Study on the Impact of Fair Value Measurement on Commercial Bank’s Stock Price

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Abstract. The commercial banks of listed companies in the financial sector are larger, their operating performance not only represent the level of managers, more representative of the overall economic situation in China and strong representative. Implemented in 2014, the 39th of accounting standards for business enterprises, since the new criteria of fair value measurement, there are still some problems in the financial markets, based on fair value reform's impact on commercial bank performance in China, and its impact on the commercial banks' stock price volatility, and gives recommendations.

Introduction

As the global trend of economic globalization strengthens, historical cost does not dynamically to reflect changes in the market situation, not to commercial banks in a timely manner provide useful information for the users of accounting information. Application of fair value accounting and the inevitable trend of convergence, in 2014, China released the 39th fair value measurement of accounting standards for business enterprises. Application of fair value in our country at present is not mature, there are still many problems, but from another perspective, the application of fair value may better use of results, data provided to investors, and to enhance the transparency of financial data, growing influence of fair value measurement for listed companies.

The impact of financial assets and financial liabilities on the commercial Banks of China has been a common concern. The business performance of commercial Banks is a matter of business policy and strategy of them, and every business is almost all commercial Banks and inextricably linked. So once the Bank's significant fluctuations in operating results appear, it will cause the whole economy of fluctuations, objective evaluation of consequences of using fair value measurement application, and provide experience for future research on fair value measurement.

Research Background

Application of fair value in China compared with Europe and the United States started late. Huang Shizhong (1997) introduced to the American code of fair-value accounting theory and its applications to China. Early application of fair value, many different voices, Liu Yuting (2001) argue that, because of China's market economy has not been robust and lack of discipline, ahead of the introduction of fair value and profit manipulation phenomenon is likely to occur,
so the enterprise accounting system for dealing with matters relating to business, should as far as possible avoid the fair value and acknowledge a debt at book value. Feng Shuping (2001) argue that, due to the lack of an active market in some areas, resulting in fair value are hard to find, leave blank for application of fair value. With the deepening of the international trend of development of China's market economy, scholars gradually consistent attitude to the application of fair value. Ge Jiashu (2006) fully recognizes the fair value measurement of financial accounting model to improve the significance, pointing out that the use of its assets, may generate future economic benefits for the enterprise's assets in real terms, will tend to be highly qualitative and quantitative agreement. Since then, the fair values have been applied in the fields of financial assets and have had a significant impact on the financial statements, has spawned many research fair value of listed companies and countermeasures of research. Lu Xiangjun (2010) by exploring the effects of application of fair value on financial statements, that makes use of fair value earnings instability, fluctuates according to the fluctuations of the stock market. Hou Xiaohong, Chen Hua (2012) found that fair value measurement of financial statements of listed companies in China's volatility had a significant impact and authenticity, but also verify the fair value measurement "procyclical" effect. Feng Ping (2016) through prudential supervision of fair value accounting in the view of study research, pointed out that the outbreak of the financial crisis for the application of fair value accounting in China's economic operation sounded the alarm, especially the characteristics of fair-value accounting cycle effect, once the deviation of the value will cause a series of economic problems.

Overseas research on fair value with the outbreak of the financial crisis of 2008 have resulted in a number of different perspectives. Amex (2008) using the methods of empirical research illustrates the status of the fair value of that new accounting rules could cause volatility in financial data, fair value and do not cause adverse economic situation. It also pointed out that application of fair value accounting standards to improve the quality of information and accounting standards could hit investor enthusiasm if cancelled, exacerbating market risk. Luax (2012) summary has in recent years on earnings and financial stable. Zhijian correlation of empirical research, think fair value does not have spread line; capital regulatory makes fair value measurement of index device role increased, Bank regulatory not strict is started, lending fair value accounting index will led to stock price in positive feedback, in earnings in the confirmed of fair value changes profit and loss, content is one-sided of, not can let investors made reason of decision.

Due to the late start of fair value in our country, and there are no rich data support empirical studies, so the current research results are not rich. Most scholars mainly from fair value arising from the introduction of market impact, the relevance of financial accounting, fair value for listed companies, fair value measurement "procyclical" effect research has been done. Is 39th on the time before the formal implementation of the guidelines, the research of fair value, less studied in the official implementation of the new guidelines, before and after the implementation of new guidelines and contrasted that to study the impact of listed banks.
The Analysis of Fair Value Measurement Reform Influencing on China Commercial Bank

The Fair value Impact of Reform on China Commercial Banks’ Balance Sheets

Fair Value Reform Changes the Balance Sheet Structure.
After the introduction of fair value measurement, using two methods of financial assets and financial liabilities, mainly come from the essence of investment and economic divide, better reflects the purpose of trading enterprises, better able to guide investors to make the right decisions. And will profoundly affect the banking sector's balance sheet structure.

Closer to the Real Market Value of Corporate Balance Sheets.
After using fair value measurement standard for business, the commercial banks in each accounting period requires measures now owned by asset and liability values, because capital markets and economic environments are constantly changing, so the business performance and financial condition will also be affected, with changes in the environment of market economy, fair value measurement information can be more effectively reflected in corporate earnings. Reflect closer to market value on the balance sheet of commercial banks.

The Fair Value Impact of Reform on China Commercial Bank Income Statements
On fair value reforms have a direct impact on profits fluctuate. After the introduction of fair value measurement, trading financial assets and transactions of financial liabilities arising from the changes in fair value of losses and gains, if the price falls, losses recorded in the income loss, it will reduce earnings in the current period if asset prices rise, earnings included in the net profit for the period, which could affect corporate profits.

Fair value measurement of the reform of the indirect effects of fluctuations in profits. After the introduction of fair value measurement, available-for-sale financial assets, when starting a measurement measured at cost, after measurement of fair value measurement method measurement is used, the difference between the book value and the fair value recorded in the owner's equity. If the enterprise has a large number of available-for-sale financial assets, will own the company's sale of financial assets, will appear before the owner's equity in the Bank's annual report, the metering mode changes will cause changes in profits and their fair values can be indirectly caused fluctuations in profits.

The Fair Value Impact of Reform on Share Prices of Commercial Banks
Theoretical analysis of the usefulness of accounting information from fair value, can be drawn, the fair value measurement to be able to timely reflect changes in assets and liabilities, you can provide a more accurate accounting information. Fair value measurement of China's commercial banks have the following effects:

To the fair value measurement of assets and liabilities the fair value changes will affect the company's net profit.

Changes in the fair value of the enterprise's net profit, reactions in the results as fair value will affect the company's profitability and ability to raise capital, and financing capacity, which in turn will affect the profitability of the enterprise.

If the market is better, stock investment value will continue to increase as the market rises, reflected in the Bank's business is banking profitability of enhancement, which will lower banks ' financing costs, up from profit, costs
reduced, greatly increasing the Bank's operating profit if Bank performance continues to deteriorate. Changes in the fair value of the enterprise's net profit, reactions in the results as fair value will affect the company's profitability and ability to raise capital, and financing capacity, which in turn will affect the profitability of the enterprise. If the market is better, stock investment value will continue to increase as the market rises, reflected in the Bank's business is banking profitability of enhancement, which will lower banks' financing costs, up from profit, costs reduced, greatly increasing the Bank's operating profit if Bank performance continues to deteriorate.

Changes in fair value gains and losses caused by volatility in reported profits will indirectly affect the confidence of investors, and is reflected in the share prices of commercial banks, and shares of commercial banks, which in turn will affect the business performance of the Bank. Because of the asymmetry of accounting information market, users of accounting information to financial information do not have a deep understanding of when fair value when earnings increase, investors may mistakenly think that the potential is better, so they buy the shares, driving up stock prices; contrast performance even worse.

**Fair Value Measurement Analysis of the Mechanisms of the Reform**

**Effect on Shares of Commercial Banks**

Current financial theory is that stocks can be traded, because it can bring to the people in the future some uncertain benefits, shares itself with no real value. The intrinsic value of the stock can be worked out using the discounting method now itself represents the value of the stock, changes in stock prices is through changing investor expectations for future cash flows that may arise. Assuming investors earnings data released by companies, enterprises in recent years, income is expected to decline, will affect the investor's income, so it will give up on the stock investment, otherwise investors will buy shares in the company, and then cause the stock price to rise. So accounting information on shares of role main has following path: forecast company future profit will effect company dividend of size; investors according to by knows of enterprise earnings information on company future profit status made forecast; forecast of future shares will in turn effect now of shares, accounting information using who will full consider company by announced of earnings information, investors consider has these data Zhijian of correlation, and will these reflect in shares Shang, is can launched the accounting information has correlation. Therefore, the company disclosed earnings would have much effect on stock-price volatility.

**Conclusion**

After review of research by the international financial community for fair value, fair value has been recognized by people, accounting standard setters are also finally convinced that fair value is the most appropriate use of capital market of accounting standards. Application of fair mechanisms to enable investors to understand the need for accounting information in a timely manner, according to the findings, put forward the following recommendations.

In market transactions expanded disclosure of fair value measurements in the range of earnings information helps improve the information of users of accounting information to understand and use, enhance the transparency of accounting information, but also to consider the negative impact of fair value, commercial banks from their own perspective on the fair value risk of avoiding
and resolving. Before, banks should be under current accounting rules, formulate corresponding fair value accounting systems can be used, including what needs to be in the initial measurement is the use of fair value measurement, which is still needed in the follow-up measures adopted, the assets the measurement, all need to have clear rules. Commercial banks should be trained in a number of specialized personnel to the fair value measurement, minimizes errors, and avoid the potential risk of fair value measurement. After the completion of fair value measurement, from the current situation, sum up experience in learning, and amendments to the fair value measurement system developed in advance. Financial products look more realistic surface to maintain investor and creditor's right.

Financial liabilities in commercial valuation model, improve the existing valuation techniques. Fair value directive describes three kinds of fair value valuation techniques, and no explicit fair value valuation model, many scholars blamed the financial crisis responsibility procyclicality of fair value, but rather a technique of fair value is not perfect. China's commercial banks do not have their own set of valuation techniques, and in most cases is still measured by the expected discounted value method.

Construct control system for fluctuation of fair mechanisms to enhance the reliability of fair value measurements. When financial data was added a fair change, better able to explain the change of enterprises' performance, therefore, while commercial banks in risk prevention, timely wave monitoring system established. Establish risk-monitoring systems are available from the following aspects. First of all, earnings in each period reveal in detail the application of fair value measurement, and how users can be aware of changes in the fair value price. Secondly, the commercial bank risk management in various sectors, each sector should have its own appropriate risk control measures. Finally, may affect the fair value measurement of commercial banks based on financial indicators, early warning model for test managers, timely detection of problems, the risks to a minimum.

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