

Sno	Name of the Scholar	Name of the Supervisor	Title of the Research Topic	Ph.D. Award
5.	Prof. M.Subramanyam	Prof. V.K.Kumar	The Contagion Effect of Fairvalue Accounting : Evidence from Indian Banking Industry	October 2015

ABSTRACT

The research was carried out to find out the evidence from Indian Banking Industry whether the introduction of Fair Value Accounting to the banking industry will have any effect on the growth of Non Performing Assets (NPAs), consequently which might trigger the contagion effect on the Indian banking industry. Healthy competition and efficiency in the banking system in any country will contribute to greater financial stability, product innovation, facilitating various stakeholders like firms, financial services, households and other sections of the society, for accessing the banking services, which in turn will improve the prospects for propelled economic growth. On the contrary, inefficient commercial banking entities contribute to negative growth in the economy pulling on the downside the economic reforms being initiated by the government. The need for a sound and scientifically managed commercial banking entities are the need of the hour, particularly for a developing country like India.

The introduction of International Financial Reporting System (IFRS) represents the most radical step that the faculty of accountancy has taken so far towards bringing in reforms in the accounting arena. The paradigm shift marked by the introduction of IFRS is redefinition of the basis for reporting value. Considerable debate is going on across the globe ever since the topic of convergence with IFRS is initiated by various countries. Experts and practioners opine that, introduction of fair value, which is advocated by the principles of IFRS, will cause extensive volatility in the income statement, as fluctuations in the values of assets and liabilities are required to be accounted for in the income statement of the entity. It is also observed that during times of economic and financial crises, fair value accounting has the tendency to precipitate extreme downside volatility. The present research study attempts to examine the impact of FVA on the Banking Industry in India. For this purpose, the issues in entirety are discussed to record the nature of financial reporting and fair value accounting across the globe particularly in India, in the first chapter.

Growing NPAs in commercial banks is a major challenge for developing countries like China and India. The increase in Gross Non-Performing Assets (GNPAs) affects the banks bottom line of Income earning capacities, ultimately leading to causing systemic risk in the banking industry. There are evidences elsewhere to indicate that extent of FVA used in the balance sheet has far reaching impact on the negative side, when market conditions are not favorable and when entities are poorly capitalized. Many researchers have found the increased use of FVA is

associated with additional bank contagion. The increase in bank contagion is more severe during periods of market illiquidity.

The growing Non Performing Assets (NPA) of commercial banks in India is a major cause for worry in view of the fact that the financial sector reforms being undertaken is hampered by this disturbing phenomenon. With the convergence/adoption to IFRS process having been initiated in India, the study of the effect of the introduction of Fair Value Accounting on the banking industry in India is unique and significant in assessing the impact of NPA growth and on causing the contagion effect. There is enough evidence available to prove that improper management of NPAs results in multiple problems leading to collapsing of banks. Marking to Market, which is the guiding principle of IFRS, if introduced, is likely to compound the problem of NPA management by the banks. Empirical research is going on for some time now the world over revolving around this topic and the Reserve Bank of India is seized of the issue of contagion spread in India. It is observed that there are no empirical studies carried out to find the contagion effect in Indian Banking Industry on account of introduction of the Fair Value Accounting so far.

The present study attempted to examine as to how far the contagion effect of a prospective introduction of FVA in India would be visible on the bank's Loans and Advances Portfolio in terms of changes in the ratio of NPA to Total Assets in these banks. For this purpose, commercial banks' balance sheets from the year 2000 to 2012 are studied by segregating them into four groups, namely – State Bank of India group, Public Sector Banks, Private Sector Banks and Foreign Banks. Empirical examination of each of the groups' contribution to the growth in NPAs on account of introduction of FVA is carried out in this research work in two steps. First estimating the NPA growth without considering the Off-Balance Sheet items and at the second step, converting the Off-Balance Sheet items to On-Balance Sheet values, the NPA growth is estimated for all the bank groups. The results indicate that there will be considerable growth in NPAs on introduction of Fair Value Accounting and there is still more increase in the levels of NPAs after considering the Off-Balance Sheet values. Each bank wise group's estimation as well as for all the bank groups put together is analyzed in the research work.
