OPINIONS REGARDING THE VALUE ADJUSTMENT AND THE PROVISIONS RULES IN ROMANIA AT THE CREDIT INSTITUTIONS CONFORMING TO THE EUROPEAN DIRECTIVES

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Abstract: Starting with 01.01.2006 the working entities of Romania apply accountant regulations according with the European directives, starting with the 4th Directive of the CEE and it's afterwards changes. The authority for accountant regulation had emitted more normative papers applicable to different entities, depending on their activity field and specific economic agents, credit institutions, insurance societies. Adopting the information within the European directives is not consequent in all the normative papers released. In this paper we will refer at the other perspective of the value adjustments and at the provisions within the credit institutions.

Keys words: credit institutions, value adjustment, provisions, depreciation.

Introduction

The accountancy rules are elaborated for all the entities which unfold their activity in the national economy must have a common base for all the notions within a general frame.

At this time, in Romania, all the entities apply accountancy rules conforming to the European directives. In this paper we will refer at the confronting between the regulation modules of the European directives of the economics agents and the credit institutions.

A framework for the analysis of the value adjustment and provisions

Appling the European directives are incumbent both for the commercial societies (legal entities article 1. line 1, accountancy law) and credit institutions.

The elaboration order of the normative papers was O.M.F.P. no. 1752/2005 for the approval of the accountancy regulations conforming to the European directives applicable to the commercial societies after the B.N.R. Order no. 5/2005 was published, regarding the accountancy regulations in conformity with the European directives applicable to the credit institutions.

In the normative papers up-mentioned the value adjustments are identically defined, so "**The value adjustments** contain all the corrections designated to view the reduction of the individual actives value, established at the balance date, regardless if that reduction is or not final. The value adjustments may be: permanent adjustments, also named amortizations, and/or extemporary adjustments, also named adjustments for depreciation or value loss, viewing the permanent or not character of the active adjustment.

In the 5th/2005 Order is mentioned that the value adjustments are "registered in the provisions accounts within the 1-4 classes of the Chart of Accounts for the credit institutions which diminish the main value of these actives."

If we analyze the 24th/2006 Order which modify and supplement B.N.R. Order no. 5/2005, in which the 5th.1 chapter is introduced "The operations accountancy" where is used the notion of "provisions for the depreciation of the main actives", but in the 2nd chapter Rules regarding the annual financial situations is used "adjustments for the value loss". We can see that in the normative paper the notions are not correlated, these was taking over from the old papers.

In the 19 article of the 4^{th} Directive no 78/660/CEE is clearly mentioned the following: „Value adjustments shall comprise all adjustments intended to take account of reductions in the values of individual assets established at the balance sheet date whether that reduction is final or not."

The Romanian translation is consequent and uses the term of "value adjustments". So, the actual version of the Order no. 1752/2005 and no. 5/2005 expose the correct idea within the directive, just that in the normative paper applicable to the credit institutions the name of the utilized accounts for the accountancy registration of the credit institutions is "provisions for depreciation".

We consider that both papers must contain coherent stipulations for the notions within general a frame, without misunderstandings. An aspect that must be enlightened is that regarding the adjustments for the active depreciation. In the O.M.F.P. 1752/2005 is explained what active depreciation represent, the fact that they displace the expression "provisions for depreciation" an undertaking which was maintained in the Chart of accounts also. In the B.N.R. Order no. 5/2005, the depreciation adjustments notes are maintained without changing the name of the accounts and that may induce into error the ones who utilize the accountancy regulations or the debs in this domain.

In the regulations elaborated by B.N.R. and C.N.V.M. (Romanian National Securities Commission), regulation no. 23/28/2006 regarding the technical criteria of the organization and the treatment of the risks, and also the technical criteria used by the specific authorities for their checking and evaluation and the regulation no. 25/30/2006 regarding the publishing requests for the credit institutions and investments companies is used the notion of "value adjustments" and "building up adequate provisions within the transaction portfolio". We can observe that these regulations are made up according to the 4^{th} Directive, but we can also understand that that a depreciation of the value of an active is a "value adjustment", and it's registration in accountancy is made by "building up some adequate provisions".

If we also refer to the normative paper which prescribes the reporting of the financial situations of the credit institutions at individual level, and the financial Reporting FINREP situations, necessary for keeping up with the rules of the Committee of European Banking Supervisors CEBS according to Basel II, and the B.N.R. Order no. 13/2007, in this is mentioned that the reporting at an individual level have as a regulation basis the European directives. Analyzing the financial situation model FIN2 – the profit and loss account, line 150 is named Provisions, line 160 Provisions for financial actives depreciation and line 170 Provisions for non-financial actives depreciation. Again, we have a situation in which for the value adjustments is used the notion of provisions for actives depreciation.

We also want to show that in the Order no. 3129/2005 for approval of the accountant regulations according with the specific European directives in the insurance domain the utilized accounts for the adjustments registration is named "adjustments for depreciation/ value loss". So in the insurance sector the regulation is according with the European directives.

Regarding the notion of "provisions" their definition is identically in both regulations, but in the regulations applied in the credit institutions is mentioned that "they are registered in the accounts open within the 5^{th} class from that Chart of accounts, applicable within the credit institutions and presented in the balance of the credit institution".

At the credit institutions the provisions structure is different due to the activity object of those. Knowing that the credit institutions have to report the financial situations according to the IFRS, we can say that the notion of "provisions" which must be utilized is just the one contained by the IAS 37 Provisions, contingent liabilities and contingent assets. If we compare the provisions definition from IAS 37 with the ones in the European directives we can clearly see that the notions are harmonized.

Coming back to the notion of "value adjustments" mentioned in the European directives in the International Standards of Financial Reporting we notice the notion "impairment losses" in IAS 36 Impairment of assets, IAS 32 Financial instruments: presentation, IAS 39 Financial instruments: recognition and measurement.

If we refer only to the topic we observe that the name of the accounts adopted for the credit institutions is a combination of all the notions presented, "provisions for depreciation".

We consider that is necessary to replace the word "provisions" with "adjustments for depreciation" and changing the name of the accounts accordantly with the below table:

ACTUAL ACCOUNTS	PROPOSAL ACCOUNTS
191 Provisions for the receivables inter-banking operations	191 Adjustments for the depreciation of the inter-banking receivables operations.
291 Provisions for receivables through the clients operations	291 Adjustments for the clients receivables depreciation
391 Provisions for the title depreciation	391 Adjustments for the title depreciation
393 Provisions for the stock depreciation	393 Adjustments for the stocks depreciation
399 Provisions for residual and ambiguous receivables.	399 Adjustments for the residual and ambiguous receivables depreciation
491 Provisions for depreciation of the shareholders hold within the commercial societies, participation titles and portfolio titles owned.	491 Adjustments for depreciation of the shareholders hold within the commercial societies, participation titles and portfolio titles owned.
492 Provisions for immobile depreciation	492 Adjustments for the immobile depreciation
493 Provisions for leasing operations	493 Adjustments for leasing operations
494 Provisions for simple local operations	494 Adjustments for simple local depreciation operations
499 Provisions for residual and ambiguous receivables.	499 Adjustments for the residual and ambiguous depreciation receivables.

Of course that the modified name of the up-mentioned accounts leads to the changing of the expenses accounts within the group 66 Expenses with provisions and losses from lost receivables and of the Finance accounts within group 76 – Finances from provisions and recovery of amortized receivables.

According to the coherence principle, for the 191 Provisions for the receivables inter-banking operations, and 291 Provisions for receivables through the clients operations accounts the notions from the B.N.R. regulations no.5/2002 regarding the classification and investments of the credits, are not respected, as well as constituting and the usage of the specific credit risk provisions. The power of decision lies within the competent organisms to proceed or not at the unification of the notions, or at least to explain them and to mention the links between different normative statements.

Conclusions

Our research prime objective was to highlight that, the risk of confusion of the value adjustments with the provisions is imminent for the users that do not have sufficient knowledge about the credit institutions particularities. We think that it would be indicated to be created an Accountant code or a Unique General Frame for all the entities within the economy, and for those who have a specific object of activity to be elaborated supplementary normative papers to help them impress with the specific operations. We sustain this point of view because the general elements go along with the immobile, stocks, debts to personnel, insurances companies and social protection, government budget, local budgets which does not present major differences from an entity to another. The normal or special frame for each type of entity would go along only with supplementary information specific to the activity object without repeating the general elements.

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4. B.N.R. Order no.24/2006 for modify and supplement B.N.R. Order no. 5/2005;
5. B.N.R. and C.N.V.M. Regulation no. 23/28/2006 regarding the technical criteria of the organization and the treatment of the risks, and also the technical criteria used by the specific authorities for their checking and evaluation;
6. B.N.R. and C.N.V.M. Regulation no. 25/30/2006 regarding the publishing requests for the credit institutions and investments companies;
7. B.N.R. Order no. 13/2007 regarding FINREP individual financial statements, applicable to credit institutions;
8. C.S.A Order no. 3129/2005 for approval of the accountant regulations according with the specific European directives in the insurance domain;
9. IAS 32 Financial instruments: presentation;
10. IAS 36 Impairment of assets;
11. IAS 37 Provisions, contingent liabilities and contingent assets;
12. IAS 39 Financial instruments: recognition and measurement.