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FAIR VALUE MEASUREMENT UNDER ECONOMIC UNCERTAINTY: EVIDENCE FROM NIGERIA'S INFLATIONARY AND CURRENCY DEVALUATION ENVIRONMENT

Franklin Taiye Umaigba[1,*], Doris Esohe Aiworo[1], Miachael Jimoh Amedu[1]
[1]*Edo State Polytechnic, Usen*
Email: fumaigba@gmail.com[*], aiworodoris03@gmail.com, amedumike@edopoly.edu.ng
***Corresponding author**: Franklin Taiye Umaigba
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ABSTRACT

Fair value measurement under IFRS 13 assumes reasonably observable market inputs, an assumption that is difficult to sustain in economies experiencing sustained inflation and currency instability. This paper examines how Nigeria's macroeconomic conditions between 2023 and mid-2026, marked by naira depreciation from approximately 770 to above 1,500 per United States dollar and headline inflation that peaked at 34.6 percent in November 2024 before easing to 15.43 percent by July 2026, bear on the reliability of fair value estimates reported by Nigerian entities. The study adopts a qualitative desk review methodology, synthesising conceptual, theoretical, and empirical literature on fair value measurement in Nigeria alongside comparative evidence from other high inflation jurisdictions and recent regulatory pronouncements, including the Financial Reporting Council of Nigeria's determination that Nigeria does not presently qualify as a hyperinflationary economy under IAS 29. Because the study synthesises secondary evidence rather than testing firm level disclosures directly, its propositions are inferential rather than demonstrated. On that basis, the analysis suggests that measurement uncertainty is likely to be concentrated in Level 2 and particularly Level 3 inputs, notably for investment property, unquoted equity instruments, and long dated financial assets, where observable market data is scarcest and where devaluation and inflation interact through import cost pass-through and dollar linked valuation benchmarks. The paper argues that the absence of a hyperinflationary designation does not remove the underlying measurement problem. It concludes with specific disclosure and audit recommendations and identifies direct content analysis of Nigerian listed firms' fair value notes as the necessary next step.

Keywords: *fair value measurement; IFRS 13; measurement uncertainty; inflation; currency devaluation; Nigeria; IAS 29*

INTRODUCTION

Fair value accounting rests on the premise that assets and liabilities can be reliably measured by reference to an orderly transaction between market participants at the measurement date (IFRS Foundation, 2022). This premise depends on functioning price discovery, adequate market liquidity, and reasonable stability in the currency of measurement. These conditions cannot be taken for granted in Nigeria, where the naira depreciated sharply following the 2023 unification of the official and parallel foreign exchange windows, moving from roughly 770 per United States dollar in 2023 to a range of approximately 1,300 to 1,550 by early 2026 (Central Bank of Nigeria, 2026). Headline inflation rose in tandem, reaching 34.6 percent in November 2024 before easing to 15.43 percent in July 2026 (National Bureau of Statistics, 2026).

Two qualifications attach to these figures. First, all 2026 values reported in this paper are specific month observations rather than settled full year outcomes; at the time of writing the 2026 reporting year remains incomplete, and any characterisation of 2026 as a whole is provisional. Second, the National Bureau of Statistics rebased the Consumer Price Index in 2025, shifting the price reference period to 2024, so the pre-rebasing and post-rebasing series are not directly continuous. This is not a peripheral technicality. The cumulative three year inflation test under IAS 29 presumes a consistent index, and a mid-period rebasing introduces genuine ambiguity into precisely the calculation on which the hyperinflation determination turns.

Importantly, devaluation and inflation are not independent stressors in this setting. Nigeria imports a substantial share of refined petroleum, industrial inputs, and food, so naira depreciation

transmits into domestic prices through import cost pass-through, while fuel subsidy removal amplified the transmission channel. The same mechanism operates in reverse within financial reporting. Where valuation benchmarks for an asset are effectively dollar linked, as is often the case for commercial property, imported plant, and equity in import dependent businesses, the naira carrying amount can shift materially without any change in the asset's underlying economic characteristics. Devaluation and inflation therefore compound one another in the fair value context rather than acting additively, and this interaction is treated here as central rather than incidental.

This creates a dilemma for preparers applying IFRS 13. Where markets are thin, illiquid, or priced in a rapidly depreciating currency, the observable inputs Level 1 and Level 2 measurements depend on become unreliable, pushing preparers toward Level 3 estimates that rely on internal assumptions (Oyewo et al., 2020). Meanwhile the Financial Reporting Council of Nigeria (FRC) determined in January 2025, and reaffirmed subsequently, that Nigeria does not meet the IAS 29 criteria for a hyperinflationary economy, notwithstanding its continued presence on international monitoring lists (Financial Reporting Council of Nigeria, 2025; Grant Thornton International, 2026). The standard designed for extreme currency instability is therefore formally inapplicable, while the measurement uncertainty IFRS 13 must absorb remains substantial.

This paper asks two questions. First, how does sustained inflation and currency devaluation affect the reliability and observability of fair value inputs for Nigerian reporting entities? Second, what are the implications of the FRC's determination for the practical application of fair value measurement in the absence of IAS 29 relief? The paper contributes by extending an established Nigerian empirical stream, largely focused on financial performance and value relevance outcomes, toward measurement uncertainty under macroeconomic instability, and by situating Nigeria's position against comparable jurisdictions where the hyperinflation designation has been triggered (Ozili, 2021).

LITERATURE REVIEW

Conceptual Review

Fair value is defined under IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS Foundation, 2022). The standard establishes a three level hierarchy. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices. Level 3 inputs are unobservable inputs reflecting the entity's own assumptions, used only when observable inputs are unavailable (Adesina & Adebayo, 2024). Estimation uncertainty increases as measurement moves toward Level 3, since fewer external reference points exist to validate management's assumptions (Osanyinbi et al., 2023).

IAS 29 fixes no precise threshold but lists qualitative indicators, including a preference for holding wealth in non-monetary assets or stable foreign currency, pricing in a stable foreign currency, and cumulative inflation approaching or exceeding 100 percent over three years (IFRS Foundation, 2022). Nigeria's cumulative inflation to 2025 approached but did not clearly exceed this threshold, a point central to the FRC's determination (Financial Reporting Council of Nigeria, 2025).

Theoretical Review

The paper draws on the measurement uncertainty perspective embedded within IFRS 13 itself, which treats fair value as an estimate whose reliability varies with the availability of market inputs. This is complemented by economic policy uncertainty theory, which holds that unpredictable shifts in economic policy alter the incentives and constraints facing preparers and increase reliance on discretion in accounting estimates (Ozili, 2021).

The connection between the two warrants explicit statement, because it operates through identifiable mechanisms rather than by analogy. Policy uncertainty affects fair value measurement in three specific ways relevant to the Level 3 contexts discussed later. First, it disrupts the transaction flow from which comparable evidence is drawn, since parties defer transacting when the exchange rate and rate environment are unsettled, which mechanically reduces the pool of Level 2 comparables. Second, it destabilises the forward looking assumptions that Level 3 valuation techniques require, notably discount rates, expected cash flow growth, and terminal values, none of which can be anchored confidently when the policy path is itself uncertain. Third, and consequentially, it weakens the external

benchmarks against which an auditor or user might otherwise challenge a management estimate. The first two mechanisms increase the need for judgment; the third reduces the constraint on how that judgment is exercised. It is this asymmetry, rather than estimation difficulty alone, that connects policy uncertainty to the governance concerns raised in the discussion.

Empirical Review

Nigerian empirical work has centred largely on financial performance and value relevance. Okoye and Emenyonu (2019) found fair value practices associated with reporting quality, and Osikpemhi and Abubakar (2022) reported a positive association between hierarchy disclosures and bank share prices. Iyoha et al. (2018), surveying academics and auditors in Lagos and Ogun States, found increased IFRS 13 disclosure perceived to support investment decisions, though respondents differed on practical impact. Ibidunni and Okere (2018) found fair value associated with the reliability of accounting information among listed firms, subject to caveats around estimation subjectivity.

More directly relevant to measurement uncertainty, Oyewo (2020) documented persistent challenges among Nigerian auditors in verifying fair value estimates, particularly for illiquid assets. Oyewo et al. (2020) extended this work, finding that auditors faced significant difficulty auditing fair value measurements and accounting estimates in practice. Jadi et al. (2022) found material differences in reported performance by measurement basis among Nigerian manufacturers. Adesina and Adebayo (2024), analysing seven listed manufacturers from 2013 to 2022, found uneven application of fair value measurement and disclosure quality varying considerably by firm, and Osanyinbi et al. (2023) reported similar unevenness in insurance. Olaoye and Ibukun-Falayi (2020) linked fair value accounting to earnings quality among deposit money banks, Uwalomwa et al. (2017) found IFRS adoption affected earnings predictability, and Ogiriki and Wisdom (2023) examined fair value effects on reporting among quoted companies. Agbede et al. (2025) addressed the hyperinflation question directly, concluding that although Nigeria has not formally met the three year cumulative benchmark, it exhibits several qualitative characteristics of a hyperinflationary economy, and that some multinational subsidiaries voluntarily apply inflation adjusted reporting for group purposes.

Comparative International Evidence

Nigeria's position is clearer against jurisdictions where designation has been triggered. As of mid-2026, ten economies required IAS 29 application for full IFRS compliance, including Argentina, Turkey, Venezuela, Lebanon, and Zimbabwe, while Nigeria remained on the monitoring list with Angola, Egypt, Myanmar, Syria, and Yemen (Grant Thornton International, 2026). Nigeria is therefore not isolated but borderline within a recognised international category.

The comparative literature offers two lessons. First, restatement is not a straightforward remedy. Chamisa et al. (2018), using Zimbabwe Stock Exchange data, found that both inflation adjusted and historical cost amounts were value relevant, but that historical cost amounts were superior overall and better predicted future cash flows, with the two converging only in periods of relatively high inflation. Inflation adjustment, in other words, does not automatically produce more decision useful information, which tempers any assumption that an IAS 29 designation would resolve Nigeria's difficulties. Second, the audit consequences are substantial. Bircan (2025) examined Turkish reporting and audit practice following that country's 2022 hyperinflation designation and documented material effects on annual financial reports and independent auditor reports, including expanded treatment of inflation related matters as key audit matters. Turkey's experience suggests that if Nigeria were later designated, audit complexity would rise sharply in an environment where the domestic literature already records difficulty auditing ordinary fair value estimates. Both findings support the position taken here: the classification question and the measurement problem are analytically separable, and neither resolves the other.

Conceptual Framework

The framework links macroeconomic instability to fair value outcomes. Inflation and devaluation, interacting through import cost pass-through and dollar linked benchmarks, reduce the depth of observable markets for many Nigerian asset classes. This is expected to push measurement from Level 1 and Level 2 toward Level 3, increasing estimation uncertainty and audit risk and widening managerial discretion through the mechanisms set out above. Whether this is addressed through enhanced disclosure, adjusted techniques, or inflation restatement depends on regulatory judgment, exercised through the FRC's IAS 29 determination. The framework treats that judgment as a moderator governing which remedies are available, not as a resolution of the measurement problem.

METHODOLOGY

This paper adopts a qualitative desk review, or document analysis, methodology. It collects no primary firm level data through survey, sampling, or systematic content analysis, synthesising instead secondary evidence from three source categories: Nigerian and comparative international literature on fair value measurement and hyperinflationary reporting published within the last ten years; Nigerian macroeconomic data drawn from the National Bureau of Statistics and the Central Bank of Nigeria as primary statistical authorities; and primary regulatory documents, principally the FRC's position statements on IAS 29 applicability, supplemented by international monitoring publications. Thematic analysis organised the material around the two research questions.

LIMITATIONS

Because no firm level disclosures were sampled or coded, this study could not demonstrate empirically that Nigerian entities have in fact shifted toward Level 3 measurement, nor that any particular asset class has experienced deteriorating input observability. The propositions advanced in the following section are inferential: they follow logically from documented macroeconomic conditions combined with findings established in the prior literature, but they are not directly evidenced by this study. Statements about where measurement uncertainty concentrates should accordingly be read as reasoned expectations requiring empirical verification rather than as established findings. The paper's contribution lies in framing the problem, connecting two previously separate literature, and specifying what an empirical test would need to examine. The content analysis outlined in the concluding section is the appropriate vehicle for that verification.

RESULTS AND DISCUSSION

Three propositions emerge. First, depreciation of the magnitude documented above, exceeding 90 percent alongside a 34.6 percent inflation peak, would be expected to affect the reliability of fair value inputs across a range of assets independent of whether the IAS 29 threshold has been crossed. Such movements undermine the comparability of historical cost figures, the concern IAS 29 addresses, and equally undermine the observability of the market inputs on which fair value depends, since orderly markets are harder to sustain when the measuring currency is unstable. The interaction noted earlier matters here: where an asset's economic value is effectively dollar referenced while its carrying amount is naira denominated, devaluation alone can produce large swings in reported fair value that reflect currency movement rather than any change in the asset itself, and disentangling the two requires judgment that IFRS 13 does not prescribe.

Second, the reviewed literature consistently finds that Nigerian preparers and auditors encounter difficulty applying fair value measurement even in ordinary conditions. Oyewo et al. (2020) documented auditor difficulty verifying fair value and accounting estimates, consistent with Adesina and Adebayo's (2024) finding of uneven disclosure quality. If verification is already difficult under relatively stable conditions, then the shift toward Level 3 measurement that currency instability would be expected to produce may plausibly compound existing weaknesses rather than introducing an entirely new problem. This remains a proposition rather than a demonstrated relationship, since the present study does not test whether measurement practice actually changed over the period; the hedged formulation is therefore retained deliberately here and in the conclusion. If it holds, it would suggest that policy responses focused solely on hyperinflation classification understate the breadth of the challenge, because much of the difficulty would predate and extend beyond that question.

Third, the FRC's determination sits in tension with assessments such as Agbede et al. (2025), who argue that Nigeria exhibits qualitative characteristics of hyperinflation without meeting the strict threshold. The CPI rebasing sharpens this tension, since the cumulative three year calculation partly underpinning the determination rests on a discontinuous index series. The practical consequence is that entities need not restate for general price level changes, so figures continue to be presented in nominal naira terms despite substantial loss of purchasing power. Where genuinely observable markets survive,

as for listed equity or actively traded government securities, this is less consequential. For investment property, unquoted equity, and other Level 3 assets, the absence of an inflation adjusted framework combined with documented verification difficulty creates conditions in which reported values could plausibly diverge from economic position with limited external means of detection. The comparative evidence cautions, however, that restatement would carry its own costs: Chamisa et al. (2018) found inflation adjusted amounts no more value relevant than historical cost amounts, and Bircan (2025) documented substantially increased audit complexity following designation in Turkey.

CONCLUSION AND RECOMMENDATIONS

This paper has argued that Nigeria's experience between 2023 and mid-2026 stresses the assumptions underlying IFRS 13, independent of whether the IAS 29 threshold has been crossed, and that devaluation and inflation interact rather than operating as separate stressors. Drawing on Nigerian literature documenting difficulty verifying fair value estimates, comparative evidence from designated jurisdictions, and the FRC's contested determination, the paper concludes that measurement uncertainty is likely to be material but is not presently addressed by any single regulatory mechanism. These conclusions are inferential, resting on synthesis rather than direct firm level evidence.

Four recommendations follow. First, the FRC and the Institute of Chartered Accountants of Nigeria should issue supplementary guidance requiring, for material Level 3 measurements, disclosure of the specific valuation technique applied, the exchange rate and rate source used in any dollar linked input, the discount rate and its build-up, quantitative sensitivity analysis showing the effect on carrying amount of a stated percentage movement in the exchange rate and in the discount rate, and the date and source of the most recent independent valuation. These are concrete disclosure items that can be mandated within the existing IFRS 13 framework without an IAS 29 designation.

Second, professional guidance to auditors should specify procedures tailored to Nigerian Level 3 contexts: independent recomputation of management's discount rate against observable naira yield curves; corroboration of dollar linked benchmarks against Central Bank of Nigeria rates for the measurement date rather than averaged rates; retrospective review of prior period estimates against subsequently observed transactions; testing whether inputs were updated or left static during sharp currency movements; and evaluation of any external valuer's competence and independence.

Third, the FRC should commit to a defined, public monitoring cycle for the IAS 29 indicators, disclosing the index series and cumulative calculation applied, given the CPI rebasing and Nigeria's continued monitoring status. Fourth, since comparative evidence indicates designation brings substantial audit cost and no guaranteed gain in value relevance, any future move toward IAS 29 should be preceded by capacity building rather than introduced at short notice.

Future research should move beyond synthesis toward direct content analysis of a purposive sample of Nigerian listed firms' fair value disclosures across 2023 to 2026, coding for hierarchy level distribution, valuation technique, named unobservable inputs, and sensitivity disclosure, to test whether disclosed techniques and inputs changed in response to currency and inflation conditions.

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