COMPARATIVE STUDY ROMANIA-ITALY CONCERNING THE IMPLEMENTATION OF IAS/IFRS

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Abstract. Since 1 January 2005 European listed companies have to start using new International Accounting Standards (IAS /IFRS). It is an important chance for studying the relationship between accounting information's and financial markets. Since quality, transparency and comparability of financial information's reported by companies affect the informational and a locative efficiency of capital market, European Union has carried out a global accounting harmonization process that has been achieved by setting common accounting standards (IAS/IFRS). The basic idea of this harmonization process is to improve the relevant characteristics of information's made available by the firms. Although we think this accounting harmonization process is important and it can be the right way to improve informational efficiency of financial markets, we think it is necessary to further investigate some crucial topics.

Keywords: international accounting standards, financial statements, earning quality, fair value.

During the transition process to the market economy, Romania looked for a special way in the accounting implementation and regulation. The International Financial Reporting Standards (IFRS) represent generally approved accountancy rules, accepted by all the world countries, able to harmonize to a larger extent the accountancy standards and procedures used in different countries.

Starting with 1st January 2005, our country, as all the other countries of the European Union started to apply a certain system based on International Financial Reporting Standards (IFRS) for the rated companies and especially groups, which will allow the implementation of the best practices at the world level. Therefore, at the national level, the normalizes have to give up their old accountancy techniques and practices in order to facilitate the continuation of the reform in accountancy and of its evolution. The accountancy system in Romania proves nowadays to be broader regarding the national and international accountancy field in order to elaborate certain economic and accounting models and balances at a macro-economic level.

In the transitional process to market economy, Romania searched for at own road in the accountancy regulation and implementation. Until 1990, Romania adopted a monist bookkeeping system, based on excessive standards. From 1994, this system was dropped, and adopted a new one, the dudist one – which is a Latino European origin, based on the French General Accountancy Plan.

New international accounting standards are very close to the experience of market oriented countries (U.S. and Great Britain) where accounting information's addresses investors. Vice versa in the other European Countries accounting information's address many other groups, as creditors and state treasury. We wonder how financial information reporting will change.

Which will be the degree of compliance with new accounting rules? Will the companies adopt just the compulsory disclosure or will they choose a voluntary disclosure too? The discussion on many accounting standards is still open and some more changes and amendments are likely to come. By studying the United State previous experience is it possible to identify some critical points for European countries? Finally, will international accounting rules be able to truly improve the quality of public financial information? Will they be useful for market? As many observers argue, will there be a trade-off between information relevance and reliability?

The accountancy reform in Roumania commenced in 1991, by adopting the accountancy law - continued through HG (Government Decision) no.704/1993, was consolidated by adopting OMFP 403/1999, replaced with OMFP 94/2001 and OMFP 306/2002 (OMFP=Public Finances Ministry's Order), through those being harmonized with European Directives and the International Accountancy Standards. Public interests entities (such as credit institutions, assurance companies etc), in consequence with OMFP 907/2005, can draw up financial situations, according with International Financial Reporting Standards, for informing the users, other than state's institutions, in accordance with their opinion, and only if they have a proper implementation capacity. In order to apply these regulations, the Public Finances Ministry issued OMFP 1752/2005, abrogating OMFP 94/2001 and OMFP 306/2002. Beginning with 2006, most of the entities from Romania are applying the bookkeeping regulations according to European Directives – the 6th directive concerning the annual accounts, and the 7th directive, concerning the consolidated accounts. Carried out bookkeeping reforms after 1990, determined a connection of some specific concepts, such as: normalization, harmonization, conformability etc.

Accountancy normalization = defined as a process which presents general concepts and principles and bookkeeping norms based on a précised terminology, identical for all the users and producers of accountancy information, fully or partially applicable in a assemble of countries, enterprises or accountants. The purpose of accountancy normalization consists in bookkeeping norm elaboration, as a reference system for the production of accountancy information, and the social validation of financial situations. Accountancy harmonization = represents the process that harmonizes the rules or norms different from a country to other, in order to be concluded, and to be interpreted all the same.

In our country, the harmonizing process is carried out in 2 levels:

- the European level – by implementing the directives 4th, 7th and 8th.
- the international level, for big and very big entities, by implementation of International Standards of Financial Reporting (IAS/IFRS).
- These 2 harmonizing landings have as a basis 2 levels:
- the European level – by implementing the CEE directives 6th, 7th and 8th
- the international level, for big and very big entities, by implementation of International Financial Reporting Standard.

The accountancy convergence presumes the focalization of all the bookkeeping activities in the same direction, but most of all the drawing of the annual financial activities, at the end of the exercise, these being targets depending on the databases adoption for the financial year. The accountancy convergence consists in orientating the whole activity into producing those information that are useful in elaborating financial situations, and which includes parameters, variables and unitary indicators for all the economical entities. Accountancy conformity pictures the adaptability that national standards, concerning the bookkeeping domain, can take it to other similar (ex: European Directives), which are highly generalized, representative and acceptable.

The Romanian regulations concerning accountancy, firstly pictures the CEE directives conformation, (4th, 7th, 8th), and then The International Standards of Financial Reporting.The 4th directive, adopted in 1998, refers, through its articles, to evaluation rules, published financial situation formats, and the demands concerning the financial communication, aspects that cover the problematical of un-comprised companies to financial groups, but analyzed individually.

Following the adoption of the 4th directive, and knowing the financial globalization phenomenon, and the international standards evolution, the European device included in the 7th section new rules that are relying on the evaluation system, based on the true value. The 7th directive, adopted in 1983, aims the consolidated accounts, namely the drawn financial studies, presented and published in order to offer information about the financial position, performances and evolutions of companies and groups – which are a weight in the world-wide economy.The European regulations foresees that accountancy directives will continue to apply to quoted companies, which will publish financial situations in accordance to The International Standards of Financial Reporting (IFRS). As consequence, there was necessary a revision of accountancy directives, in order to modernize them and to be compatible with the present and future International Standards of Financial Reporting.

So, the European Parliament and the European Union's Council, adopted, in 2003, 2003/51/CE Directive which refers to European accountancy texts modernization and actualization, supplementing the European regulation IFRS 2005, being transposed into the national rights of all the EU members, starting with January 2005. Many Italian authors have written books and articles regarding consolidated financial statements and the main problems connected to them. For this reason, national references are consistent and numerous, as shown in the references (some citations: Andrei, 1994; Brunetti, 1987; Caramel, 1995; Lai, 1994; Mella, 1985; Provasoli, 1988 e 1997). This paper unit will start from the national contributions on these themes, which will be analysed in detail, and with a study of international publications regarding group accounts and related topics.

The main emphasis will be given to the impact of the adoption of international accounting standards (IAS/IFRS) on consolidated financial statements in terms of representation, valuation and financial communication to the shareholders and, above all, to the stakeholders.Each argument will be critically reviewed in order to consider its impact on "earnings quality" production and representation in public consolidated Annual Reports. The objective of International Accounting Standards Board (IASB) is actually to produce a single set of high-quality global standards (IASB, December 2003).According to this declared objective and also to the activity of the Italian Accounting Standards Organism ("Organismo Italiano di Contabilità", OIC), the paper team has committed itself to study critically the transition from national to international Accounting standards in Italy. In doing so, the paper intend to look at national standards throughout the world (with particular reference to the USA and the UK) and select a sort of "best practice" global accounting standards.The study will be conducted on the basis of Italian groups of companies listed on the Milan Stock Exchange. As a matter of fact, these companies will have to adopt IAS/IFRS starting from 2005 (Pierce, Brennan, 2003). Moving towards IAS/IFRS seems to be a very strong effort, both in relation to the phases of the consolidation procedure, and as to the more relevant (than today's) problems that will emerge during and at the end of the same transition process. It is also remarkable that - as a consequence of some world known financial scandals - true and fair financial statements and the need to apply generally accepted international accounting standards are clearly pressing problems for standard setters worldwide. For major companies, the group accounts are the statements to which most attention is paid. Worldwide, however, there are disputes about the way in which such accounts are compiled.

Consolidation involves theories about the composition of the group itself; moreover, arguments abound internationally over whether control of the operating and financial policies of the Board should take precedence over the ownership of 50%+1 of the voting equity; issues are raised about accounting for joint ventures which are not subsidiaries but operations involving joint control; problems relates even accounting for goodwill and consolidation differences, so as their evaluation; also the introduction of mandatory cash flow statements will be of strong impact and evidence for Italian groups of companies; even more difficult questions arise over special purpose entities and 'quasi subsidiaries'; and many other themes.

Every topic will be dealt with critically and in a view of comparison between Italy and the international arena. The aim is to analyse existing interpretations and comments and to produce new ones which could be useful for Italian groups starting to manage this challenging process following to the EU Regulation n. 1606/2002 (and subsequent Directives and implementation documents). Above mentioned studies refer to one specific branch of literature that examines the value relevance of accounting information and the relation between capital markets and accounting information's. The purpose of these studies is to measure the value relevance of information by using the association between earnings and stock prices or returns and by observing the adjustment of prices to specific new informations.

Through this kind of tests it is possible to infer the market efficiency from the observed independence of successive price changes. In an efficient market, stock prices adjust rapidly to new informations. The basic idea which such kind of analysis underlies is that persistent and systematic abnormal earnings are inconsistent with the so-called efficient market hypothesis, which in turn suggests that financial markets handle information efficiently, and drive managers' and shareholders' behaviours. The amount of paper on event studies is large, both on theoretical and empirical perspectives. On the one hand, theoretical studies look so advanced that it is thought that "much is known about how to do – and how not to do – an event study" (Khotari e Warner, 2005). On this side, other important papers are due to Peterson (1989), Armitage (1995) e McWilliams e Siegel (1997). On the other hand, the empirical line of paper focuses mainly on both cross-sectional and time series approaches. The aim of paperers applying cross-sectional studies has often been testing whether the expected value of a distribution of abnormal earnings (earnings which are not in line with the ones which should result from market forces) is inconsistent with the one implied by some theoretical models; some of these studies, moreover, also verify whether and to what extent empirical and theoretical distributions differ in high order moments. Instead, the strand of literature using time series frameworks aims to study earnings persistence in the time span immediately following the event that is being studied.

In our paper the most important branch of event study literature is the one focusing on the consequences of accounting standards changes. In this sense, several former studies focus on the reasons driving accounting rules' changes instead of examining ex ante and ex post consequences of these changes. On the other hand, financial markets development and the growing complexity of organizational structure of firms make further paperes indispensable in order to evaluate the impact of accounting rules' changes. According to this perspective, new accounting rules, compulsory for all European listed companies, are an important chance for realising an event study; the relevance of this coming accounting changes is demonstrated if we consider that so far it was impossible to test market reaction to accounting changes just because there was never been a similar revolution in accounting rules. Actually former literature (for example Ball, 1972; Dharan and Lev, 1993) juts investigated the effects of changes in specific accounting standards or criteria but not the effects of changes in all the accounting system. Another branch of the literature examined the investors reaction whether firms using national or international accounting standards – Bartov et al. (2000) analysed Deutsche firms, Auer (1996), Caramanolis and Cotelli (1999) analysed Swiss firms. These studies show that information is more relevant when it is presented under IAS. These results are consistent with European Union premises that focus the attention on the investors needs accordingly to US and UK accounting models. Nevertheless the discussion regarding some IAS critical points is still open both in Europe and US. Several authors doubt whether firms from Continental Europe will be in a position to adapt to new accounting standards and some authors expect that introduction of IAS should even bring short-term confusion and a reduction in transparency and results comparability until initial stage will be overtook (Stittle, 2004).

Conclusions

As conclusion, the adoption of international standards has as priorities:

- setting up conditions for a integrated and efficacious capital market, returning balance sheets (most of those comparable on the unique market), allowing concurrence rising, and promoting capital circulation
- necessity for adopting a regulation that can manage if the quoted companies from the EU applied correctly the IAS until 2005 (credibility, concurrence, evaluation)
- applying these standards has to lead to an authentically vision of the financial position of an economical entity, and contributes to European public interest, and has to respect all the criteria concerning the quality of expected information.

The objective of International Accounting Standards Board (IASB) is actually to produce a single set of high-quality global standards (IASB, December 2003).

According to this declared objective and also to the activity of the Italian Accounting Standards Organism ("Organismo Italiano di Contabilità", OIC), the paper team has committed itself to study critically the transition from national to international Accounting standards in Italy. The Romanian enterprises make out their own balances, in accordance to a system of laws and regulations differentiated on economic activity sectors, on juridical nature of the economic entity, on its dimension, on quoted and unquoted companies.

As it is known, OMFP no.1752/2005, actually replaced with OMFP no. 2374 of 12/12/2007 (MO no. 25 of 14th January 2008), inserts Directive IV (no. 78/660) and Directive VII (83/349) of EEC, foresaw specific diagrams of yearly financial situations and enlarged the accountancy evaluation criteria, which the economical entities have to use towards those used until then. CECAR, AGER, etc and other professional organizations, upon basis of required regulations have as main aim the integration and interpretation, of the standards content, if necessary. The compulsory introducing of IAS/IFRS issued by IASB for the groups of quoted companies, on elaborating the reinforced balance and extending the obligation for all entities impose a significant changing; it won't deal just by problems of technical character, by formal changes within emphasizing and presenting process of information on financial situations, by applying IAS/IFRS in Romania and Europe, but assuming first after all understanding the cultural vision, of background philosophy, which underlain all standards. In accordance to international opinion, the balance principles represent a tool that aims towards making efficient the markets functioning, on rationalizing the financial resources, on efficient protecting of investors and tracking the public and collective interest. It is obviously that the assimilation process of accountancy standards culture will have repercussions on medium and short term over the management controlling system, and over the informational system, in forthwith time

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