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The Impact of New Accounting Standards on Commercial Bank Owners' Equity

After the promulgation of the new accounting standards in 2006, the changes in owner's equity began to be disclosed as an annual report of the enterprise, so that the owner's equity began to attract the attention of the society. This article is about the changes in owner's equity of China's commercial banks after the promulgation of the new accounting standards, mainly to rotate the factors that can affect the changes in owner's equity of commercial banks. It also analyzes and studies the reasons for the change, and demonstrates the data and the cases of three Chinese commercial banks. The article is divided into 3 parts:

The first part discusses the impact of changes in fair value on owner's equity. After the promulgation of new accounting standards, companies began to introduce fair value measurement. The changes in fair value are mainly reflected in the text. And in 2018, the International Accounting Standards Board reformed the companies listed in Hong Kong, and the bank provision explained the impact on owners 'equity.

The second part elaborates the impact of value changes on owner's equity under the market price measurement model, and discusses the reflection of the enterprise owner's equity through the market price measurement model. And indirectly explain the impact of the recognition of assets and liabilities on owner's equity.

The third part is the impact of long-term equity investment on owner's equity. This section explains some changes and improvements in long-term equity investment under the new accounting standards, which in turn affects the bank 's equity.

This article is based on the new accounting standards, China has made a series of accounting reforms in line with China's national conditions. Taking commercial banks as the research object, it discusses some influencing factors of commercial banks under the new accounting standards.

Key words: Banks, changes, new accounting standards, owner's equity

Introduction. Changes in owner's equity are closely related to the development of the enterprise. Since the promulgation of the new accounting standards, some new measurement methods have been introduced. Has an impact on the company's net profit, resulting in changes in owner's equity. For commercial banks, changes in accounting policies will lead to changes in the bank 's business model. And China made adjustments to financial instruments in 2018. In short, fluctuations in bank profits will cause changes in the equity of all owners. The analysis of the influencing factors of owner's equity is to strengthen the profitability of the bank and maximize the profit of the enterprise.

Impact of changes in fair value on owner's equity. The impact of changes in fair value measurement on owner's equity. In the new accounting standards, China has issued 38 specific standards, each with different application of the measurement attributes of fair value[9].

The International Accounting Standards Board requires that "International Financial Reporting Standard No. 9-Financial Instruments" be implemented from January 1, 2018[1].Therefore, all domestic companies that are listed in Hong Kong or issue equity securities or bonds in overseas markets that adopt IFRS must implement the standard from January 1, 2018.

The new accounting standard stipulates that fair value is the price determined when both parties to a transaction who understand the status of the transaction conduct a voluntary and fair transaction [16].Under fair value measurement, both parties to the transaction measure the amount of assets exchanged or debt settlement voluntarily by both parties under clear market conditions. That is, when the market permits and both parties voluntarily belong to a fair transaction, the transaction price of both parties is the fair value. Furthermore, it is the concern of the new accounting standards that fairness, voluntariness, understanding of the market and the reliable measurement of the amount of transactions concluded.

Financial derivatives[17]. The measurement of financial derivatives by fair value measurement is relatively common. Because the derivative financial instruments transfer risk and rewards and their rights and obligations in practice are not carried out at the same time, the more popular historical cost measurement method is not suitable for derivative financial instruments[8], so fair value measurement is adopted. When a financial derivative is measured at fair value, its value disclosed in the report is his market value, and its changed value is directly included in the profit and loss of the current accounting period. This shows that the changes in fair value directly affect the profit of the company, It is closely related to the owner's equity of the enterprise. Generally speaking, if an enterprise can keep in line with the development direction of its industry and follow the market standard price of the industry, the fair value gains and losses of the enterprise will increase, and then the income of the enterprise will increase. If the company does not follow market rules and the company's operating direction is opposite to the market, the company's profits will be lost and the owner's equity will be affected[14]..

The impact of the provision is allocated. Under the new accounting standards, commercial banks are expected to rise, but the negative impact on net profit is relatively limited.

The old accounting standards are too little too late for the accrual of financial asset impairment reserves[12]. The new standard revises the accounting treatment of financial asset impairment from the “incurred loss method” to the “expected loss method”. It is required to consider the future expected credit loss of financial assets, so as to make more timely and full provision for impairment of financial assets, so as to reveal and prevent and control the credit risk of financial assets. Take the commercial bank in 2016 as an

example:

Under the "expected loss method" of the new standard: the base becomes larger, and the financial assets that need to be accrued for impairment are increased from the financial assets that have suffered losses to all financial assets including non-standard investments. In the bank's asset impairment provision, the impairment provision for loans and advances is generally around 90%, and the impairment provision for investment receivables is between 0.0% and 1.0%. The loan provision rate fluctuates between 0.0% and 3.5%, and the investment provision rate for receivables is generally less than 1.5%. Put forward the concept of "expected credit loss". For financial assets with significantly increased credit risk, the provision for impairment needs to be increased to the expected credit loss throughout the lifetime. These two reasons will lead to an increase in the bank's asset impairment provision compared to current standards. The role of bank provision is to truly reflect the fair value of assets, which will have an impact on the bank's net profit, which in turn will cause changes in owner's equity.

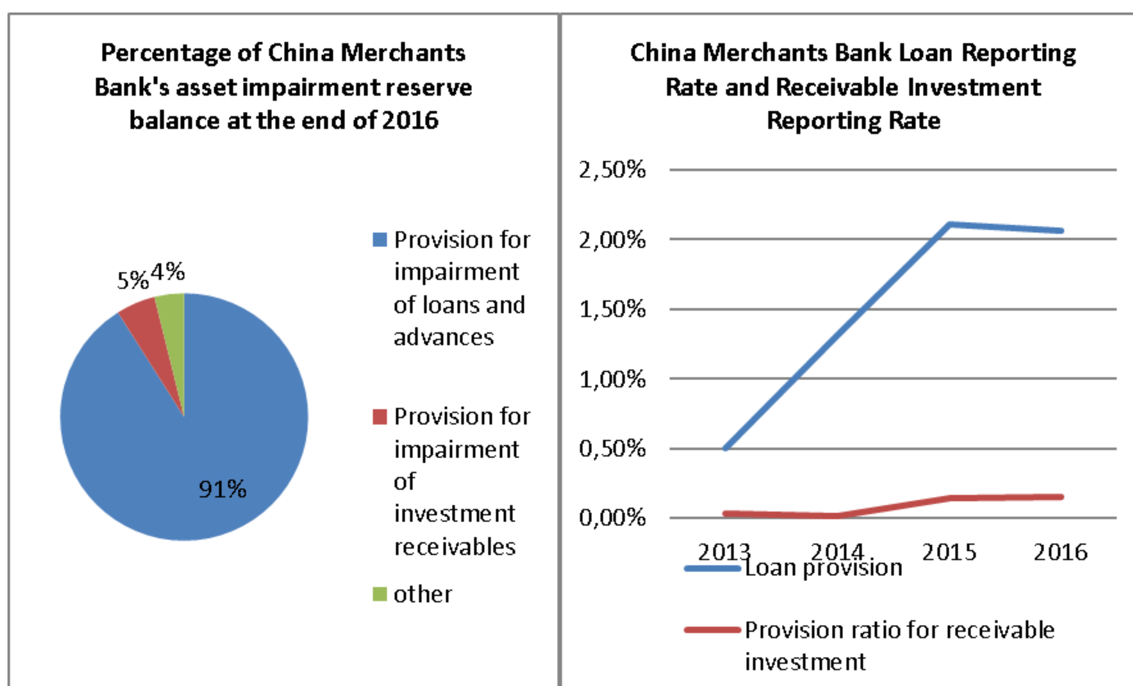

figure 1: China Merchants Bank 2013-2016 data changes

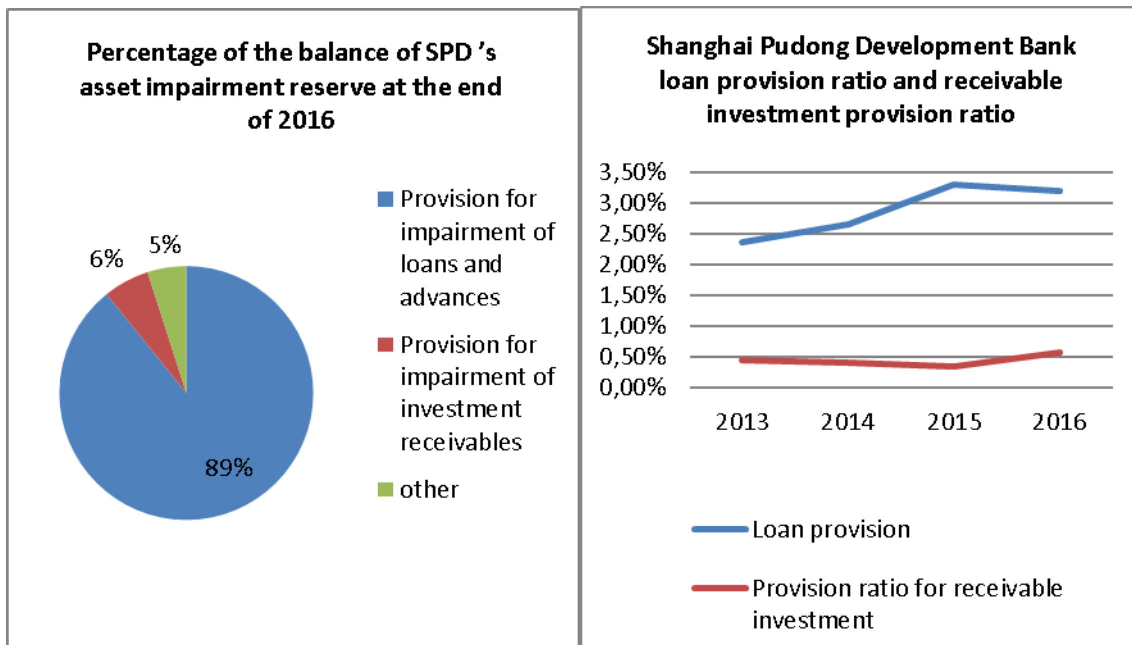

figure 2 Shanghai Pudong Development Bank 2013-2016 data changes

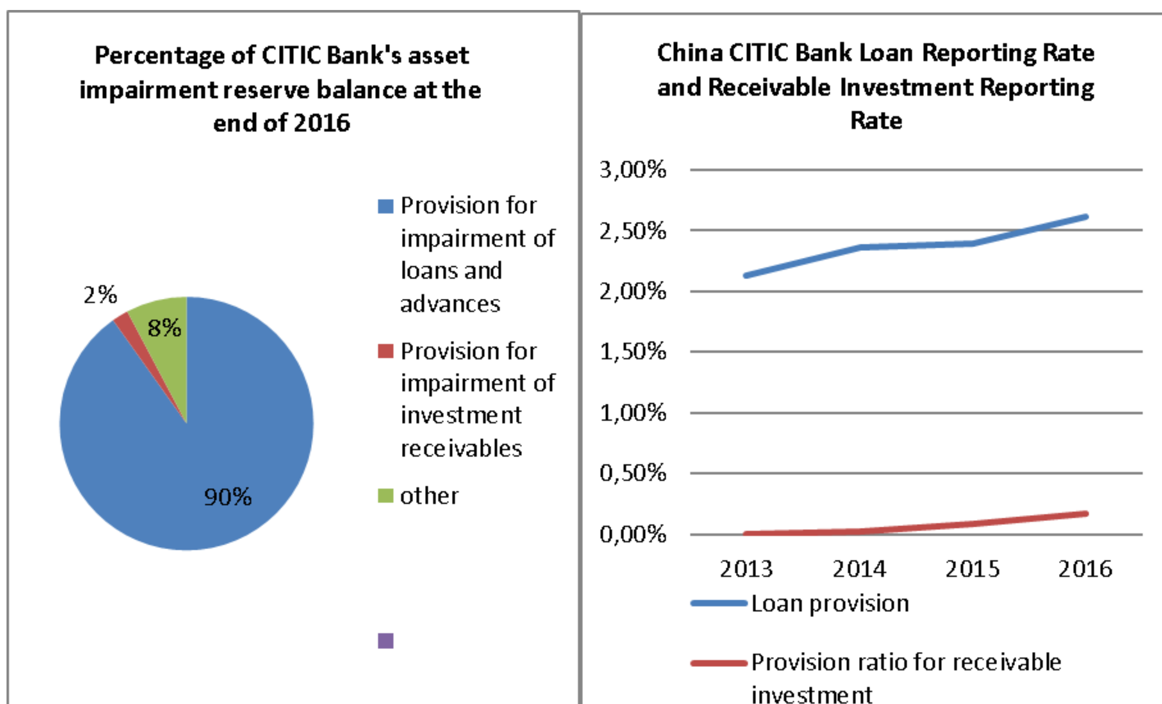

figure 3： CITIC Bank 2013-2016 data changes

The impact of value changes on owner's equity under the market price measurement model. The market price measurement mode means that accounting elements should be measured according to the market price on the accounting day[15]. There are two methods for the market price measurement model: daily market price measurement and adjusted market price measurement. In the daily accounting of accounting, the historical cost method is generally used for measurement, except for special circumstances. It is adjusted to the market value measurement at the reporting date, resulting in a value change account. From the perspective of accounting reports, the market measurement model reflects the company's balance sheet. In other words, it reflects the value of the company's assets, liabilities and owner's equity[4].

Loss of gains in the value of assets and liabilities should not be included in profits[17]. The value change has no specific trading behavior, does not generate any income or expenses, and has uncertain causes in the future, so it cannot be confirmed during measurement; When the value of assets and liabilities changes, the actual or expected cash flow will not be reflected. If it is included in the profit, there is no relevant basis; it is impossible to prove that there is a connection between the change in the value of assets and liabilities and the present value . Changes in the value of assets and liabilities are not the fundamental factors that affect changes in owner's equity. Under the market price measurement model, due to the different factors and methods that affect the changes in assets, liabilities, and owners' equity values. Therefore, for listed companies, the stock price is a concrete manifestation of the owner's equity value, and the most direct factor affecting the stock price is the supply and demand relationship, and other factors affect the stock price through the supply and demand relationship. Therefore, in the market price measurement mode, the change in the value of assets and liabilities is not the fundamental reason for the change in the value of owners' equity.

The impact of long-term equity investment on owner's equity. The new accounting standards have reclassified the cost method and the equity method. Under the new accounting standards, cost accounting is divided into two categories: First, long-term equity investments that can be controlled. Second, there is no common control or significant impact, and in the active market there is no quote, fair value can not be reliably measured long-term equity investment. The scope of equity accounting includes: long-term equity investment with joint control or significant impact, that is, investment in joint ventures and investment in associated enterprises. The new cost and equity laws are more specific and better aligned with international accounting standards than previous regulations[5].

The determination of initial cost can be divided into two cases: enterprise merger and non-enterprise merger. The merger of enterprises can be divided into two situations: Merger of co-owners and merger of non-co-owners (merger of enterprises under the same control and merger of enterprises under the same control). In the acquisition of long-term investments in a co-owner's business, the new accounting standard USES a share of the carrying value of the owner's equity as the initial cost of the investment, replacing the previous practice of measuring the initial cost by the book value of the invested assets. When the acquisition of long-term equity investment is required for the merger and non-merger under the same control. Adopting the method of introducing fair value, the fair value of the invested assets is regarded as the initial investment cost. Although this practice is in line with international practice, there are still some differences. Because the enterprise merger under the same control adopts the book value measurement method, while the enterprise merger without the same control adopts the introduction of fair value, the two cannot reach the same standard. Of course, is a big improvement over what it used to be.

The equity method of the new accounting standards takes the retroactive adjustment as the core, while the cost method is mainly the future applicable law[6]. For the follow-up measurement of long-term equity investment, under the provisions of the new accounting standards, there is no longer any accounting and retroactive adjustment of equity investment balance, and there is no need for retroactive adjustment of long-term equity investment. This can not only meet the requirements of the current market, but also make

the accounting content simple. Under the cost method, in the recognition of positive goodwill, it is necessary to calculate the difference between the initial investment cost and the fair value share of the identifiable net assets of the buyer. The difference between the initial investment cost and the fair value share of the identifiable net assets in the merger is directly recorded in the current profit and loss. Under the equity method, when generating positive goodwill, the initial investment cost of long-term equity investment does not need to be adjusted. When the initial investment cost is less than the investment, the fair value share of the identifiable net assets of the investee shall not only be recorded into the current profit and loss, but also be adjusted to reduce the cost of equity investment.

In the long-term equity investment impairment[17], the old accounting standards allow the provision of long-term investment impairment can be rolled back; The new standard provides for the long-term equity investment impairment provision once the provision, not to turn back. The practice of the new accounting standards, reduce the enterprise to adjust the profit space, and the purpose of international accounting standards is not consistent. However, this method is in line with the current development of China's special economic market and accounting standards integrity, is acceptable to China.

Conclusion

Before the promulgation of the new accounting standards, only historical cost was the basic measurement attribute. After the promulgation of the new accounting standards, the introduction of fair value adopts the method of combining fair value and historical cost. However, Chinese accounting standards stipulate that, in the absence of an active market, fair value needs to be determined using valuation techniques. However, the determination of the valuation model and the corresponding professional consultation have put forward higher requirements for professionals and related model data. However, China currently lacks some professionals in valuation models and data, so it is difficult to determine the amount of fair value. As a result, it is difficult for commercial banks to correctly classify financial instruments, which has led to the development of commercial banking business and performance improvement to a certain extent.

Revenue and asset recognition. Under the new accounting standards, the bank's revenue and asset recognition has become simpler and more accurate. Accounting treatment methods are in line with international accounting standards. For example, part of the government subsidy income is recognized as a deferred income item; the debt restructuring income is recognized in the capital reserve to be recognized in non-operating income; the newly added fair value change gains and losses are included in the current income and so on. In addition, the new accounting standards have changed some old accounting standards to return to the accounting treatment of asset impairment, which does not allow the asset impairment that is easy to adjust profits to be transferred back, which increases the capital of research and development expenses. These new provisions of the new accounting standards and the new accounting processing model limit and reduce the recognition of current income, while increasing the increase in the assets of commercial banks and indirectly affecting the owner's equity.

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