An investigation of capital market reactions to pronouncements on fair value accounting

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Abstract

This paper examines the impact of twenty-three pronouncements related to fair value accounting (FVA) rules on equity prices of financial institutions. The results document that announcements that signal an increased (decreased) probability of issuance of FVA standards produce negative (positive) abnormal stock price reactions for sample banks. Further, the magnitude of the stock price reactions is negatively related to a bank’s primary capital ratio and positively related to the ratio of the book value of the investment portfolio to total assets and the ratio of the difference between the market and book value of the investment portfolio to total assets.

Key words: Fair value accounting; SFAS 115; Bank regulation

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1. Introduction

Several events have contributed to the increased importance of fair value accounting (FVA) for financial reporting of financial institutions during the past...