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IMPACT OF IFRS ADOPTION ON ROMANIAN COMPANIES

Theoretical article

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Abstract

Accounting globalization aims the transformation of the accounting system into an economic and financial model, able to inform more correctly and rapidly the accounting information users, amongst which the investors and the creditors are clearly delimited. Within this context, the need of a harmonized and well oriented accounting system has become imperative. The adoption of a set of international accounting standards in Europe is intended to provide uniform and high quality information on the financial markets which would consolidate the global market efficiency, reducing the cost of capital accessing for European companies. There are numerous opinions according to which the IFRS adoption could be an element of abolishing the discrepancies between the accounting systems, at the same time offering a high level of transparency of the financial information. Our objective is to analyze the opportunity of implementing the IAS/IFRS referential by the Romanian companies, as well as their instant reaction within this context.

Introduction

The economical expansion to new markets raises the need of a common international accounting system, considering that the efficiency of capital allocation by investors would be reduced without consistent, comparable, relevant and reliable information regarding the financial condition and operating performance of potential investments. This system is supposed to help external users from other countries, with different accounting principles, cultures, laws to relay on the financial statements prepared under the rules of a uniform accounting system. The research is based upon the reality according to which the globalization of the economy asks for the harmonization of the national accounting systems through the IASB referential, the future being represented by the global standards, not the national ones. At this point, theoretical, legislative, accounting and fiscal practice aspects regarding the impact of the international financial reporting standards on the Romanian companies are being brought into discussion. After pointing out the relevance and timeliness of the theme and objectives of the study, we will focus our research on examining the way the adoption of the IAS/IFRS accounting referential was welcomed by the Romanian companies.

1. Literature review

The research on international accounting harmonization has been gaining great importance in recent years due to the globalization of markets and the consequent internationalization of business. The challenge of harmonization, as seen by Van Hulle (1993), is the countries' belief that their own accounting rules are much better than those of the others. The authors brings into discussion the ways of taking up this challenge, such as the development of uniform rules or the use of options, considered equivalent and supplemented by appropriate disclosures in the notes.

The international harmonization of accounting would be successful solely after developing common accounting rules, reporting standards, and, efforts by "global players" to adopt accounting methods that will improve communication with other users. High quality accounting rules consist of a comprehensive set of neutral principles that require consistent, comparable, relevant and reliable information that it is useful for investors, lenders, creditors and generally all those in charge who make capital decisions (Panagiotis and Stergios, 2011).

The globalization of accounting standards through the development and growth, since 2001, of International Financial Reporting Standards (IFRS) is one of the most important phenomena in the corporate governance today (Ramanna K., 2012). In the past several years, most accounting academics have been paying close attention to the International Accounting Standards Board (IASB) and its production of International Financial Reporting Standards (IFRS). According to Zeff (2012), in its short life, since 2001, the IASB has vastly reshaped the world map of company financial reporting. The evolution of the IASC and the IASB is the tale of a private-sector international accounting standard setter that has succeeded in earning the respect and support initially of national accounting bodies, then of national standard setters, and ultimately of regulators in the major capital markets and of government ministries, as well as of the preparers and users of financial statements around the world.

Ramanna (2012), points out that, according to Baxter (1981), the development of national accounting "standards" is itself a relatively recent phenomenon, dating only to the post-World War II era, so the internationalization of accounting

standards is still more recent. Baxter makes the distinction between pre-War U.S. GAAP that generally reflected the codification of widely accepted accounting practices, and post-War U.S. accounting “standards” that were motivated from conceptual ideas and thus did not always reflect existing practice.
The process of accounting harmonization is far from being a consensus process. The revision of literature shows favourable and adverse arguments. The most frequent criticism lies in the fact that the accounting system must be adapted to the economic and social context the company activates in (Hopwood, 1994; Cairns, 1997; Lehman, 2005). Burlau (2001) considers accounting a mirror of a society, therefore, international harmonization and standardization is a response to social needs, a compromise among different interests, not only a technical process. However, it appears that as the process of globalization of financial markets progresses, the voices in favour seem to prevail despite the critics (Van Hulle, 1993; Cairns, 1997; Walton and Haller, 2003; Nobes and Parker, 2006). Nevertheless, the difficulties of implementation cannot be forgotten. The literature review carried out shows that there are challenges in the implementation of IFRS by European companies. Such challenges have occurred not only during the period of adaptation of national legislation to EU directives but also during the implementation of this legislation (Alp and Ustundag, 2007; Jermakowicz and Gornik-Tomaszewski, 2006).
Some studies point to a greater use of IFRS in larger companies with a high degree of internationalization (Dumontier and Rafournier, 1998). Other authors (Burlaud, 2001) highlight difficulties in the implementation of IFRS on SMEs, even considering that this phenomenon of accounting harmonization merely promote the large multinational groups.
Do Céu Alves and Antunes (2011) bring into discussion three stages in the process of accounting harmonization in Europe as identified by Giner and Mora (2001). A first stage of research, that has shown the accounting practice and regulations of the countries, helped the formal harmonization process and allowed to explain the diversity of standards and companies’ practices. The globalization of the economy marked the beginning of the second stage. Companies are beginning to take an active role in the harmonization process by putting pressure on institutions so that the new accounting rules allow a greater comparability of accounting and financial reporting required by global markets. While this process has been initiated by bodies such as the IASB and the U.S., many authors consider that the greatest impetus was given by the multinational corporations. In this stage the multinational corporations, whose accounting systems were very influenced by the need to resort to capital markets beyond borders, stood out. Finally, the adoption of the single currency marked the third stage which was also associated with the creation of the European Stock Exchange (Euronext).

2. International Financial Reporting Standards - Instruments of accounting normalization

The emergence of the multinational companies, as well as the necessity of an international usage of the financial information led to the need of a language common to the accounting systems worldwide. And, even though accounting is still far from such an objective, the creation of the International Accounting Standards Committee (IASC), and then, starting with April, 2001 of the International Accounting Standards Board (IASB) has brought a whole series of improvements in this regard.
At June 29th, 1973, the representatives of the major accounting organizations from Australia, Canada, France, Germany, Japan, Mexico, Holland, Great Britain,

Ireland and the United States of America were signing, at London, the fundamental act of creating this international organization, whose main objective was to elaborate and publish, according to the public's interest, international accounting standards which should be respected according to the presentation of the annual accounts and the financial situations, as well as to assure the acceptance and application of these standards at global level.

The IASB standards are not imposed to any person, company or state, considering that they don't have the juridical force of the community directives. They are distinguished through a high quality and through the spirit of independence and expertise by which they are elaborated. These accounting standards generally refer to the evaluation, presentation and communication of information of the company's financial situations, endorsing more principles than rules and letting a large margin of maneuver of the professional judgment.

The standards further elaborated by the Council are named International Financial Reporting Standards (IFRS). By elaborating these standards, the IASB intends to provide adequate solutions for companies from all over the world, no matter the date of their adoption. The IFRS network is formed by the following components:

- International Financial Reporting Standards (IFRS);
- International Accounting Standards (IAS);
- Interpretations of the International Financial Reporting Standards (IFRIC) issued by the IFRS Interpretation Committee, formerly called the International Financial Reporting Interpretations Committee;
- Interpretations of International Accounting Standards issued by IASB's predecessor body and its interpretative committee.

There should be specified that the application of the IFRS is carried on based on the existence of the European Accounting Directives. Besides the actual existent concerns of harmonization between the two sets of regulations, the divergences are significant, mainly due to the fact that the European Union member states have the obligation to apply the European dividends, the latter being assumed as regulations in each country's law system.

There are several ways the IASB standards are used in:

- In quite rare cases, they are directly applied by some countries, as their national norms. It is the case of countries such as Bulgaria, Cyprus, Malta, Trinidad and Tobago, Uruguay, Malaysia, etc.;
- In the most frequent cases, they are used as a helpful documentation, when drafting the national regulations is being discussed;
- They can be also used as reference, regarding the assurance of comparability between national regulations and the IASB referential;
- The multinational companies and the large companies listed on international financial markets must present their accounts according to the international standards or to the regulations internationally approved.

The process of international accounting normalization faced numerous obstacles. An example in this regard is that these standards are only applied to international companies. Whereby, locally, these standards represent only a landmark for elaborating the national standards and not a compulsory referral guide, the coexistence within the same national standards of two general accounting frames, could lead to divergences.

Over the time, there was a continuous contest between the international European and American regulatory bodies, with the aim of keeping the economic power through accounting. Despite the political, economic and military position occupied by the United States, the American standards could not impose themselves as international accounting standards. This is mainly due to the credibility the accounting standards elaborated by the IASB are being favoured with. In 2002, a convergence agreement between IASB and FASB was signed, through which the existent International Financial Reporting Standards must be fully and continually compatible.

As a conclusion, meanwhile the traditional reporting is focused on respecting the going concern assumption and the entity principle, the one proposed by the working groups previously mentioned are based on the concept of permanent development and reporting to the existent environment and resources, as well.

3. Integration of the Romanian accounting system into the international accounting system

The Romanian accounting system is characterized by a continuous reform process started many years ago, in an attempt to align the relevant legal provisions from Romania to the ones of European Union, as well as to the International Financial Reporting Standards.

The beginning of the normalization reform was marked by the introduction of the Accounting Law no. 82/1991 with its numerous subsequent amendments and additions. The entities which are considered the object of the legal regulations have the obligation to organize and carry on the proper accounting according to this law. The next step in the supposed process has proposed the substitution of the old accounting system with a new one, much closer to the French system, based on the general accepted accounting principles (GAAP), which came into force starting with January 1st, 1994.

The third step of the reform process started in 2001, when the Ministry of Finances has involved in the harmonization of the Romanian accounting with the European directives and the International Accounting Standards. The start in what regards the initiation of the IASB referential was given by Order no. 403/1999 for the approval of accounting regulations harmonized with the 4th Directive of the European Economic Community and the International Accounting Standards which endorsed a representative sample of 13 companies listed at the Stock Exchange and companies of national interest. This order was replaced by Order no. 94/2001 regarding the approval of the Accounting Standards compliant with the 4th Directive of the European Community and International Accounting Standards, on one hand, and by Order no. 306/2002 for the approval of the simplified Accounting Standards, harmonized with the European Directives, on the other hand. A further issued order, OMFP no. 1752/2005, repealed the two above mentioned orders, being at its turn further revoked by Order no. 3055/2009 regarding the approval of the accounting regulations compliant with the 4th Directive of the European Union for the individual financial situations and with the 7th Directive of the European Union for the consolidated financial situations.

Starting with January 1st, 2012, the credit institutions adopted the IFRS in their current accounting, according to the Romanian National Bank Order no. 27/2010 for the approval of the accounting regulations compliant with the International Financial Reporting Standards, applicable to the credit institutions, with the subsequent amendments. Further on, starting with 2012, according to Order no. 881/2012, the Ministry of Public Finances stipulated the obligation of the companies whose securities are admitted to trading on a regulated market, to apply the IFRS for elaborating the individual annual financial situations. Since 2013, the entities provided by the actual order organize the accounting based on the IFRS provisions, no longer being applicable the accounting regulations compliant with the European Directives, approved by Order no. 3055/2009.

This normative act was accompanied by Order no. 1286/2012 for the approval of the accounting regulations compliant with the International Financial Reporting Standards, applicable to the companies whose securities are listed on a regulated market. According to the Law no. 297/2004 regarding the financial market, with the subsequent amendments and completions, the regulated market is a trading system of the financial instruments, characterized by the following:

- It functions on a regular basis;
- It is characterized by the fact that the regulations issued and submitted to the approval of the National Committee of Real Values (CNMV), currently named the Financial Supervisory Authority (ASF), are defining the functioning, the access on the market and the approval for trading conditions for a financial instrument;
- It respects the reporting and transparency requirements in order to assure the investor's protection established by the current law, as well as the regulations issued by the CNMV, in accordance to the community law.

The provisions of the above mentioned order are incident to the issuers whose securities are traded in categories 1, 2 and 3 of the Bucharest Stock Exchange - the regulated market, as well as at the category outward regulated market from Sibex. Currently, there are 80 companies whose securities are traded on a regulated market. Taking into consideration the above mentioned, just for 68 listed companies are applicable the provisions of Order no. 881/2012.

The flexibility in the interpretation of the IFRS and the ability of each state to adapt the important parts of these standards lead to different accounting methods and results between countries. Thus, in 2012, the annual financial individual statements according to the IFRS were concluded by restating the information within the accounting organized according to the regulations compliant with the 4th Directive of the European Economic Community, approved by Order no. 3055/2009 by using the IFRS, including the provisions of IFRS 1 First-time adoption of IFRS. Exception from this request of restatement made the entities that explicitly and unconditionally declared that their annual financial statements are according to the IFRS referential and they are exempted according to IFRS 1. For other entities, the statement of financial position, as a part of the annual financial statements at 31 December 2012, included information corresponding to the end of the reporting financial year, the end and the beginning of the previous financial reporting year. Moreover, the global result statement included two columns of information corresponding to the current financial year (of reporting) and to the financial exercise prior to that of reporting.

4. Discussions regarding the immediate effects of implementing the accounting regulations compliant with the IFRS by the Romanian companies

The elaboration of the financial statements using the IFRS as an accounting basis represents a milestone for any company since it requires a period of training in this respect of both the company (the management) and the directly involved personnel. This generated the need of complete training programs in the IFRS domain, which are desired to be implemented without affecting the normal functioning of the company during the training period, as well as the opportunity to learn from the practical implementation of the IFRS, considering their complexity and that they are based on principles and not rules, the application of the professional judgment and conducting estimates being required in most cases. Moreover, it is sometimes possible that the companies do not dispose of adequate human resources as number and/or as professional background and the recruitment of some additional resources could be necessary, process which also requires time.

The changes in the accounting policies, procedures, as well as in the rules of elaborating the multi annual income and expenses budgets according to the IFRS, the implementation of new calculus functionalities and modification of the information flows within the company, as well as the duties relocations in the financial-accounting department require internal processes adoption, including the correspondent internal controls, the job descriptions and the regulation of organization and functioning if the company.

In addition, a series of deficiencies related to the first time adoption of the IFRS was identified and became subject to a detailed analysis of those involved in the process.

During 2012, the listed companies organized the accounting according to the provisions of OMFP no. 3055/2009, which laid out the basis for filling in the fiscal statements and other situations required by the state authorities or other third parties. The registration of the restatement adjustments according to IFRS at the 31st of December, 2012 has influenced the income and expenses accounts related to the whole year 2012, with impact on the declarations and intermediary reports prepared and filed during the year. Furthermore, there is the possibility that the restatements produce unpredictable effects on both the financial result and the subsequent cash flow (for example, the planned dividends, profit tax, other taxes and duties), jeopardizing the capacity of the listed companies to accomplish the financial objectives they assumed in the revenues and expenses budgets for 2012 towards their creditors, shareholders, etc. The calculus and reporting of some financial indicators different than those initially predicted and periodically reported according to the request of the regulatory body of the capital market (liquidity rates, return on capital employed, earnings per share etc.) and of their communication programs may create confusions or misinterpretations among the existent and potential investors, less familiarized with the IFRS principles.

Among the existing drawbacks, we can also mention the short term available from the date on which the transition to the IFRS as a basis of accounting reporting for the listed companies was announced, i.e. August 2012, and the date the accounting regulations compliant with the IFRS were issued, i.e. October 2012. In these circumstances, there wasn't enough time to identify, quantify and incorporate the IFRS restatement adjustments in the budgeting process of the listed companies for 2012-2013. Thus, it is possible that many of the involved companies could have reported financial results significantly different than the forecasted ones for 2012 and 2013, with impact on the creditors and shareholders, without having the necessary time for communicating this impact and for taking the necessary measures (renegotiation of the loan contract clauses, modification of the contract clauses or legal requests regarding the distribution of dividends). The management of the companies had to make decisions on the accounting policies unwittingly, without having the possibility to evaluate and quantify the impact over the financial and fiscal position and the financial result of the company.

The transition to the IFRS as an accounting basis involve additional costs, like the ones for training the personnel, adaptation of the information systems, fair value assessment, consultancy services, etc., unpredicted in the revenues and expenses budget for 2012. There should be taken into consideration that some changes in the

information systems can only be implemented after the analysis of all the alternatives of accounting procedures allowed by the IFRS, including from the perspective of their forecasted fiscal impact, which wasn't fully verified.
Considering that most of the companies required to adopt the IAS/IFRS referential have their social capital subscribed before 1st of January 2004, moment until which Romania had a hyper inflationist economy, by applying the provisions of IAS 29 *Financial Reporting in Hyperinflationary Economies* corroborated with the provisions of IFRS 1 *First-time adoption of IFRS,* it is possible that the hyperinflation adjustment of the capital to negatively affect the reported result, leading, in some cases even to the registration of accumulated losses.
Taking into account the provisions of the Accounting Law no. 82/1991 republished, the capacity of the listed companies to distribute dividends was affected, having a negative impact on the Romanian capital market. The parallel reporting for two years would have permitted the quantification of this impact and the identification of alternatives for this situation.
The legislation issued by various state organizations must be analyzed through the point of view of the amendments imposed by the application of the IFRS and must be modified based on that analysis, for a proper correlation.
Considering all the above mentioned facts, for an efficient administration of the transition process to the IFRS as accounting base and for minimizing a potential negative impact over the capital market from Romania, the allocation of two years of parallel reporting would have been a better choice. During this period, a set of financial situations compliant with the IFRS with an informative purpose elaborated by the companies, would have allowed the identification and quantification of the differences between the IFRS accounting treatments and the ones stipulated by Order no. 3055/2009, including the purpose of their analysis from the perspective of the fiscal impact at individual and aggregated levels, depending on their nature and value. In the absence of clear fiscal rules regarding the restatement adjustments and specific treatments of the IFRS from the Fiscal code and the subsequent methodological standards, there is a risk of incorrect calculation of the taxes and duties to the state budget.
The advantages of the parallel reporting, as stipulated by OMFP no. 3055/2012 as accounting and fiscal basis and respectively based on the IFRS as an informative set for a period of minimum two years prior to the adoption of the IFRS as accounting basis are also demonstrated by the approach of the Romanian National Bank and the National Commission of Real Values for the credit institutions, the insurance companies and the entities of the capital market. In case of these entities, there are opinions according to which the direct transition to the IFRS as an accounting basis, without a period of parallel reporting, could produce unpredicted and undesirable effects over the respective categories of entities and financial markets on which they operate, as well as over the listed companies.

5. Conclusions

The International Financial Reporting Standards are, without any doubt, the result of the globalization process. Revisions and improvements to the accounting directives were made in order to make the IFRS provisions applicable within the European Union. Though remarkable progresses were registered, there still are some aspects that must be refined and improved, so as to get a better compatibility between the European Directives and the provisions of the IFRS. We exemplify with the amendments of the accounting policies, the correction of the material errors, the treatment of the development (research) expenses, and the regime of the lease contracts or the interest expenses.

The tendency of openness toward investors, supposed by the phenomenon of privatization and restructuring of the economy, dynamics of the financial market's activity let to the attempt of introducing the spirit and the solutions of the international accounting standards within the Romanian accounting framework. In enumerating the accounting law sources there is specified that, in order to solve a problem, if there isn't any national accounting standard related to it, the European Directives or the International Financial Reporting Standards are to be used.

In what concerns the decision of the Romanian legislator to renew the process of adoption of the IAS/IFRS accounting frame, it generated a series of inconveniences related to the IFRS adoption for the first time at the level of those involved in this process. The immediate transition to IAS/IFRS, as well as the elaboration of the financial situations by using the IFRS as an accounting basis without a transitional period, didn't allow the companies a certain period of training in this respect for both the company (management) and the directly involved personnel. The parallel reporting for two years was supposed to allow the assurance of comparability based on the reported results according to OMFP no. 3055/2009 on one hand and, the preparation of the capital market for the impact of adopting the IFRS in the following period, on the other hand.

Nevertheless, the flexibility of the international standards interpretation and the ability of each state to adopt the important parts of them will continue to lead to different methods and accounting results between countries.

We share at the same time the opinion according to which the international harmonization of accounting would be successful solely after developing common accounting rules, reporting standards, and, efforts by "global players" to adopt accounting methods that will improve communication with other users.

We conclude this work, where the documentary research was mixed with personal analysis, by suggesting some ideas for future research. In this context it would be interesting to conduct a survey on the first 68 companies which had to implement the IFRS starting 2012, in order to have an insight on their opinions and to ascertain what the real cost – benefit relation is.

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