DOI: 10.18686/ahe.v6i15.5147

Off - balance - sheet Information Disclosure of Listed Bank Derivative Financial Instruments

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Abstract: With China's progressive multi-level capital market strategic direction, as well as the gradual implementation of the mixed operation of commercial banks. Derivative financial instruments will be further developed in commercial banks. This paper focuses on the information disclosure of derivative financial instruments by commercial banks, combined with the standard of disclosure of off-balance-sheet information of international derivative financial instruments, using the disclosure index and project disclosure ratio to analyze the disclosure of derivative financial instruments of listed banks in our country, Off-balance sheet information disclosure, and puts forward suggestions on how to further improve the quality of off-balance-sheet information disclosure of derivative financial instruments in China.

Keywords: Commercial banks; Derivative financial instruments; Off-balance sheet information disclosure

1. Introduction

With China's progressive multi-level capital market strategic direction, as well as the gradual implementation of the mixed operation of commercial banks. The use of derivative financial instruments will increase, but because of the complexity and leverage of derivative financial instruments, commercial banks should not only pay attention to the disclosure in the table, but also pay attention to the disclosure of derivative financial instruments. Financial options and other off-balance sheet items, the year-end number and other specific circumstances.

2. The type of risk of derivative financial instruments

Derivative financial instruments are derived from the changes of basic financial instruments. From an accounting point of view, not only need to reflect the fair value of derivative financial instruments in the leading market environment, the value of orderly transactions, but also need to understand what kind of basic financial instruments associated with various exposures, the relevant management measures. This truly meets the disclosure objectives that are useful for making financial statement decisions.

3. Research object and research method

3.1 The study object

This article is based on the A-share market in China's commercial banks as the object of study. China's Shanghai Stock Exchange and Shenzhen Stock Exchange listed a total of 16 banks. The data source of this article is huge influx of information network in 2015 16 listed banks annual report. According to the disclosure of information is in the financial report for the year 2015.

3.2 Research methods. This paper uses the disclosure index and the project disclosure ratio to conduct quantitative analysis on off-balance-sheet items of derivative financial instruments.

Disclosure Index = Number of Disclosed Projects / Total Disclosed Items

Project Disclosure Ratio = Number of Banks Disclosed / Total Number of Banks

The Disclosure Index is an analysis of the overall disclosure ratio of each listed bank, which is the disclosure of each specific disclosure item in 16 listed banks. Through the horizontal and vertical analysis, the quantitative disclosure of listed banks derivatives financial disclosure.

4. Research Results and Empirical Analysis

4.1 Research Results

This paper uses information disclosure index and project disclosure ratio to conduct an empirical analysis on the disclosure of off-balance-sheet information of 16 listed banks in China. The disclosure information of the related listed companies is selected from the annual reports disclosed by the listed banks in 2015. The results are shown in Table 1.

Table 1 Disclosure Ratio of Derivative Financial Instruments

Disclosure Project	Project Disclosure Ratio

Information Disclosure of Derivative Financial Instruments	Basic Information	Confirmation criteria	1
		Basis of measurement	1
		Holding purpose	1
		Fair Value Estimation Method	1
		Fair value of different types of derivative financial instruments	1
		Profit and loss recognition	1
		Three - tier estimated fair value	1
	Credit risk	Causes of Credit Risk	1
		Credit Risk Management	1
		Credit Risk Disclosure of Different Derivative Financial Instruments	0.0625
		Risk concentration	0.0625
		Maximum credit exposure	0.84375
	Liquidity risk	Causes of Liquidity Risks	1
		Liquidity Risk Management	1
		Different types of disclosures (by type of risk or type of transaction)	0.71875
		Expiry Date Analysis	0.9375
	Market risk	VAR Value Valuation Disclosure	0.25
		Causes of Interest Rate Risk	1
		Interest Rate Risk Management	1
		Interest rate exposure	0.59375
		Exchange Rate Risk	1
		Exchange Rate Risk Management	1
		Exchange rate exposure	0.90625
		Causes of Price Risk	0.125
		Price Risk Management	0.125
	Operational risk	Causes of Operational Risk	0.5
		Operational risk management approach	0.3125
	Hedging instrument	The reason for using hedging instruments	0.4375
		Effectiveness of hedging activities	0.375
		Fair value of different types of hedging instruments	0.25
		Hedge net profit and loss of hedging instruments	0.25

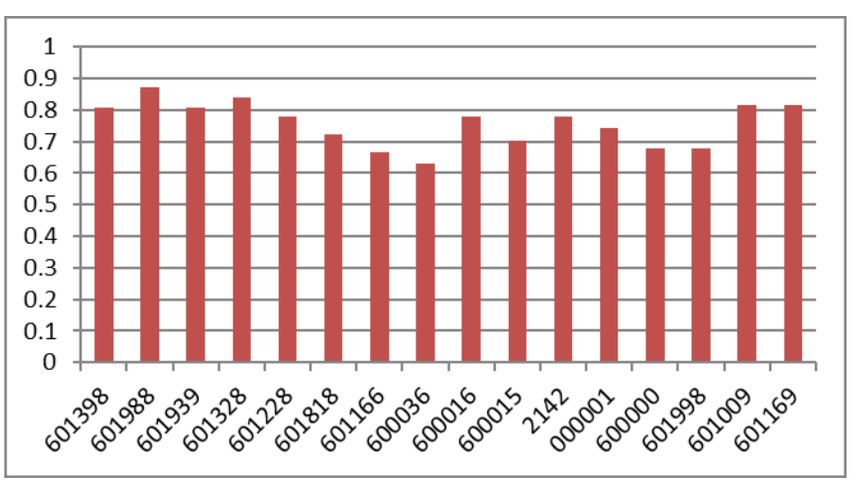


Figure 1 Index of Derivative Financial Instruments Disclosures by Listed Banks

4.2 Empirical Analysis

According to Figure 1 shows that 16 listed banks derivatives index of more than 60%, the lowest disclosure index is 62.90% of China Merchants Bank, the disclosure of the highest index is 87.10% of Bank of China. According to Table 1 can be seen in China's listed banks in the basic financial derivatives projects and the liquidity risk, credit risk and market risk of each listed banks are disclosed the source of risk and management methods are disclosed. According to Table 1 and Figure 1 we can see that the disclosure of financial derivatives in China is good, but there are four aspects of the disclosure of deficiencies.

First, China's listed banks to risk derivatives of derivative financial instruments a single method. Only 25% of the listed banks in our listed banks disclose VAR risk value when they disclose the specific items of market risk. Other banks only conduct risk exposure analysis on interest rate and exchange rate risk, even the price risk included in market risk is only 12.5% Home bank for qualitative analysis.

Second, China's listed banks are not fully exposed to the types of derivative financial instruments. According to the Project Disclosure Index, only 50% of the listed banks disclosed the source of operational risk, and 31.25% of the listed banks disclosed the management of operational risk. For other types of risks such as legal risks are not involved in a commercial bank. Bank of Communications, etc. in the risk of derivative financial instruments included in the operational risk statements, but not in the subsequent risk management project to elaborate operational risk and the reasons for the management of some qualitative accounting information.

Third, the listed banks in our country have insufficient disclosure of hedging in derivative instruments. 43.75% of the listed banks in the major accounting policies will be described in the determination and treatment of hedging instruments, 57.14% of these banks will disclose the fair value of different types of hedging instruments and risk gains and losses. Of the remaining 56.25% of the listed banks, only Minsheng Bank expressly stated in the statements that there is no hedging behavior.

5. Improve the derivatives of listed banks financial information disclosure of off-balance sheet recommendation

First, to strengthen the disclosure of derivative financial information awareness. Because of the complexity and high degree of leverage of derivative financial instruments, only the fair value of such contracts cannot be accurately measured in financial statements for financial users. Only through the common disclosure of information inside and outside the table can more clearly and accurately describe the subsequent measurement of derivative financial assets.

Second, the development of derivative financial instruments related rules. Making China's listed banks for disclosure of derivative financial instruments more relaxed environment, but disclosure is also a means of regulation. China can be based on the existing international disclosure requirements, combined with local conditions to improve the development of rules.

Third, the use of multiple means of risk control. The high risk makes us pay more attention to the risk disclosure of derivative financial instruments. VAR (value at risk) As a dynamic risk management approach, the VAR model is also recommended for risk analysis of derivative financial instruments in a report published by the Basel Committee. At present, the analysis of market risk is highly effective, a large part of China's listed banks can learn from this method of risk control. We have to continue to pay attention to the risks we have already paid attention to, but we also pay attention to some risks that we have not noticed. The more developed the financial market, the more comprehensive information disclosure.

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