Research on the Implementation Situation and Effects of Financial Instruments Standards of X Rural Commercial Bank

Junlin Liu*

School of Finance, University of International Business and Economics, Beijing, China

*Corresponding author's email: 3479989437@qq.com

Abstract. The revision and implementation of financial instruments standards is an important measure to deepen financial reform and prevent and defuse financial risks. This article takes X Rural Commercial Bank as the research object to investigate its specific situation after the implementation of the standards in 2021. The bank has completed the three-category accounting of financial assets, carried out measurement, Asset transfer treatment and three-stage impairment provision as required, and achieved the effect of improving the quality of accounting information, enhancing risk resistance capacity and focusing asset allocation on the main business of agriculture, rural areas and farmers and small and micro enterprises. At the same time, it was found that the bank has problems such as a shortage of professional and compound talents, difficulties in the practical operation of fair value measurement of market asset, insufficient adaptability of the expected credit loss model, and increased pressure on capital management. Based on this, targeted suggestions are put forward from five aspects: talent cultivation, construction of a characteristic valuation system, optimization of risk control models, strengthening of capital planning, and improvement of risk pricing capabilities, providing references for rural commercial banks to optimize the implementation of standards.

Keywords: Rural Commercial banks, financial instruments, standards, implementation situation, suggestions

1 Introduction

In 2017, the Ministry of Finance revised and promulgated a new set of accounting standards for **financial instruments(FI)**, centered on reducing accounting complexity, mitigating procyclicality, and enhancing the transparency of financial markets. The revised standards introduced a three-category classification framework for **financial assets(FA)** based on both the entity's business model and the contractual cash flow characteristics of the instruments, while also incorporating the **expected credit loss(ECL)** model and **fair value(FV)** measurement requirements. These changes were intended to address deficiencies in the previous standards, particularly the excessive subjectivity in asset classification and the lagged recognition of risk, thereby enabling

P. S. Borah et al. (eds.), *Proceedings of the 2026 6th International Conference on Enterprise Management and Economic Development (ICEMED 2026)*, Advances in Economics, Business and Management Research 394,
https://doi.org/10.2991/978-94-6239-719-4_26

entities to recognize impairment losses in a more timely and adequate manner and to reflect market risks more faithfully.

As the new standards have been progressively implemented across different types of financial institutions, both their practical effects and the difficulties associated with their application have become increasingly evident. Taking X Rural Commercial Bank as a case study, this paper examines the implementation process of the new accounting standards for FI in a rural commercial bank, with particular attention to asset classification, measurement approaches, and the resulting outcomes. It further identifies several practical challenges arising during implementation, including system compatibility, data governance, and impairment estimation, and proposes targeted policy and managerial recommendations. This study provides both theoretical support and practical insights for the smooth adoption of the new financial instrument standards by small and medium-sized financial institutions. It also enriches the literature on the application of these standards at the level of local incorporated banks and offers useful reference for comparable institutions seeking to improve financial assets classification management and optimize impairment provisioning mechanisms.

2 Literature Review

In previous related research, Gao [1]analyzed the changes in the new instruments standards and put forward corresponding suggestions to ensure the normal and stable operation of commercial banks. Zhang [2] proposed the background of the formulation of the new instruments and pointed out that the revised accounting standards for FI have certain impacts on the classification and measurement of assets, the methodology of reduced valuation, the submission of regulatory indicators, and system transformation of commercial banks. Provide guidance on how commercial banks should respond to changes. Lu [3]research found that the differences between the new standards and the old ones mainly lie in three aspects: the classification of FA the setting of impairment models, and hedging accounting. These have had a significant impact on the process framework, accounting calculation, business model, risk management, and accounting subject setting of commercial banks. Based on the analysis of the release background, change manifestations and other issues of the new FI standards, this paper studies how commercial banks respond to the impacts caused by the implementation of the new FI accounting standards. Liang [4] research found that the new standards have changed the measurement and classification of FI, clearly explained the scope of application of policies such as impairment of FAs and hedging accounting, and took A-shares as an example to address the problems encountered by commercial banks in the provision for impairment of FAs under the new standards, providing reference significance for commercial banks to implement the new standards. Xu and Yin [5] took A+H share listed commercial banks as an example to study and analyze the impact of the implementation of the new standards. It was found that under the implementation conditions of the new standards, the scope of FAs measured based on FV expanded, and the fluctuation range of FV intensified. However, the changes in impairment of FAs did not have A significant impact on the provision of credit impairment losses of commercial banks listed on A+H shares. Finally, suggestions are put forward from three aspects. Based on the elaboration of the changes in the new standards in her own research, Quan [6]explored their specific impacts on commercial banks and then put forward a series of related suggestions, providing theoretical support for commercial banks to respond to the new standards. Starting from the main changes in the new [7]and old accounting standards, Liu Haixin focused on discussing and analyzing the impact of the new accounting standards on China's commercial banks from the two aspects of classification, recognition and measurement of FI and proposed corresponding response strategies for commercial banks in response to these impacts. Starting from the new standards, Huang[8]conducted an in-depth analysis of the impact of their implementation on the reclassification of FAs impairment provisions, and financial statements of small and medium-sized commercial banks, and provided feasible suggestions for the implementation of the new standards by small and medium-sized commercial banks. Under the background and changes of the implementation of the new standards, Ju [9]analyzed various difficulties encountered in the process of their implementation, and then put forward guidance and suggestions that regulatory authorities should provide in terms of valuation, impairment methods and policies.

3 Investigation and Analysis on the Implementation of the FI Standards of X Rural Commercial Bank

X Rural Commercial Bank was promoted under the unified arrangement and deployment of Y Province Rural Commercial United Bank to implement the FI standards. YITH Rural Commercial United Bank carried out system conversion and account split and other work in accordance with the requirements of the FI standards, and officially implemented the FI standards on January 1, 2021, and conducted corresponding accounting calculations.

3.1 Classification of FA

According to the requirements of the FI standards, the FA of X Rural Commercial Bank are classified into three categories: 1. FA measured at amortized cost (73%) mainly include loans, funds deposited with the central bank, funds deposited with interbank funds. 2. FA measured at FV with changes recognized in other comprehensive income (24%), mainly including other debt investments, discounting and designated equity Tool; 3. FA measured at FV with changes recognized in profit or loss (3%), mainly trading FA.

3.2 Measurement Methods for FI

(1) Measured at amortized cost.Initially recognized at FV plus transaction costs, interest calculated using the effective interest rate method during the holding period, and disposal differences recognized in profit or loss for the current period.

(2) Measured at FV. For those classified as FVIPL, transaction costs are included in the current period's profit or loss, and changes in FV are included in the current period's profit or loss. For those classified as FVOCI, transaction costs are included in the initial cost, and changes in FV are included in other comprehensive income. When derecognized, the accumulated gains are Out to the current period's profit or loss (debt Tool) or retained earnings (equity Tool).

(3) Implementation of Impairment for Financial Assets

Rural Commercial Bank X measures ECL for FA carried at amortized cost, debt instruments measured at FV through other comprehensive income (FVOCI), as well as loan commitments and financial guarantee contracts, either on an individual basis or on a collective basis where appropriate. In estimating ECL, the bank incorporates reasonable and supportable information on historical experience, current circumstances, and anticipated future economic conditions. The measurement is based on the present value of the shortfall between contractual cash flows and the cash flows expected to be collected, adjusted for default risk and probability weighting.For the financial instruments subject to ECL assessment, the bank evaluates at each reporting date whether credit risk has increased significantly since initial recognition. On this basis, impairment is recognized under the three-stage model, with loss allowances measured according to the stage to which the relevant instrument is assigned.

4 Effect Analysis of X Rural Commercial Bank's Implementation of FI Standards

4.1 Asset Classification Better Reflects Business Substance and Enhances the Quality of Accounting Information

The FI standards have simplified the classification criteria for FA, promoting the shift of assets classification of rural commercial banks from "subjective judgment" to "objective matching". The assets classification is highly consistent with the actual business, effectively improving the authenticity of Asset structure disclosure. The "Interest Receivable" or "Interest Payable" items are not presented separately in the assets. The interest on FI accrued based on the effective interest rate method is reflected in the book balance of the corresponding FI. Interest income calculated by the effective interest rate method for FA classified as measured at amortized cost and FA classified as measured at FV with changes recognized in other comprehensive income is reflected in the "Interest Income" item of the income statement. The credit losses recognized for the provision for credit losses on FI and the impairment provisions on other Asset are respectively reflected in the "Credit Impairment Loss" item and the "Impairment Loss on Other Asset" item of the income statement. It enables report users to clearly identify the risk and return characteristics of assets, significantly enhancing the comparability of reports.

4.2 More Forward-Looking Impairment Provisioning and Enhanced Risk Resilience

Under the new standards, X Bank uses the ECL model to recognize impairment on an individual-asset basis, incorporating historical data, the three-stage credit risk framework, and forward-looking macroeconomic information through the I9 Impairment Valuation System. This improves the objectivity and timeliness of asset valuation and enhances the usefulness of accounting information.The new standards have also made impairment provisioning more standardized and forward-looking, strengthened reserve accumulation, and promoted a shift from passive risk monitoring to proactive risk identification, thereby enhancing the bank's risk management capacity.

4.3 Asset allocation has Become more Focused on Core Business Activities, with a Clearer Strategic Orientation toward Serving Agriculture-related Sectors and SMEs

Under the new standards, FA measured at amortized cost, particularly loan assets, provide relatively stable returns without direct exposure to FV volatility. This has incentivized X Bank to increase credit allocation to agriculture-related sectors and SMEs. Between 2021 and 2024, such lending grew continuously, with an average annual growth rate of 20%. By combining stable lending income with appropriate ECLprovisioning, the bank has better balanced its policy-oriented service function with prudent risk management, thereby reducing the previous tendency to pursue short-term returns through higher-risk financial asset allocation.

5 Problems Existing in the Implementation of Accounting Standards for FI by Rural Commercial Banks

5.1 Shortage of Specialized Talent

The accounting standards for FI involve complex financial theories and accounting treatments and therefore place substantial demands on professional competence. Their implementation requires interdisciplinary expertise spanning accounting, risk management, financial markets, and data modeling. At present, rural commercial banks generally face a shortage of such qualified personnel. During the implementation process, some employees have shown deviations in their understanding and application of the standards and remain influenced by the legacy mindset under the previous standards, in which asset classification was largely determined by holding intent. In particular, insufficient capability in analyzing embedded options and structured contractual terms may impair the accurate classification of FA and the proper conduct of impairment assessment and valuation.

5.2 Difficulties in the Practice of FV Measurement

Rural commercial banks generally have the habit of using "active market quotations" as the basis for FV measurement and lack the ability to apply valuation techniques for Asset in inactive markets (such as rural property mortgage loans, forest right income rights certificates).

5.3 Inadequate Adaptability of the ECL Model

Agricultural-related loans are significantly affected by non-economic factors such as climate and disease, but the existing models do not incorporate regional risk factors, which may lead to inaccurate provisions for agricultural-related and micro and small enterprise loans.

5.4 Intensified Pressure on Capital Management

The new accounting standards for FI require the adoption of the ECL model. For rural commercial banks with relatively weaker asset quality, this generally results in higher provisioning requirements. As increased impairment allowances reduce retained earnings and Common Equity Tier 1 (CET1) capital, they may also expand the scale of risk-weighted assets (RWA), thereby accelerating capital consumption and exerting downward pressure on the capital adequacy ratio (CAR).

6 Conclusions

6.1 Conclusions

The implementation of FI standards in rural commercial banks has been generally stable, improving the quality of accounting information and the level of risk management. However, it faces implementation challenges such as policy understanding, talent, operation and data.

6.2 Recommendations

1. Build a dual-support mechanism of talent and valuation to address professional constraints.

To mitigate the shortage of specialized personnel and the challenges of FV measurement, an integrated strategy combining internal training and external recruitment is recommended. Banks should strengthen talent attraction by adopting more competitive recruitment policies for interdisciplinary professionals with expertise in finance, accounting, risk management, and information technology, while also enhancing in-house training through regular programs on the requirements of the new accounting standards for FI and the operation of impairment and valuation systems. Cooperation with universities may also be expanded to establish talent development bases.On the valuation side, provincial rural commercial banks could take the lead in working with provincial rural property rights exchanges to develop a rural property valuation database and establish regional benchmark prices for assets such as rural homestead management rights and security interests in agricultural facilities. At the same time, professional third-party valuation agencies should be engaged to reassess complex FI, and valuation techniques should be continuously refined through comparison with subsequent actual cash flows or disposal values.

2. Strengthen data governance and enhance the localized adaptation of the ECLmodel.

To address the limited applicability of the ECL(ECL) model, banks should improve the cleansing, backfilling, and standardization of historical data, with particular attention to customer profiles, collateral information, and records of risk migration. They should also break down data silos and cooperate with government agencies, such as the Meteorological Bureau and the Agriculture and Rural Affairs Bureau, to incorporate external risk factors, including regional weather disasters and animal and plant diseases, into risk analysis.Under the coordination of the provincial bank, a regional credit risk database for agriculture-related and small and micro enterprises should be established, and non-economic factors such as climate and regional risks should be embedded into the risk model. In addition, a risk review committee composed of senior loan officers, agricultural experts, and government advisers should be formed to periodically review model outputs, thereby improving the timeliness and accuracy of risk identification.

6.3 Strengthen Capital Planning and Refined Management to Improve Operational Resilience.

To address capital pressure and earnings volatility, banks should incorporate the ECL(ECL) model and FV changes into capital planning and stress testing to assess provisioning dynamics under different macroeconomic scenarios and identify potential capital gaps in advance. They should also seek policy support, including local government special-purpose bonds for capital replenishment.At the operational level, model-based risk parameters should be integrated into loan pricing to better align risk and return. Banks should also maintain their local market focus and continue to expand lending to the agriculture-related sector and small and micro enterprises, thereby improving capital efficiency. In addition, digital transformation supported by the provincial bank can help enhance efficiency and reduce costs, thus supporting sustainable development.

References

1. Gao Lei. On the Impact of the Implementation of New FI Accounting Standards on Commercial Banks [J]. Accounting Learning,2022,(28):135-137.
2. Zhang Xing. Analysis of the Impact of the Implementation of New Accounting Standards for FI on Commercial Banks [J]. China Collective Economy,2022,(21):73-75.
3. Lu Yan. Research on the Impact of the Implementation of New FI Accounting Standards on Commercial Banks [J]. Accounting Learning,2021,(30):140-142.

4. Liang Gang. A Brief Analysis of the Impact of the Implementation of the New Accounting Standards for FI on Local Commercial Banks in Ningxia [J] Times Finance,2020,(36):27-29.
5. Xu Yiqing, Yin Hong. Analysis of the Impact of the Implementation of the New Accounting Standards for FI: A Case Study of A+H Share Listed Commercial Banks in China [J]. Business Accounting,2020,(20):76-79.
6. Quan Yuxia. Analysis of the Impact of the Implementation of New Accounting Standards for FI on Commercial Banks [J]. Industrial Innovation Research,2020,(11):63-64.
7. Liu Haixin. A Brief Discussion on the Impact of the Implementation of New Accounting Standards for FI on Commercial Banks [J]. China Business Review,2020,(10):73-74.DOI:10.19699/j.cnki.issn2096-0298.2020.10.073.
8. Huang Yan. Analysis of the Impact of Implementing New FI Standards on Small and Medium-sized Commercial Banks [J]. Green Finance and Accounting,2020,(05):8-11.DOI:10.14153/j.cnki.lsck.2020.05.002
9. Ju Yang. Thoughts on the Implementation of New Accounting Standards for FI by Commercial Banks [J]. Administrative and Institutional Asset and Finance,2019,(10):64-65.