support the third hypothesis that the non-executive directors have negative implications on the use of Level 3 fair value inputs. The dependence on Level 3 inputs and the proportion of non-executive directors were found to be significantly related negatively. This implies that boards that have higher levels of independent directors are more effective towards limiting opportunistic financial reporting practices. External views, objectivity and independent supervision are provided by the non-executive directors and they assist in ensuring that the accounting judgments are open and consistent with the stakeholder interests. Lafond and Roychowdhury (2008) and Bebchuk et al. (2009) also provide similar evidence and highlight the importance of independent directors in increasing the quality of financial reporting and the effectiveness of governing. The findings, therefore, justify the view that board independence is an essential measure of ensuring that there is no subjective or manipulator practice of fair value measurement.

Audit Committee Size (AC): Fair Value Level 3 (Hypothesis 4):

As per the fourth hypothesis, the findings suggest that the size of audit committee (AC) and the use of Level 3 fair value inputs are significantly related in a negative manner. There is a relationship between bigger audit committees and decreased reliance on Level 3 valuations, which depicts better supervisory and monitoring capabilities. Having an expanded audit committee improves the diversity of expertise, accountability and aggressive accounting practices detection. The results can be compared to those of Zhang (2014), who emphasizes that bigger audit committees help to increase the reliability and accuracy of financial reporting. Thus, it seems that properly organized and working audit committees are highly important in enhancing conservative and transparent reporting practices of fair values among the UK banking and financial institutions.

5. CONCLUSION

In conclusion, our paper reflects the subtle interrelations between corporate governance practices and the application of fair value input Level 3 in the UK-listed banking and financial institutions. We find some of the governance variables, including the existence of Managerial ownership, size of non-executive directors and audit committee, have pronounced effects on the fair value measurement practices. Although the effect of managerial institutional ownership does not appear to be significant on fair value, that should be investigated. The results underscore the need to have customized governance policies that would facilitate transparency and integrity in financial reporting in the financial services industry.

6. REFERENCES

Almarayeh, T., Abdullatif, M. and Aibar-Guzmán, B. (2022), "The role of audit committees in mitigating earnings management: evidence from Jordan", Journal of Accounting in Emerging Economies, Vol. 12 No. 5, pp. 882-907. https://doi.org/10.1108/JAEE-09-2020-0235

Almasria, A. (2022). Audit Committee Effectiveness and Financial Reporting Quality. Available at SSRN: https://ssrn.com/abstract=4024856

Alsmady, A. A. (2018). The impact of managerial ownership on the bank's financial performance: An empirical investigation of the Listed Banks in Bahrain Bourse. International Journal of Economic Perspectives, 12(1), 549-558.

Bebchuk, L. A., Cohen, A., & Ferrell, A. (2009). What matters in corporate governance?. The Review of Financial Studies, 22(2), 783-827.

Black, J., Chen, J. Z., & Cussatt, M. (2022). Managerial discretion and the comparability of fair value estimates. Journal of Accounting and Public Policy, 41(1), 106878.

Botosan, C. A. (2011). Factors influencing Banks ' Use of Level 3 Valuation Inputs During the Financial Crisis. Unpublished working paper. www. business. utah. edu/sites/default/files/documents/school-ofaccounting/huffmanpaper. Pdf

Chong, G., Huang, H., & Zhang, Y. (2012). Do US commercial banks use FAS 157 to manage earnings? International Journal of Accounting and Information Management, 20(1), 78–93. https://doi.org/10.1108/18347641211201090

DeFond, M. L., & Zhang, J. (2014). A review of archival auditing research. Journal of Accounting and Economics, 58(2-3), 275-326.

Engsevi, S., & Robért, O. (2019). Value relevance of fair value estimates-The impact of ownership structures and increased disclosures

Flynn, S. I. (2020). The role of independent/non-executive directors. In Corporate Laws (pp. 137-155). Springer, Cham.

García-Meca, E., & Pucheta-Martínez, M. C. (2018). How institutional investors on boards impac t on stakeholder orientation and corporate social responsibility reporting. Corporate Social Responsibility and Environmental Management, 25(6), 1550-1568.

Gebhardt, G. (2012). Financial instruments in nonfinancial firms: What do we know? Accounting and Business Research, 42(3), 267–289. https://doi.org/10.1080/00014788.2012.68185 9

Gebrayel, E., Jarvis, W., Fleischman, G., & Shamas, H. (2018). Exploring differences in the role of corporate governance on firm performance: Indian vs. Lebanese firms. Journal of Developing Areas, 52(4), 263-280.

Ghio, A., Guerreri, G., & Leung, C. (2018). The importance of a good corporate governance code. Governance Insights, 2, 1-4.

Habib, A., & Bhuiyan, B. U. (2016). Problem directors on the audit committee and financial reporting quality. Accounting and Business Research, 46(2), 121-144.

IASB. (2018). International Financial Reporting Standard 13: Fair Value Measurement. International Accounting Standards Board

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305-360.

Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. Journal of Accounting and Economics, 33(3), 375-400.

Lafond, R., & Roychowdhury, S. (2008). Managerial ownership and accounting conservatism. Journal of Accounting Research, 46(1), 101-135.

Lawrence, A., Minutti-Meza, M., & Zhang, P. (2011). Can Big 4 versus non-Big 4 differences in audit-quality proxies be attributed to client characteristics?. The Accounting Review, 86(1), 259-286.

Mertzanis, C., Masry, M., & Sarantinos, V. (2019). Corporate governance, managerial ownership, and firm value. Competitiveness Review: An International Business Journal, 29 (5), 499-525.

Monks, R., & Minow, N. (2011). Corporate governance. John Wiley & Sons.

Penman, S. H. (2007). Financial reporting quality: Is fair value a plus or a minus? Accounting and Business Research, 37(sup1), 33-44.

Perdana, A. (2019). Corporate governance and Fraud Prevention. Available at SSRN: https://ssrn.com/abstract=3367416

Saona, P. (2020). Managerial ownership and firm performance: Evidence of the monitoring and alignment mechanisms across Chilean listed firms. Manufacturing Management, 573-591.

Solomon, J. (2020). Corporate governance and accountability. John Wiley & Sons.

Song, C. J., Thomas, W. B., & Yi, H. (2010). Value relevance of FAS No. 157 fair value hierarchy information and the impact of corporate governance mechanisms. The Accounting Review, 85(4), 1375-1410.

Tricker, B. (2015). Corporate governance: Principles, policies, and practices. Oxford University Press, USA.

Verriest, A., Gaeremynck, A., & Thornton, D. B. (2013). The impact of corporate governance on IFRS adoption choices. European Accounting Review, 22(1), 39-77.

Vijayakumaran, S., & Vijayakumaran, R. (2019). Corporate governance and firm performance in Indian manufacturing firms. Corporate Governance.

Wu, H., Xu, Y., Chen, X., & Chen, M. (2023). Corporate governance and environmental performance: An institution-based analysis. Corporate Governance: An International Review.

Zhang, X., Xu, Z., & Robinson, P. (2020). Does fair value accounting, corporate governance, and social responsibility enhance firm value?. Accounting and Finance, 60(4), 3707-3738.

Zhang, Y., Chong, G., & Jia, R. (2020). Fair value, corporate governance, social responsibility disclosure and banks' performance. Review of Accounting and Finance, 19(1), 30-47.