APPLICATIONS OF FAIR VALUE PRICING

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Abstract

The 2008 crisis prolonged and deepened divergences in fair value measurement as the most reliable and other measurement systems. The introduction of IFRS 13 contributed to improved results at the level 3 asset prices observed in companies operating on the Bucharest Stock Exchange. The literature has shown that in International Financial Reporting Standards (IFRS) 7, different levels of fair value are relevant to value.

This research analyzes market prices of the different levels of fair value hierarchy reported under IFRS 7. It is noted that fair value assets measured at different levels of hierarchy are relevant for value, while liabilities are valued differently.

Keywords: *asset, asset prices, pricing, liabilities, fair value measurement, levels of fair value.*

1. Introduction

Song et al., 2010, described the model used to calculate the correct values are based on unobserved or firm values generated data and are also referred to as brand-to-model, unlike Level 2 financial instruments.

In this study we specifically discover the effects the requirements of IFRS 7 on the Romanian financial sector were also written by Song et al., 2010 and Goh et al. 2009. The market reaction is examined against the fair value (assets and hierarchy levels reported under IFRS 7). The study applies to all listed companies on the BVB Bucharest Stock Exchange. BVB is relevant in this respect links the economy of Romania and the global economy.

The World Economic Forum (2016) classifies BSE on the largest stock markets in the world, according to the Global Competitiveness Index.

1.1. The different fair value levels

Using the balance sheet and the Ohlson model (1995), the results of this article shows that the fair value of tier 1, 2 and 3 assets as and the fair value of debt level 3 are relevant over time, while the fair value of liabilities 1 and 2 is irrelevant.

The calculations also show that the setting of market prices for the level 2 and 3 fair value assets (debts) is not lower for rating companies the high debt to low debt equity. In this respect, the calculations show that the price at level 3 assets improved by the introduction of IFRS 13 and the position the 2008 financial crisis. The article in question, An additional advantage of this article is that he searches for differentiated prices in the three correct ones value levels for IFRSs when there was a level comprehensive and binding. IFRS 13 shows how to the fair value is measured on the three levels of hierarchy and compare it with pre-IFRS 13. Deaconu et al. (2010) stated that, prior to the mandatory application of IFRS 13, it must to disclose the hierarchy levels in IFRS 7. IFRS refers to the Statement of Financial Accounting Standards (SFAS) 157. SFAS 157 represents the Financial Accounting Standards (FASB) equivalent to IFRS 13; SFAS157 and IFRS 13 to handle the measurement of the fair value and thus to influence the value presentation of IFRS 7. Hopewell Hlatshwayo and Mbalenhle Zulu showed that "Deaconu et al. did not disclose accurately hierarchy in terms of IFRS 7 during the sampling period because there was no complete and mandatory description a fair value measurement standard in accordance with European standards in the IFRS 7 disclosure requirements. "

The introduction of IFRS 13 has had an impact on investors' perception in terms of liquidity and information asymmetry of assets (liabilities) with fair value of level 2 and 3, as they exist now a comprehensive standard dealing with fair value.

The results of this study is important for standard suppliers and investors and will help you understand the impact of fair value hierarchy presentation IFRS 7 in financial sector in Romania.

The article is organized as follows: firstly, relevant literature is presented and it is specified hypotheses. Sample selection is described procedure, data and method of research to be used in the study and then discussing the results of the study, and finally exposing conclusion.

2. Content

Measuring fair value is important because the values of financial instruments presented in the statement the financial position influences the disclosure of the fair value hierarchy of IFRS 7. IFRS 13 defines " fair value as a price that would be received to sell an asset or to pay to transfer a debt into one the orderly transaction between the market participants from measurement data "(IASB 2011). Using the above, we plan to measure the assets and liabilities that are not traded on active markets, because fair values

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need to be estimated by other methods. IFRS 13 is extremely important for this article because IFRS 7 entry into force before IFRS 13 and fair principles the values of the valuation hierarchies in IFRS 7 are determined by IFRS 13. IFRS 13 is an accounting standard that addresses the measurement of fair value, and before that there was no such approach.

Barth et al. (2001) say that studies of the relevance of value many times examine the relevance and reliability of the amount in question. Barth, Beaver and Landsman 1996; Carrol, Linsmeier and Petroni 2003; Petroni and Wahlen 1995 asserted that the information content carried by the fair values in the financial statements are relevant.

Goh et al. (2009) showed that one of the FV-A objectives is to ensure transparency in evaluation of the financial elements, to allow investors to sound economic.

In some articles, the relevance of the FV-A value is studied have produced incoherent results.

An article written by Goh et al. (2009), using a survey of US bankers, obtained that the level 1 fair value assets are significantly differently valued from fair value assets of levels 2 and 3. Moreover, there were no major differences between the level 2 and 3 assets with fair value. Song et al. (2010) conducted a study on a sample of US banks found that level 1 and 2 fair value assets are significantly different from level 3 of fair value assets. However, they do not record significant differences in pricing at fair value of level 1 and level 2. Deaconu et al., 2010 have obtained similar results to Song et al. in a study conducted on a sample of European banks. Previous results from this study are valuable through its relevance studies and are based on efficient market theory (Deaconu et al., 2010). Deaconu et al. (2010) show that during the financial crisis, in 2008 the markets were not efficient. Thus, the financial crisis might have confused effects on the results of these studies and their recognition, Deaconu et al. cites this as one of the limitations of their study. In these earlier studies, focusing on the periods before and during the 2008 financial crisis, this article focuses on the post-financial crisis of 2008, and also compares the current financial crisis to the financial crisis. Dechow, Myers and Shakespeare 2010 says that "management's decision is necessary to determine the correctness of values to some extent," while Song et al., 2010 assumes that "fair values are inherently subject to error measurement, and this creates an incentive for management to manipulate figures ". Song et al., 2010 states that "the combination of information asymmetry and sensitivity of fair values to management manipulation and error casts doubt on the reliability of fair values. " There is still a debate on the reliability of fair values, although accountant counselors seem to reach consensus on the relevance of fair value.

Some accountants such as Song and co. 2010 asserts in support of the fair value that information extracted using fair value capture the reality better, volatility and ease of financial reporting, while other scholars say that fair values are less verifiable investors because they are inherently prone to a error of estimation greater and susceptible to manipulation by those charged with governance (Penman 2007).

There are arguments against FV-A showing an asymmetry of information challenge between management and investors or owners.

De Klerk, De Villiers and Van Staden 2015 asserts that information asymmetry occurs when people who administer a the entity is different from investors or owners. So, Healy and Palepu 2001 say that "its investors owners will require relevant information to evaluate and monitoring the performance of management or companies. "

The first hypothesis analyzes the relevance of the three values and fair value hierarchy of IFRS 7. It has been established that investors need relevant and reliable information about the future revenues and cash flows.

We set that goal FV-A is to ensure transparency in the financial assessment. IFRS 7 disclosure requirement and valuable instrument categories can be seen as an instrument to achieve it.

Disclosure of different levels of hierarchy of fair value in terms of IFRS 7 allows investors to assess how financial liquidity has been calculated and determined, tools and informational risk associated with fair values.

Goh et al., 2009 concludes that the level 2 and 3 fair values have a higher risk of investor information. This is because Level 1 instruments are traded on active markets and levels, and Level 2 and 3 are not actively traded, but are based on model ratings. In this context, Goh et al. (2009) states that the level 2 and 3 fair values have a higher value, and investor information risk being input from models that are not publicly available. Goh et al. still notice that during anytime economic fluctuations active assets play a crucial role in growth capital and therefore have a price premium as far as they are moderate by liquidity surprises (Holmström and Tyrol 2001).

In contrast to liquid instruments (level 1), we assert that investors want to observe the fair values of illiquid instruments (levels 2 and 3). This argument is supported by Goh et al. through worry during the financial crisis of 2008, there were several banks with the fair values of their assets were below the market especially levels 2 and 3, thus suggesting investors most likely these assets were reduced.

The information asymmetric challenge (information risk) along with a fair value measurement error can cope unreliable amounts. Therefore, this study states that level 2 and 3 fair values are more prone to errors because they use them models of fair value determination, as they have been suggested similarly in studies on this topic (Deaconu et al., 2010, Dechow et al., 2010; Goh et al. 2009).

Epstein and Schneider (2008) show this as poor quality information may have a negative impact on prices, results in the measurement error. And we believe that in the risk of information on level 2 and

level 3 levels is high compared to level 1 as it is involved in similar studies (Deaconu et al., 2010, Dechow et al., 2010, Goh et al., 2009; Song and colab. 2010).

Investors will lower asset prices and passives with a high level of information asymmetry (Easley, Hvidkjaer & O'Hara 2002).

Hlatshwayo and Zulu showed in 2019 that "the fair value of assets level 1, 2 and 3, as well as the fair value of liabilities level 3 are value relevant".

Therefore, we affirm that fair value assets of level 1 and the debts will have the highest price combination on (value value) because they are traded on active markets and subject to less or no estimation errors and information risk. For level 2, suppose a relative value less than level 1 as active level 2 and debt is based on models, but higher than level 3.

Finally, we estimate that the level 3 assets and liabilities should have the least relevance of value, because they are based on unseen data, therefore, higher estimation errors and information risks.

Therefore, the first hypothesis is given as follows:

H1: Value of Financial Instruments " the fair values are inversely proportional to the order of the hierarchy level IFRS 7.

The second hypothesis refers to the effect of capital adequacy of the price of assets and liabilities at fair value " levels of hierarchy presented in terms of IFRS 7. Deaconu et al. (2010) affirm that banks with a poor financial position have an incentive to manage earnings by using them discretion to improve reporting on the financial situation.

Goh et al. (2010) noted that the price of investors is the largest brand-to-model asset for banks with a stronger financial position. Unlike level 1 assets and level 1 fair value liabilities, setting fair values for level 2 and level 3 activities and liabilities require management discretion.

Thus, poor capital adequacy increases susceptibility the handling of assets and liabilities with a fair value level 2 and 3 as management discretion is applied in determining them (Deaconu et al., 2010).

The second hypothesis is shown as follows:

H2: market price for 2 and 3 value assets at fair value and the liabilities presented in accordance with IFRS 7 are lower for companies with high indebtedness than companies with a report on reduced equity.

The third hypothesis is about the effect of the introduction of IFRS 13 on the pricing of different financial instruments the values of the fair value hierarchy presented in terms of IFRS 7.

IFRS 7 entered into force before IFRS 13 and previous research suggested that pre-IFRS 13 refers to SFAS 157 for guidance on disclosure of hierarchy levels with respect to IFRS 7.

This article shows that there is a possibility not all IFRS listed on SFAS 157 and having a direct direction taking into account the liquidity and the risk of informing the fair value hierarchy presented in IFRS 7 terms of IFRS 13 period. At level 1, the fair value of assets and liabilities is based on the observable prices market (Goh et al., 2009), liquidity and the risk of information is noticeably diminished. It shows that the market will react differently at levels 2 and 3 assets and liabilities at fair value reported in the period before and after IFRS 13.

The third hypothesis is:

H3: Determination of market prices for value assets 2 and 3 at fair value and obligations presented in accordance with IFRS 7 are expected to be different in the previous period and after IFRS 13.

The fourth hypothesis relates to the effects of the 2008 financial crisis on price setting at fair value hierarchy levels assets and liabilities presented in accordance with IFRS 7.

Studies on this topic have produced incoherent results and is differentiated on the three fair value hierarchies IFRS 7 levels. We affirm that the 2008 financial crisis has had confusing effects on the prices of the different the hierarchy of the fair value assets and liabilities in EUR the terms IFRS 7.

In line with our argument, Deaconu et al. (2010) shows that during the financial crisis of 2008 prices were not effective. Goh et al. (2009) showed that the financial crisis of 2008 had an accentuated liquidity risk and level 2 and risk information 3 assets with fair value. Therefore, it is suggested that it will impact the price differentiation in the three hierarchies levels during or in the period before the 2008 financial crisis.

The fourth hypothesis is expressed as follows:

H4: Differentiated price of assets and liabilities at fair value in the three levels of hierarchy presented in accordance with IFRS 7 will be different during and after the 2008 financial crisis.

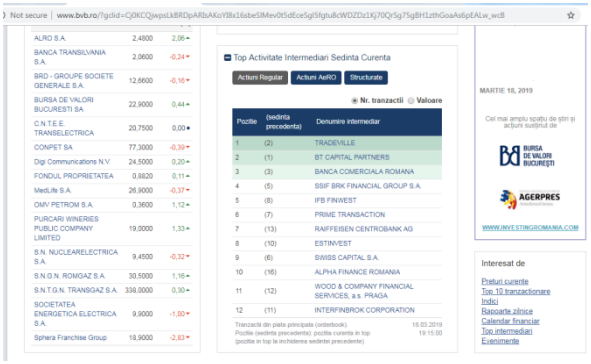
Deaconu et al., 2010 proposed the most common model used in the relevance studies of the value of the balance sheet and residual income approach. The balance sheet approach says that asset value (FVA) minus fair value of Liabilities (FVL) is equal to the market value of equity (MVE) (Landsman 1986). Although this approach is easy to understand and apply, its disadvantages are that the fair values of all assets and liabilities must be determined which is not the case; Second, not all assets and liabilities are measured at fair value; and third, not all assets and liabilities are recognized in accordance with IFRS 7 (Deaconu et al., 2010).

Barth and Landsman (1995) state that to highlight the effect off-balance sheet items, net income (NI) should be introduced in the equation to act as an intermediate for these elements.

The Residual Income Approach or the Ohlson Model (1995) tells us that the MVE is equal to the book value of equity (BVE).

The 2008 crisis prolonged and deepened divergences in fair value measurement as the most reliable and other measurement systems. The introduction of IFRS 13 contributed to improved results at the level 3 asset prices observed in companies operating on the Bucharest Stock Exchange. We note

that 12.5% of the companies that operate on the Bucharest Stock Exchange are in the banking sector. The literature has shown that in International Financial Reporting Standards (IFRS) 7, different levels of fair value are relevant to value.



Picture 1[1] from BVB website

3. Conclusions

"Access to finance is a major problem in Romania than in other EU countries, and innovative firms in the field advanced technologies, find it hard to find external financing. "The lack of adequate transport infrastructure is a major obstacle for Romanian companies compared to similar EU enterprises", says the report. "The lack of adequate transport infrastructure is a major obstacle for Romanian companies compared to similar enterprises in the EU", concludes EIB.

This study analyzes asset pricing and fair value the levels of the hierarchy of commitments in line with IFRS 7.

The article proposes the effects of the high debt the equity ratio and possible price differences, the result of the introduction of IFRS 13 and the impact of IFRS.

During the 2008 financial crisis, H1 results show that fair value assets in the three hierarchy levels are positive associated with share price. Contrary to expectations, the results have been completed that the hierarchical level of debt at fair value level 2 is positive associated with the share price, which presents a gap in literature for future studies. Assets and liabilities at fair value hierarchy levels are different, except for prices for assets at fair value levels 1 and 3. H1 was not confirmed in compliance with the financial sector as a whole, but has been confirmed for the insurance industry as regards fair value assets.

Our results have found that investors in the financial sector does not reduce assets and liabilities at fair value with respect to companies with a high indebtedness, but they place at reducing the value of assets and liabilities at fair value at levels 2 and 3 in the insurance industry. The H3 results show that the introduction of IFRS 13 had the effect of positive effect on asset prices at fair value at level 3 with respect to share price. For H3 we analyzed the differences within it variables between prior and post IFRS 13 and analysis of trend analyzes. Value adjusted after adoption of IFRS 13 increasing, confirming that the results are more explicative in comparison with the previous IFRS 13 period. A limitation of this study is that differences between variables have not been statistically examined, but this can be addressed in the future.

The results in H4 show that compared to the previous period and during the 2008 financial crisis, setting prices at fair value asset level 3 improved in the period following the 2008 financial crisis. However, the explanatory power of the variables used for a low H4 test in the post-crisis period compared to the pre-2008 financial crisis, highlighted by the decline. These tests also included an analysis differences between periods variables during and after the financial crisis of 2008 and trend analysis.

The limitation for the H3 result applies.

There are many possible sources of behavioral risks, characteristics, style and possibly new elements that can determine the heterogeneity of risk / return relationships in the impact of asset price formation in financial research. These issues need to be investigated in future behavioral pricing research on global assets.

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