THE EFFECTS OF SFAS NO. 159, FAIR VALUE DISCLOSURE, ON COMMERCIAL BANKS

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ABSTRACT

This study examines the association between the market value and fair value disclosures of commercial banks since the implementation of Statements of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159) for the first four years following its implementation (2008-2011). In recent years, the debate surrounding the use of fair value accounting (FVA) in lieu of historical cost accounting (HCA) has intensified as the FABS has issued five fair value standards since 1991. Proponents of HCA contend that FVA is too subjective, makes financial information susceptible to managerial manipulation, and that fair value estimates do not provide consistently reliable information. Conversely, FVA advocates contend that FVA captures future benefit of assets and liabilities at a specific moment in time, reflective of the current economic environment, and thus, more relevant information compared to HCA. Significant changes to the economic environment as a result of the economic collapse of 2008, has further amplified academic and professional debate. Hence, the purpose of this research is to examine the value relevance of the fair value disclosures made by commercial banks since the implementation of SFAS No. 159. The results of this research provide evidence for accounting policy makers to increase the extent of fair value disclosure to provide more relevant information for investors and other stakeholders or to reduce the extent of fair value disclosure to reduce its implementation costs.

Keywords: