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AN EVENT STUDY OF THE IMPACT OF SFAS 95 ON THE U.S. BANKS AND INVESTMENT COMPANIES' STOCK RETURNS

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ABSTRACT

Penelitian ini menguji reaksi pasar saham terhadap serangkaian peristiwa yang berkaitan dengan SFAS No. 95 untuk bank dan perusahaan investasi di Amerika Serikat. Investor menganggap bahwa SFAS no. 95 ini merupakan berita buruk (bad news) untuk bank dan perusahaan investasi. Dengan demikian, diprediksikan bahwa return kejutan (abnormal returns) untuk investor di bank dan perusahaan investasi akan turun selama periode peristiwa yang berkaitan dengan SFAS no. 95 tersebut.

Hasil yang diperoleh berdasarkan metode riset yang dipakai oleh Schipper dan Thompson (1983) tidak berhasil mengkonfirmasi bahwa return kejutan (abnormal returns) untuk investor di bank dan perusahaan investasi akan turun selama periode peristiwa yang berkaitan dengan SFAS no. 95 tersebut. Akan tetapi, hasil yang diperoleh menunjukkan bahwa return kejutan kumulatif (cumulative abnormal returns) untuk bank dan perusahaan investasi pada tanggal peristiwa lebih negatif dibandingkan dengan perusahaan dalam grup kontrol. Lebih lanjut, hasil menunjukkan bahwa peristiwa yang berkaitan dengan SFAS No. 95 mempunyai pengaruh yang negatif kepada bank, tetapi pengaruh yang positif terhadap perusahaan investasi.

Keywords: *Event Study, SFAS No. 85, Bank and Investment Companies, Cumulative Abnormal Returns, Bad News*

INTRODUCTION

The importance of disclosing cash flows became a relevant issue in the late seventies as a result of high inflation in those periods. The Financial Accounting Standard Board (FASB) perceived this matter and issued an exposure draft of a proposed concepts statement, *Reporting Income, Cash Flows, and Financial Position of Business Enterprises* in 1981. However, following comment letters in response to the exposure draft, the Board decided not to issue a final statement on that subject.

The Board was silent on the subject for almost five years. In July 1986, the Board issued an exposure draft *Statement of Cash Flows*. The Statement of Financial Accounting Standards (SFAS) No. 95 was issued in 1987. The statement required all companies to replace the statement of changes in financial position with a statement of cash flows.

This statement raised major objection primarily from banks and investment companies at the exposure draft stage. The Board received 142 comment letters (42% of all responses to the exposure draft of *Statement of Cash Flows*) from banks and investment companies. They argued that a statement of cash flows would not prove useful in

evaluating their liquidity[1]. The objection to the SFAS No. 95 would suggest that the change in disclosure requirements was considered as bad news for most banks and investment companies.

The main purpose of this study is to examine the reactions of stock prices to the SFAS No. 95 for banks and investment companies in particular firms with three digits SIC codes 601, 602, and 621. This study analyzes the behavior of stock prices during the event periods. It measures the market reactions to the events associated with the SFAS 95 (*Statement of Cash Flows*). In addition, a control group is used as a comparison. The control group represents firms other than banks and investment companies. The second objective of this study is to confirm that the returns of the experiment group (banks and investment companies) would exhibit significant negative abnormal returns than the returns of control group would for events associated with SFAS No. 95. The third objective is to examine whether the SFAS No. 95 induces same impacts to banks and investment companies.

An incremental contribution of this study is that the study provides moderate empirical evidence regarding to the investors' reactions to the issuance of one authoritative statement (SFAS No. 95, *Statement of Cash Flows*). The authoritative bodies should take the results of this study into considerations when they have to launch more statements in the future.

The results show that employing methodology used by Schipper and Thompson (1983) fails to confirm that the returns of banks and investment companies were reduced during the events of SFAS No. 95. However, the results show that the cumulative abnormal returns of banks and investment companies on event dates exhibit negative abnormal returns compared to firms in control group. Furthermore, the results show that the events have significant negative impacts on banks but contrary effects on investment companies.

STATEMENT OF CASH FLOWS

Prior to the issuance of SFAS No. 95, the accounting profession and the business community relied upon the statement of changes in financial position as the primary source of information concerning an entity's sources and uses of funds [Accounting Principles Board Opinion (APBO) No. 19[2]]. Several studies revealed the needs of statement of changes in financial position to focus on cash flows rather than on working capital [see Buzby, 1974, Thomas, 1983, and Bryant, 1984].

The SFAS No. 95, *Statement of Cash Flows*[3], requires a statement of cash flows in a complete set of financial statements. Since July 1988, this statement has replaced the APBO No. 19. The focus on cash flow reporting is consistent with the thrust of the FASB's conceptual framework [Munter, 1990]. The primary purpose of the statement of cash flows is to provide relevant information about an entity's cash receipt and cash disbursements during a period [SFAS No. 95, par 4]. The Board's rationale for issuing this statement was to provide investors with information regarding a company's liquidity position,

[1] The Board recognized that information about some financial institutions and investment companies' cash flows might be less important than similar information for other kinds of enterprises. However, the Board decided that information about cash flows was still relevant and that financial institutions and investment companies should not be exempted from a requirement to provide a statement of cash flows.

[2] APBO No. 19, *Reporting Changes in Financial Position*, issued in March 1971, required that a statement of changes in financial position be included when financial statements purporting to present both financial position and results of operations were issued

[3] The SFAS No. 95 requires a statement of cash flows to explain the change during the period in cash and cash equivalents [SFAS No. 95, par 6], to report of gross cash flows [SFAS No. 95, par 11], and to classify cash receipts and cash payments as resulting from investing, financing, or operating activities [SFAS No. 95, par 14]

financial flexibility, profitability, and level of risk [Valenza, 1989].

Livnat and Zarowin (1990) investigate whether disaggregation of total cash flows into their components as required by SFAS No. 95 yields greater association with annual security returns than aggregate cash flows or accruals and find that individual components of cash flows are differentially associated with security returns. Cheng, et al. (1996) investigate whether the incremental information content of cash flows from operations increases when earnings are transitory and conclude that the incremental information content of cash flows from operations increases with decreases in the permanence of earnings. Neill, et. al. (1991) provide review and synthesis of the usefulness of cash flow data. Review and synthesis of the extant literature may serve to identify important issues and provide a basis for extending past research efforts to consideration of the new cash flow disclosures under SFAS No. 95.

Although the new statement is welcomed by most parties, some studies reveal that it has drawbacks. Several studies such as Stephens and Govindarajan (1990), Munter (1990), and Nurnberg (1993) demonstrate that SFAS No. 95 is internally inconsistent and ambiguous in the distinction among operating, financing, and investing cash flows. They remark that proper classification, definition, and presentation of cash flows is important to gain maximum analytical insight from cash flow statements.

HYPOTHESES

The statement of cash flows for banks and investment companies is not as useful as for other type firms. Banks contended that the nature of their business and resulting nature of their cash flows are significantly different from the cash flows of nonfinancial entities and, therefore, render information about banks' cash flows essentially meaningless [Tandy and Moores, 1991].

Moreover, banks have at least three major problems with the requirements of SFAS No. 95. First, they concerned about the overall definition of cash equivalents because the definition appeared to include such investments as three-month treasury bills, commercial paper, and other short-term instruments. These instruments are actually instruments of trading or investing activities rather than cash management activities. Secondly, banks felt that the requirement to report gross cash flows for most items was not appropriate for them. The high volume of transaction common to banks results in reporting gross amounts of cash flows that are large in relation to other cash flows. The reporting of gross cash flows of that magnitude tends to obscure more relevant data that may be included in the statement of cash flows. Thirdly, for banks, purchases and sales of trading account assets have characteristics of both investing and operating activities. However, SFAS No. 95 defines those activities as investing activities (see Tandy and Moores, 1991 and Edwards and Heagy, 1991)

In summary, the SFAS No. 95 is not only useless to banks and investment companies, but also costly to apply. Thus, in the view of the stockholders, the SFAS No. 95 might be bad news. As a consequence, the stock prices of banks and investment companies would assume to drop during the event month of SFAS No. 95. The hypotheses examined in this study are:

Hypothesis 1:

The return of banks and investment companies were reduced during the series of events of SFAS No. 95.

Hypothesis 2:

The abnormal returns of banks and investment companies in event months of SFAS No. 95 would exhibit less or (even negative) abnormal returns compared to firms in control group.

Hypothesis 3:

The abnormal returns of subsample banks and subsample investment companies were different in event months of SFAS No. 95.

RESEARCH METHOD

The impact of SFAS events on stock market is measured in terms of returns. The modified market model is used to provide a statistical result. The model is as follows:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \gamma_j \delta_t + \varepsilon_{jt} \quad (1)$$

where

- R_{jt} : T x 1 time series vector of portfolio return of individual companies
- α_j : intercept parameter for specific individual company
- β_j : coefficient of return sensitivity to the market returns
- R_{mt}: T x 1 time series vector of realized returns to the market portfolio proxy
- γ_j : an event parameter
- δ_t : dummy variable 1 in event months, 0 otherwise
- ε_{jt} : T x 1 time series vector of error of individual company.

The γ parameter is the focus in this study. The γ for each company in the portfolio is multiplied with the dummy variable of event months to capture the impact of the event.

Schipper and Thompson (1983) use this model to study the impact of merger-related regulations on the shareholders of acquiring firms. They use returns on a zero beta portfolio for risk free returns. Sefcik and Thompson (1986) also use a similar model, but they add firm characteristics in the model. The analysis will be conducted in portfolio level since the events will affect the whole companies in the portfolio.

To test the first hypothesis, specifically, the alternative hypothesis can be written as follows:

$$H_1a: \sum_{j=1}^{J} \gamma_j < 0 \quad (2)$$

$$H_1b: \gamma_j < 0 \text{ for all j}$$

where

γ_j : an event parameter

The ordinary least square model of market model in equation (1) for the overall portfolio forces the intercept term to be constant across firms. The fixed effects method[4] captures any differences in the mean returns across firms. Dummy variables for firms are added to the original model. The sum of the parameter reflects a total impact of the events to the firms in the portfolio. If the sum of the parameter does not show a significant impact, it does not mean that each of firm's parameter is not statistically significant. It could be caused of each firm's parameter is canceling each other in the cases where the events hurt one group of firms and help another. The second part of the first hypothesis examine individual firm's parameter.

The second hypothesis examines the impact of each of the eight events on stock prices of experiment firms compared to control firms. The alternative hypothesis can be expressed as follows:

$$H_2a : AR_{1,k} < AR_{2,k} \quad \text{for each event k} \quad (3)$$

where

- $AR_{1,k}$: portfolio abnormal returns of experiment firms on event k
- $AR_{2,k}$: portfolio abnormal returns of control firms on event k

The abnormal return is calculated based on the market model. The model is as follows:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \varepsilon_{jt} \quad (4)$$

[4] Fixed effects method, commonly known as covariance model or least square dummy variable (LSDV) model, is mostly used in pooled regression to capture any differences across firms and across time.

where

R_j: individual firm's return
R_m: market return

$$AR_{jt} = R_{jt} - \hat{R}_{jt} \quad (5)$$

where

AR_j: firm's abnormal return
R_j: firm's predicted return

$$AARt = \frac{\sum_{j=1}^{N} AR_{j,t}}{N} \quad (6)$$

where

AAR_t : average abnormal returns for each event date
N : number of the firm

$$CAR = \sum_{t=1}^{k} AAR_t \quad (7)$$

where

CAR : cumulative abnormal return for all event dates
AAR_t : average abnormal returns for each event date
k : number of event months

The predicted return of event month calculated using the market model from non-event month estimation period is compared to the actual return of the event month and the difference is the abnormal return. The abnormal return of experiment group is compared to the abnormal return of control group for each event month. In addition, cumulative abnormal returns of experiment group is also compared to the cumulative abnormal returns of control group for all events.

To test the third hypothesis, abnormal returns for subsample banks and subsample investment companies are calculated based on the market model. The abnormal returns for subsample banks are then compared with subsample investment companies. The alternative hypothesis can be expressed as follows:

H_3a : $AR_{1,k} \neq AR_{2,k}$ for each event k (8)

where

$AR_{1,k}$: abnormal returns of banks on event k
$AR_{2,k}$: abnormal returns of investment companies on event k

EVENT PERIOD

Table 1 presents a list of event periods in which stock price changes related to the statement of cash flows may be observed. The events have been numbered 1 through 8 and a brief description of each is also provided. These events are compiled from the Wall Street Journal Index, the Wall Street Journal, and from the records of FASB.

Multiple sources of events are used since the financial community receives news from a variety of sources. Two event months (event 3 and 8) are listed on the Wall Street Journal article. The two events are expected to have more impact on the stock returns. The impacts of these two events are assumed to be carried forward to the next month. The other events are enumerated in the backgrounds of SFAS No. 95.

Each of the eight events may be potentially significant to investors. The events relate to SFAS No. 95 in response to concerns over the requirements of statement of cash flows for banks and investment companies. Investors may perceive the impact of these events on returns from investment in banks and investment companies' stocks.

Table 1. Statement of Cash Flows Events

No	DATE	EVENT
1	June 1985	FASB met with the task force on cash flow reporting to discuss appropriate objectives for a statement of cash flows.
2	April 1986	FASB met with the advisory group on cash flow reporting to discuss whether a statement of cash flows should be included in a complete set of financial statements of a financial institution as well as other cash flow reporting issues related to financial institutions.
3	July 1986*	FASB issued an Exposure Draft, **Statement of Cash Flows** (ED SFAS No. 95).
4	December 1986	FASB met with security analysts who specialize in financial institutions to discuss users' needs for information about financial institution's cash flows.
5	January 1987	FASB met with representatives of the Financial Analyst Federation, the Financial Executive Institute, the National Association of Accountants, and the Robert Morris Associates to discuss comments received on the manner of reporting cash flow from operating activities.
6	February 1987	FASB met with the task force on cash flow reporting to discuss comments received on the exposure draft (ED SFAS No. 95).
7	March 1987	FASB met with the advisory group on cash flow reporting.
8	November 1987*	FASB issued **Statement of Cash Flows** (SFAS No. 95)

* reported on Wall Street Journal

DATA AND SAMPLE PERIOD

Monthly return data are extracted from Center for Research in Security Prices (CRSP) 1994 monthly tapes. The sample periods are from January 1985 to August 1991 for total eighty months. The criteria for the firms to be selected as samples are: (1) firms are banks and investment companies based on three digit SIC code 601, 602, and 621 and (2) firms must have all valid data required in this study. There are only 38 firms have all valid data for the sample periods. All the companies are listed in New York Stock Exchange (NYSE) only.

To provide some assurance that the significant abnormal returns for the experiment group, if present, reflect banks and investment companies security price reactions to the events related to the statement of cash flows, a portfolio of control firms is constructed. The control firms are drawn randomly from firms other than experiment firms.

Additional test is performed using daily returns to test the reactions of subsample banks and subsample investment companies to the pronouncement of the exposure draft and the final statement of the SFAS No. 95. Those two events are expected to have greater impacts on the stock returns. However, the impact on the subsample banks might be different from the impact on the subsample investment companies. The market model is estimated

using 250 day estimation periods prior to the event dates. The abnormal returns are calculated using 15 day window periods (from -7 to +7). Daily return data from New York Stock Exchange, AMEX, and NASDAQ are obtained from Center for Research in Security Prices (CRSP) 1994 daily tapes.

DESCRIPTIVE STATISTICS

Individual return and raw excess return over eighty periods are available upon request. Raw excess return is calculated as individual return minus market return. Thirteen percent (13%) of banks have negative average return over eighty periods. Three-fourth (75%) of banks have negative average raw excess return over eighty periods. Fourteen percent (14%) of investment companies have negative average return over eighty periods. A half (50%) of investment companies have negative average raw excess return over eighty periods. Most of the firms in the overall sample have positive average returns over eighty periods. Only thirteen percent (13%) of the firms have negative average returns. Almost a half of the firms have positive raw excess return. Sixty-one percent (61%) of the firms have negative raw excess return over eighty periods.

Portfolio return and market return over eighty periods are available upon request. Forty percent (40%) of the portfolio return and thirty-six percent (36%) of the market return are negative. Forty-one percent (41%) of portfolio return of banks and forty-six percent (46%) of portfolio return of investment companies are negative. Portfolio raw excess return and abnormal return over eighty month periods are available upon request. Fifty-three percent (53%) of the portfolio raw excess return and fifty percent (50%) of the portfolio abnormal return are negative.

EMPIRICAL RESULTS

Table 2 provides results for the first part of the first hypothesis. The first part of the first hypothesis predicts that the γ coefficient of the portfolio is negative. Panel A of *Table 2* provides the results of all event series. For the overall samples, although the overall model is significant at 0.01% level, the coefficient estimate of γ is -0.007 and not significant at 10% level. However, for subsample financial institutions, the coefficient estimate of γ is -0.015 and significant at 10% level. For subsample investment companies, the coefficient estimate of γ is -0.002 and not significant at 10% level. Panel B of *Table 2* provides the results of Exposure Draft and Final Statement of SFAS No. 95. For the overall samples, the coefficient estimate of γ is -0.018 and significant at 10% level. For subsample banks and investment companies, the coefficient estimates of γ are -0.019 and -0.018 respectively. Both are not significant at 10% level.

Table 3 below provides results for the second part of the first hypothesis. The second part of the first hypothesis predicts that the γ coefficient of each firm in the portfolio is negative and significant.

Panel A of *Table 3* e results of individual firm parameter estimates of all event related to SFAS No. 95. The average of coefficient estimate of γ is -0.007 and not significant at 10% level. Two-third (66%) of the γ coefficients are negative and significant at 5%. *Panel B* of *Table 3* e results of individual firm parameter estimates of Exposure Draft and Final Statement of SFAS No. 95. The average of coefficient estimate of γ is -0.062 and not significant at 10% level. Sixty-three percent (63%) of the γ coefficients are negative and significant at 10%. The results presented in this study do not provide a strong support for first hypothesis. However, subsample banks provide stronger support than subsample investment companies.

Table 2. Portfolio Parameter Estimates

	# of obs.	F-value	Adj. R^2	α	β	γ
Panel A: All event series						
Overall Samples	3040	19.400 (0.0001)[a]	19%	-0.004 (-0.275)	1.288 (26.914)*	-0.007 (-1.058)
Banks	1280	31.482 (0.0001)	29%	-0.002 (-0.175)	1.201 (22.865)*	-0.015 (-1.890)**
Inv. Comp.	1760	15.639 (0.0001)	16%	0.019 (0.017)	1.352 (18.442)*	-0.002 (-0.208)
Panel B: ED and FS						
Overall Samples	3040	19.456 (0.0001)	19%	-0.004 (-0.271)	1.282 (26.771)*	-0.018 (-1.690)**
Banks	1280	31.397 (0.0001)	29%	-0.003 (-0.251)	1.193 (22.688)*	-0.019 (-1.597)
Inv. Comp.	1760	15.697 (0.0001)	16%	0.020 (1.199)	1.347 (18.365)*	-0.018 (-1.078)

[a] prob>F
* significant at 1% level
** significant at 10% level

Table 3. Individual Firm Parameter Estimates of All Events Related to SFAS No. 95

Firm	α	β	γ	adj. R^2
Panel A: All Events				
Mean t-stat.	-0.004 2.00 **	1.29 19.02 * % negative z-stat.	-0.007 -1.25 66% 1.95 **	33%
Panel B: Exposure Draft & Final Statement				
Mean t-stat.	-0.004 1.99 **	1.28 19.16 * % negative z-stat.	-0.062 -1.26 63% 1.62 ***	33%

Note: * significant at 1% level
** significant at 5% level
*** significant at 10% level

Table 4 provides results for the second hypothesis. The second hypothesis predicts that the abnormal returns of experiment group are lower than the abnormal returns of control group on event dates. The abnormal returns of experiment group are not always lower than the abnormal returns of control group on all event dates. Overall, six out of ten dates the abnormal returns of experiment group are lower than the abnormal returns of control

group. On July 1986 (the issuance of Exposure Draft of *Statement of cash Flows*), the difference of abnormal returns of experiment and control group is positive and not significant. Investors were hoping that the FASB would exempt banks and investment companies from changing the disclosure requirements. On January 1987, the significant differences of abnormal returns might be confounded with other macro-economic factor. Finally, on November 1987 and December 1987 (the issuance of SFAS No. 95, *Statement of Cash Flows)*, the abnormal returns of experiment group are significantly lower than the abnormal returns of control group. Investors were waiting until FASB issuing the final statement on SFAS No. 95 before they react negatively. As shown in *Table 4*, the cumulative abnormal returns of experiment group is -6.50% and significantly lower than the cumulative abnormal returns of control group (4.44%) at 1% level for all events. The similar results are obtained when only cumulative abnormal returns after the Exposure Draft date and cumulative abnormal returns for the Exposure Draft and the Final Statement of SFAS No. 95 are computed. These results support the second hypothesis.

Table 4. Differences in Abnormal Returns on Event Dates Between Experiment Group and Control Group

Event Dates	Experiment (t value)	Control (t value)	Differences (t value)
June 1985	2.41% (1.74)**	-0.32% (1.19)	2.73% (1.93)**
April 1986	1.08% (0.75)	1.21% (3.53)*	-0.13% (0.09)
July 1986 [a]	-0.36% (0.29)	-0.83% (2.60)*	0.47% (0.37)
August 1986	-1.14% (0.50)	-1.41% (4.19)*	0.27% (0.27)
December 1986	2.71% (2.70)*	1.01% (3.59)*	1.70% (1.63)**
January 1987	-4.45% (2.58)*	-0.79% (2.19)**	-3.66% (2.08)**
February 1987	0.77% (0.47)	1.50% (5.33)*	-0.73% (0.44)
March 1987	-2.17% (1.47)	0.42% (1.16)	-2.59% (1.70)**
November 1987 [b]	0.76% (0.55)	3.23% (9.77)*	-2.47% (1.75)**
December 1987	-6.11% (4.11)*	0.42% (1.14)	-6.53% (4.26)*
CAR Total	-6.50% *	4.44% *	-10.99% *
CAR after ED	-9.99% *	3.55% *	-13.54% *
CAR ED+FS	-6.85% *	1.41%	-8.26% *

Note: * significant at 1% level
** significant at 5% level
[a] FASB issued the ED of *Statement of Cash Flows* (reported on Wall Street Journal)
[b] FASB issued SFAS No. 95, *Statement of Cash Flows* (reported on Wall Street Journal)

Table 5. Abnormal Returns on Event Dates for Banks and Investment Companies

Event Dates	Banks (t value)	Investment Companies (t value)	Differences (t value)
June 1985	1.40% (1.15)	3.15% (1.40)	-1.74% (0.68)
April 1986	2.15% (1.29)	0.30% (0.14)	1.85% (0.68)
July 1986 [a]	0.15% (0.10)	-0.74% (0.39)	0.88% (0.37)
August 1986	-0.90% (0.45)	-1.31% (0.35)	0.41% (0.10)
December 1986	3.21% (3.07)*	2.35% (1.49)	0.86% (0.45)
January 1987	-3.78% (1.44)	-4.94% (2.12)**	1.16% (0.33)
February 1987	-3.56% (2.46)**	3.91% (1.61)	-7.47% (2.64)*
March 1987	-5.08% (3.04)*	-0.05% (0.02)	-5.04% (1.84)**
November 1987 [b]	-0.50% (0.21)	1.69% (1.00)	-2.19% (0.74)
December 1987	-5.84% (2.49)**	-6.31% (3.21)*	0.48% (0.16)
CAR Total	-12.75% *	-1.96%	-10.79% *
CAR after ED	-16.31% *	-5.40% *	-10.90% *
CAR ED+FS	-7.10% *	-6.68% *	-0.42%

Note: * significant at 1% level
** significant at 5% level
[a] FASB issued the ED of *Statement of Cash Flows* (reported on Wall Street Journal)
[b] FASB issued SFAS No. 95, *Statement of Cash Flows* (reported on Wall Street Journal)

To provide additional support for the third hypothesis, additional test is provided using daily return data. The test examines the abnormal return around event windows of Exposure Draft and Final Statement of SFAS No. 95 (15 days). The estimation periods are 250 days prior to the announcement of the events on the Wall Street Journal.

Additional tests are conducted for the exposure draft and final statement events. The cumulative abnormal returns of banks in all markets (NYSE/AMEX and NASDAQ) are significantly negative at 1% level for exposure draft event. The cumulative abnormal returns of investment companies in all markets (NYSE/AMEX and NASDAQ) are significantly positive at 5% level for exposure draft event. The cumulative abnormal returns of banks in all markets (NYSE/AMEX and NASDAQ) are significantly negative at 1% level for the final statement event. The cumulative abnormal returns of investment companies in NYSE/AMEX are significantly positive at 5% level for the final statement event. However, the cumulative abnormal returns of investment companies in NASDAQ are positive but not significant at 10% level.

To contrast the differences between banks and investment companies, the results are displayed in *Figure 1*, *Figure 2*, *Figure 3*, and *Figure 4*. *Figure 1* shows the cumulative abnormal returns for the exposure draft event in the NYSE and AMEX. It is shown that the cumulative abnormal returns of banks are substantially lower than the cumulative abnormal returns of investment companies. *Figure 2* shows the cumulative abnormal returns for the exposure draft event in the NASDAQ. The cumulative abnormal returns of banks are substantially negative while the cumulative abnormal returns of investment companies are positive. *Figure 3* shows the cumulative abnormal returns for the final statement event in the NYSE and AMEX. It is shown that the cumulative abnormal returns of banks are substantially negative and lower than the cumulative abnormal returns of investment companies. *Figure 4* shows the cumulative abnormal returns for the final statement event in the NASDAQ. The cumulative abnormal returns of banks are negative while the cumulative abnormal returns of investment companies are substantially positive. Overall, the figures show that the cumulative abnormal returns of banks are negative and lower than the cumulative abnormal returns of investment companies in all markets and all events, thus providing additional support for the third hypothesis.

SUMMARY AND CONCLUSION

This study examines market reactions to the events associated with SFAS No. 95 for banks and investment companies. The objections from banks and investment companies at the exposure draft stage might indicate that investors perceived the SFAS No. 95 as bad news. It is expected that the abnormal returns for investors in these firms would drop during the event periods.

To test this prediction, three hypotheses are proposed. Employing the methodology used by Schipper and Thompson (1983), the results do not provide strong support for the first hypothesis that return of banks and investment companies were reduced during the series of events of SFAS No. 95. Furthermore, when the cumulative abnormal returns of banks and investment companies are compared with the cumulative abnormal returns of control group on event dates, the results strongly support the second hypothesis that the abnormal returns of banks and investment companies in event months of SFAS No. 95 would exhibit less or negative abnormal returns compared to firms in control group. This study also examines whether the events have the same impacts to the banks and investment companies. The results show that the events have significant negative impacts on banks and contrary effects on investment companies.

The results have an implication to the FASB. In February 1989, the Board issued SFAS No. 102[5] which amends SFAS No. 95 to exempt investment companies from the requirement to provide a statement of cash flows and to permit cash flows of certain loans and assets acquired specifically for resale and carried at market value to be classified as operating activities. In December 1989, the Board issued SFAS No. 104[6] which amends SFAS No. 95 to permit banks to report in a statement of cash flows certain net cash receipts and cash payments. The results presented in this study somewhat support the rationale of FASB's issuing SFAS No. 102 and SFAS No. 104.

A caveat should be taken to interpret these results since this study only uses a small sample from banks and investment companies. Future research are needed to substantiate the results. Future research should address several issues to improve the results of this study.

[5] Statement of Cash Flows - Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale.

[6] Statement of Cash Flows - Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions.

First, characteristic of firms might be included in the model as in Sefcik and Thompson (1986). This inclusion might improve the results of this study. Second, daily return data should be used instead of monthly return data for two reasons: (1) the number of banks and investment companies on the CRSP monthly return tapes are limited and (2) the longer monthly period might "hide" the strong market reactions since market would react instantly after events were pronounced. Third, different methodologies could be used to explore the impact of the SFAS No. 95. Another possibility is to extend this study and examine the stock market reactions to the issuance of SFAS No. 102 and SFAS No. 104 which followed SFAS No. 95.

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Figure 2
Cumulative Abnormal Return
Exposure Draft/ NASDAQ - SFAS 9

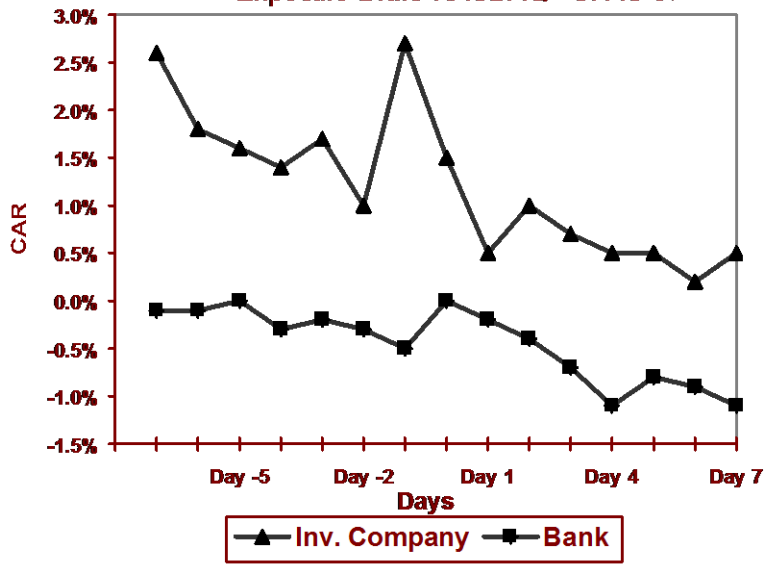

Figure 1
Cumulative Abnormal Return
Exposure Draft/ NYSE - SFAS 9

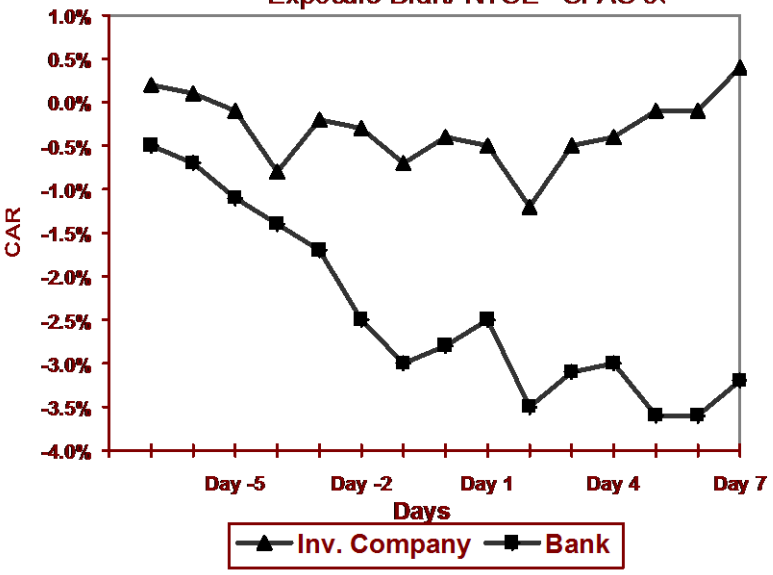

Figure 3
Cumulative Abnormal Return
Final Statement/ NYSE - SFAS 95

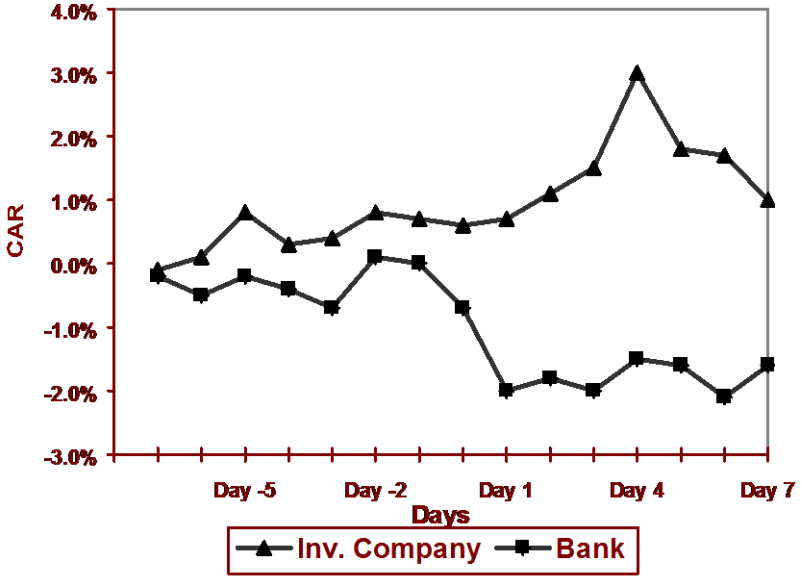

Figure 4
Cumulative Abnormal Return
Final Statement/ NASDAQ - SFAS 9