THE CHARACTERISTICS OF THE FINANCIAL INSTRUMENTS

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Abstract. Since 2005 the societies quoted have started to apply the international financial reporting standards IAS/IFRS for the drawing up and the publishing of the balance sheet. The objective of the IFRS, except for the fact that they aim at the harmonization of the ways of drawing up the financial statements, is that of drawing near the patrimony value close to its current value. Applying the standards IAS 32 and IAS 39, which introduce, in particular a new classification of the financial instruments has new significations within the accounting administration of the security operations made by the use of the derived financial instruments. Particularly, the IAS 39 focuses on the assessment of the financial instruments specifying the application and utility area of the just value, as well as of the evaluation criterion.

Keywords: financial instruments, jute value, IAS 32, IAS 39, IFRS, financial risk

The necessity and importance of the introduction of the international financial reporting standards IAS/IFRS

The world economic frame has suffered in the past few years an inevitable and irreversible process of transformation. The main directions of these changes are directed to the globalization of the markets, the technological process, the informational and communication system, the extension of the borders of the EU and to a series of reforms from the social and fiscal area that have given this context of reference more complex and more unstable. These new modifications have transformed the borders of the markets, canceling the physical and geographical distances as well as the commercial and financial barriers, allowing the free circulation of goods services, capitals and information.

In the process of internationalizing the economic interests of the entities, determined by the growth factors, the competitively and the competition, the operative horizons of the economic entities have extended, that have been put in the situation of facing the capital circulation and the commercial operations with connotations on the international market. The application at the international level of a series of accounting standards for the drawing up and the presentation of the annual financial statements represents an important and unquestionable step, that comports various difficulties, at the practical level and not only. The users need information that would allow them to have a better understanding of the signification of the financial instruments balance and extra balance related regarding the financial position of the enterprise, the performances and the cash flows, as well as of the assessment of the amounts, the moment of the appearance and the certainty of the future cash flows associated with these instruments.

IAS 32 – Financial instruments: - presentation – treats all the types of the financial instruments, recognized and not recognized and it must applied for the contracts for the sale and the purchase of a non-financiers element that can be discounted in cash through another financial instrument or through a change of financial instruments, as the contracts would be financial instruments. According to the IAS 32, the financial instrument is any contract that leads to a financial asset of an entity, as well as to a financial instrument of equity ownership or of debts of another society.

The financial asset is any active under the form of :

- Money in cash available;
- The contractul right to be cashed, to cash money or othe financial asset;
- The contractual right to change financial instruments in potentially favorable conditions;

- A contract that will or can be discounted in instruments of equity ownership of an entity.

The financial debt is the contractual obligation to:

- Deliver a financial asset ;
- Change financial instruments in potentially unfavorable conditions;
- To be discounted in instruments of equity ownership of the entity.

The instruments of equity ownership represents any contract that proves the existence of a residuary interest in the assets of an entity after the deduction of all its debts. The obligation to issue a equity ownership instrument is not a financial debt, because it has as result an increase of the equity ownership and cannot generate a loss for the company.

The just value – represents the amount with whichan asset can be changed or liquidated a debt in a closed transaction in objective conditions, between the parties who know and by the expression of the free will of this one.

The desciption of the just value of the financial instruments can be found in the IAS 39 „Financial Instruments – recognition and evaluation" which treats issues of recognition and the assessment of the financial instruments. This standard sets the recognition principles, evaluation and presentation of the information on the financial instruments from the financial statements, standard that increases significantly the use of the just value in the accounting of the financial instruments, especially in the asset part of the balance. IAS 39 distinguishes four classes of financial assets, more specific the assets owned at their just value in the profit and loss account, the available assets for the sale of the assets held until the due time and the loans and debts. Moreover, it identifies two classes of financial debts, those for the just value and the debts presented at the normalised cost. The specific accounting approach for each case classifies and establishes the accounting treatment for three types of security against risks: just value, cash flow and the investments.

The incorporated instruments derived – represent a component of a hybrid instrument that includes also a host contract non derived- having as effect the fact that the variation model of the cash flows generated by the combined instrument is similar to that of a derived instrument.A derived instrument that is attached to a financial instrument, but that is based on a contract, can be transferred irrespective of the fact that that instrument is not an incorporate derived instrument.but a separate financial instrument.

The evaluation of the financial instruments and of the incorporate derivates is made to the:

- just value, its definition has been described above;
- liquidated cost, that represents that value at which the financial asset of the financial debt is evaluated at the moment of the initial recognition, minus the reimbursements of principal, plus or minus the cumulated depreciation of the bonuses or discounts, minus any associated reduction or the impossibility to cash. The calculation of the depreciation must use the effective rate of the interest and not the nominal rate of the interest.

Covering against the risk (hedging)

Any covering against the associated risk to the just value of an asset or recognized debt, such as modifications of the just value of some fixed rate debenture, as a consequence of the modifications of the market rates of the inetrests. At the accounting level, to proceed to an operation of security means that the company designates one or more financial assets, so that the variation of the just value would compensate partially or totally, the variation of the just value of the treasury flows afferent to the covered element.

The covered elements can be an asset, a liability, an engagement or a future forecasted transaction, that exposes the enterprise to a certain risk regarding the just value or the variation of the future treasury flows and that is designated, in the accounting of covering, as being covered.

The covering instrument representd a designated derivate or another financial asset or libility (in cases well specified) from which it is expected that the just value or the treasury flows would compensate the variation of the just value or the treasury flows referring to a an elemnt designated covered. According to the IAS 39, an asset or a liability cannot be designated as a covering instrument, in a covering accounting, only if it covers the risks of fluctuation of the foreign exchange. So, it is recognized as a covery instrument, either a financial asset or a derived financial liability, either an asset or a non-derived financial liability, but this aims, exclusively, at the risk exchange administration.

Example

At the end of the financial year 200x, an economic entity receives from a commercial partner, an order of goos of a value of 10 000lei. The operation must be made on the 28.02.200x +1, for the protection of the foreign exchange, the entity has sold 10 000 lei at the exchange rate of 3.65 lei/ euro. The rate exchange of the euro on the 31.12.200x is of 3.65euro. On the 12.02.200x, the leu exchange rate is 3.70/ euro. At the closure of the financial year 200x, the benefit generated by the covering instrument is of 10 000 x (3.75-3.65) = 1000lei.

It is compensated by a loss of the same value generated by the covered element. The accounting registrations made by the economic entity are:

- - on the 31.12.200X the covering operation is made

Covery instruments = Benefits from the coveries *10.000 x 3,7=3700 lei*

against the rate exchange variations

(equity ownership.)

- on the 12.02.200X+1 the transaction is made and the lei are sold:

% = Covering instruments

1500

Current accounts in the banks *500*

10 000 x (3,75-3,70)

Expenses with the exchange differences *1000*

10 000 E x (3,70-3,65)

Benefits from the covering against = expenses with the exchange differences 1000

(equity ownership) the exchange variations

We can see that the financial year 200x will be colsed with a net benefit of 500 (1500-1000)u.m, which corresponds to a foreign exchange difference between the exchange rate on the term and the exchange rate at the date of the sale (10 000E x (3,75-3,70)=500).

The notion of the just value is based on the presumption that the enterprise continues its activity, without the intention or the necessity to liquidate or to limit significantly its activities and without the need to make a transaction in unfavorable conditions. In this manner, the just value is not the size that an enterprise would receive or would pay with the cases of forced transactions or involuntary liquidation.Although the just value reflects the the credit risk of the instrument. On an active market, the just value is determined when there are quoted prices on this market, such prices represent the best estimation of the just value and they are used in order to measure the financial asset and liability. A financial instrument is considered to be quoted, on an active market if the prices that reflect normal market transactions can be obtained rapidly and regularly, within the context of a money market, of an intermidiary, of an evaluation service or of a regulation agency. The quoted price in the case of the assets held and of the liabilities to issue, is generally, the price offered for sale. The quoted price adequate in the case of the assets to buy or for the held liabilities is generally the price offered when buying.When the prices at sale or at purchase are not available, the just value correponds to the price of the most recent transaction, if there have not been significant changes in the economic conditions, between the date of this transaction and the date of the assesment. If it is proved that the price of the most recent transaction is not the just value, it will proceed to the adjustment of the price respectively. In case there is no active market, the just value is determined by a special technique.

The validation objectives of the evaluation models: the objective of the assesment techniques is to esatblish which would have been the price of an accomplished transaction, at the date of the closure of the accountsthat agree motivated by normal considerations. Thus, the evaluation includes all the factors that the ones that are active on the market would consider in the price determination, the hypothesis and the estimations detained must be coherent with the estimations and the hypothesis that others participants on the market will make for the determination of the price of the instrument.

The models of evaluation susceptible to be used are: the assesment techniques set on the market, including the reference value existing on the market, of a similar instrument, the analysis of the future analysed flows and the models of evaluation and options.

Sequel – Cost of the depreciation and the method of the effective rate of the interest

Calculation relation of the liquidated cost is presented as follows:

Liquidated cost =	*initially registered value*	*- Reimbursements made in the name of the principal*	*± Amortisation of any difference between the iniitial and the due date value*	*-Provisions for the depreciation*

The method of the effective rate of the interest id the calculation manner of the liquidated cost and of the revenue and income regarding the interests, based on an effective rate of interest of a financial asset or liability. The effective rate of the interest is the rate at which, updating the future flows of treasury estimated, to receive or to pay, on the expected life duration of the financial instrument or when it is on a shorter period of time, it is obtained a value equal with the value written in the balance sheet. For the determination of the effective rate of the interest, the future flows estimated on the base of the contract terms referring to the financial instrument without taking into account the future expected losses.

Conclusions

We can ascertain that the international accounting practice and especially the international standards of accountzing IAS/IFRS are oriented in certain cases, towards the elimination of the method of the cost in favor of the just value, that the IAS 32 and the IAS 39 define and present as we did previoulsy. In essence, it is about....the evaluation to the value that can define „ the market value", considered by the european accounting values as just value. In order to better understand the reasons that have determined the introduction of the evaluation criterion, of the just value, it is important to underline the different balance structures, in accordance with the IAS/ IFRS in relation with the valid accounting practices in our country or from other countries, that derive from the communitary directives. We can state that the just value constitutes an estimation corresponding to the evaluations from the balance sheet, estimation that should respect the general principle that states that the drawing up of the balance sheet or the faithful and correct representation; as a consequence this estimation must be credible.

The IAS/IFRS favors in ceratin situations the criterion of the just value, so that we could undertand the reasons for which this evaluation criterion, in certain cases is chosen in favor of the cost, being preferred to this one.There is no doubt that, at first impression it could negative or at least regarded with a certain amount of scepticism, but understanding the reasons that are at the basis of this choice, the initial impression could be reviewed integrating this matter in a different function, that the international practice integrates to the balance sheet, knowing the implementation difficulties and the critical points of the new method of assesment.

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