

# ROMANIAN ACCOUNTING REFORM BETWEEN ILLUSIONS, DISILLUSIONS, TRENDS AND REALITIES

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*The Romanian accounting reform is a process which has a starting date. This is a true which cannot raise debates. But, can we say the same thing about the finish line of this process? The evolution of the Romanian accounting regulation is full of ingeries from the beginning to present. The advisers used in the process were very different from time to time. Each of them left a strong mark on the accounting norms and regulations. In Europe and in the world the period from 2000 to present had many interesting events. IASB got an important influence in Europe. His goals are realized step by step, with lot of patience. IASB – FASB agreements and work gives confidence about the future shape of accounting regulation worldwide. In this context, the trends and realities of the Romanian accounting reform are analyzed. We try to understand why we had such a strange evolution regarding the accounting reform and why so many questions are without answer. And one of the most important questions is: where was and where is the accounting profession in this process? We try to present some personal ideas regarding the future evolution of accounting reform in Romania taking into account the most important events in Europe and worldwide.*

*KEY WORDS: reform, convergence, IFRS, national accounting norms, trends, evolutions*

## BODY OF PAPER

„Beginning with year 2000, within the Romanian accounting environment, it took place an infusion of Anglo-Saxon concepts and practices which must be analyzed and decanted ... Which it is sure is that we are engaged on an evolution line subjected to the future century accounting”<sup>372</sup>.

With these words I was finished my book published in 2000. The young spirit, emulated by the environment in which I was training, convinced me to have an optimism that today still not feel it anymore. Though, let’s start analyzing the period has elapsed since than.

In 2000, the Romanian accounting environment was still under the great influence of the regulations foreseen by the Order of Minister of Public Finances (OMPF) no. 403/1999. These regulations were audacious and foreseen; inter alia, the publication in the 3rd volume of the international accounting norms and the national accounting norms. The idea regarding the drawing up of some national accounting norms did not have a longevity, as the OMPF 403 was totally abrogated once with the emerge of the OMPF 94/2001. Regarding the “national accounting norm”, it has not been spoken since than in any other accounting regulation issued after 2000.

The regulations development in the Romanian accounting field after 2000 cannot be analyzed without knowing the international context in the field of accounting regulations. Any evolution or “involution”, if any, must be watched and analyzed relating to the dinamic changes’ in the accounting field on the European and international level.

Regarding the regulations in the accounting field, in Romania, the period after 2000 could be divided into two stages: period 2000 – 2005 and period 2006 – present.

For the first stage the essential aspects could be synthesized as follows:

- drawing up by the Minister of Economy and Finances the regulations in the accounting field: the two known regulations have led to drafting some annual distinguish financial statements for the Romanians entities, starting from the 3 sized criteria foreseen in the mentioned regulations;

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<sup>372</sup> Neag Ramona – “Reforma contabilitatii romanesti intre modele francez si anglo-saxon” (Editura Economica, Bucuresti 2000, pag. 224)

- the mentioned regulations have represented the inspiration source for drawing up some specific accounting regulations, for insurance and reinsurance entities, entities regulated through norms drafted by the National Commission of Securities Exchange etc.;
- alteration of the accounting law etc.

The above mentioned two regulations have brought with them “the breath” of changes which the Order 403/1999 has been announcing. Of course these changes were not so “though” for the accounting profession in Romania. The university environment, in cooperation with the accounting profession have engaged in an ample process of continuous professional training, process that aimed the knowledge and thoroughly study of the international accounting standards and the international financial reporting standards. Period 2000 – 2005 was announced, by the accounting normalization entities in Romania (named Ministry of Economy and Finances) as being a first stage of new reform, reform that was anticipated to be finished by taking over the international accounting standards in the accounting regulations in Romania. On that time no one knew exactly what was going to mean this. Also, the achievement method has not been known. However, there was an assurance, namely: regulations foreseen by the OMPF 94/2001 and OMPF 306/2002 should be abrogated in 2005, these being considered only a “rehearsal” of the reform to follow.

On European and international level, the anxieties and changes that took place in the same period were many and diverse. The changes evolution was increased, thus you had to be always careful of their evolution.

As a simple viewer of these changes I was tortured of one thought, namely: the evolution of Romanian accounting normalization could not take place without taking into account the evolutions in that field on the European and international level. The modification of IASC structure, the agreement from Norwalk, the meetings between UE representatives with the chairman of SEC, the speeches of IASB representatives before the committee for accounting regulation of the European Commission are only several references that give to those interested the starting points in analyzing the future evolution of the accounting regulations on European and international level. For this period I remembered an idea which would like to mention. The European Commission, putting on the first place the desire to create a unique European market, specified that a way to achieve this goal would be the applying of IFRSs in the accounting of member states: „It is definitely regrettably that anything was happened in this sense until now: Europe would have been at least on the USA level in this field if it has been developed European accounting norms starting with the ‘70s. Now it is obviously clear that IFRS enacting and convergence encouraging is the right way to follow in order to stay in touch with the larger capital markets in the world, even that it would not be an easy experience”<sup>373</sup>. It thus result, that even on the European level have been and maybe still exist voices regretting that in the ‘70s (so, at the beginning of the European Union) were not created some European accounting norms. But, even with these regrets the future evolution of the accounting regulations on the European level is considered to be in strong relation with the IFRS evolution.

In his speech, IASB chairman, Sir David Tweedie, before the Committee for accounting regulation of the European Commission, from July 8, 2005, remarked the European Commission support before the European Parliament, of the UE Member States, in developing a unique assembly of some international accounting norms, rigorous, coherent, applicable, and usable on the worldwide capital markets. „Your choice in the direction of an international approach for the European accounting norms is considered a pattern for the others”<sup>374</sup>. Sir David Tweedie used to speak about the need of achieving the elaboration of some really global rules with all the advantages they would bring, but he also pointed out the fact that an accountancy convergence would necessarily involve the USA, which means almost half of the capitalization of the international financial markets. He also was confident about reaching IASB purpose regarding the convergence and the reconcilability, with the support of the European Commission and SEC.

Stage 2006 – until present, represents a period full of worries for the normalization of Romanian accounting. The regulations appearance drawn up by the MOF, respectively the Order 1752/2005 have unbalance a large part of the accounting profession, and why not the University staff. The efforts achieved on the understanding and assimilation IAS/IFRS were, for the members of accounting professions,

<sup>373</sup> Peter Walton – “La convergence IASB –FASB et ses implications”, *Revue française de Comptabilité, Numéro special IAS/IFRS*, Septembre 2005

<sup>374</sup> David Tweedie – “Le programme de IASB” – *Revue française de Comptabilité, Numéro special IAS/IFRS*, Septembre 2005

uncommonly huge, with significant costs. The university environment has represented an engine of promotion and assimilation IAS/IFRS both among the students and within the accounting profession. The publication of the Minister of Public Finances Order 1752 discouraged those who put their soul into promoting the international accounting standards on the national level. A regulation through which it is not recognized, not easily, the enthusiasm started in the new reform stage of the Romanian accounting system.

On the international level, the accounting normalization body IASB, has continued the efforts on the line of its program or convergence and of acquiring the recognition and acceptance by SEC of the financial standings drawn up in compliance with IFRS. The IASB work was focused on creating of one set of highly appreciated financial reporting standards to be used on whole capital market in the world. Mr. Bertrand Collomb, vice chairman of IASC Foundation estimated:

„In the context of this goal, the IASC Foundation and the IASB have made much progress, and the European Union has been a leader in this effort. More than 100 countries throughout the world, including the 27 European Union Member States, require or permit the use of International Financial Reporting Standards (IFRSs), developed by the IASB. This number is expected to rise substantially within a relatively short time frame”<sup>375</sup>.

“The transition to IFRSs has gone relatively smoothly and without any shocks to the financial system. We have sought to provide additional stability by announcing that we would require no new standards to be applicable before 2009 and to give at least one year between the time a standard is completed and is required for application”<sup>376</sup>.

On June 20, 2007 the SEC agreed to propose a rule to eliminate the reconciliation requirement for those companies applying IFRSs for financial statements for the calendar year 2008. This would eliminate a major cost to European and other companies listed in European market place and should increase the supply of capital to European economies. The change would permit non - US companies to access US capital markets without reconciliation with US generally accepted accounting principles (GAPP) by 2009.

Sir David Tweedie, IASB chairman:

„The SEC proposal shows its recognition of the tangible benefits of a single set of financial reporting standards used in the world’s integrating capital markets and the relevance of the continuing IASB-FASB convergence process to the economies of the US and the rest of the world. If approved, the rule will eventually reduce significantly the barriers to capital flows between countries using full IFRSs and the United States. We appreciate the SEC’s continued support of our work. Our ultimate aim at the IASB is to have a single set of accounting standards used worldwide. The SEC’s proposal is an important step in achieving that goal, but much work remains to be done”<sup>377</sup>.

We believe that the result of convergence will not be the internationalization of US GAAP, but improved accounting based upon an understanding of international business and accounting practices.

Bertrand Collomb sad: „It is my hope that European Union and, in particular, the European Parliament will remain the standard-bearer in promoting consistent applications of IFRSs”<sup>378</sup>.

For this period, we must not skip over the publication in February 2007 of the exposure-draft regarding the IFRSs for Small and Medium sized Entities – (IFRSs for SMEs). The aim of the proposed standard is to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies and are based on full International Financial Reporting Standards (IFRSs), developed primarily for listed companies. In developing the proposal that is published for comment now, the IASB has sought to make modifications based on users’ needs and cost-benefit considerations, using the expertise of a broadly representative working group and external consultation. “The proposal organizes the requirements by topic to enhance readability, eliminates topics from the full IFRSs that are not relevant for most SMEs,

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<sup>375</sup> Bertrand Collomb – prepared statement of vice chairman of the International Accounting Standards Committee Foundation, before the Open Coordinators Meeting of the Economic and Monetary Affairs Committee of the European Parliament, 10 July 2007

<sup>376</sup> Sir David Tweedie – IASB Chairman Addresses European Parliament, April 10, 2007

<sup>377</sup> David Tweedie, press release 21 June 2007

<sup>378</sup> Bertrand Collomb – prepared statement of vice chairman of the International Accounting Standards Committee Foundation, before the Open Coordinators Meeting of the Economic and Monetary Affairs Committee of the European Parliament, 10 July 2007

simplifies accounting recognition and measurement, and removes choices for accounting treatment<sup>379</sup>. The year 2009 is taking into consideration for having a workable and broadly accepted standard for SMEs.

The European and international context after 2006 and the last events induce us to give some appreciations of the accounting evolution in Romania and the future reform of accounting system in Romania:

- We believe the idea of a set of financial reporting standards for small and medium sized entities has not been skipped by the Romanian accounting normalization entity. Or this make us to consider, for the next future, the need for drawing up some new regulations which to be distinguished between entities, relating some seize criteria. IASB consider that it is inappropriate for him to prescribe what companies should or should not be able to use the IFRS for SMEs. So the national body must decide whether they can find inspiration in the IFRS for SMEs standard ;
- Including into the field of using the IFRSs of a larger number of entities;
- Transferring the powers of “full and omnipotent” normalization entity of the MOF to an independent body, even the CCRF (College of Accounting and Financial Reporting) in the first stage. Maybe I am too much optimistic, but this optimism is also based on the fact that MOF shall give up to its prerogatives in the field of accounting regulations on the pressures to be made by some bodies outside the country limit borders;
- The idea of drawing up some national accounting norms, as much as tempting should be, it really seems to be out of perspective. We notice during this work the nostalgic reaction of some individuals, concerning the drawing up of some accounting norms of European level. But, in the same time, it should be noticed their fairness, when they have appreciated that the recognition and unitary applying of IFRS is the policy to be supported and promoted taking into consideration the actual realities. Drawing up some national accounting norms it is not impossible to achieve, but the costs of such a process would be huge, and the effects, in the present conditions, would not be so profitable;
- Even if it wishes or not, EU has to recognize the achieved efforts on the line of convergence in the accounting field, process guided by the two accounting bodies IASB and FASB. Beneficiaries of this process’s results are also the European entities. Starting from the IASB achievements it is possible that once the IFRSs are elaborated for the small and medium seized entities to find within EU a great recognition. For EU, these IFRS could be compulsory for several categories of entities and thus Romania, member of EU, should take over the IFRS for SMEs in the Romanian accounting regulations.

## CONCLUSIONS

It could be said that on the international level and European one there are many events that make us to appreciate the dynamic changes, to which we assist, in the accounting field. We are contemporaneous with some changes which shall mark the accounting evolution on the national and international level. What it could be obviously noticed is the continuous increasing importance of IASB in the evolution of accounting regulations. If at its beginnings, this body was seen with skepticism, even with much reticence by the accounting environment these things are changed today. Through a slow but sure process, IASB achieves its proposed goals, becoming an important factor in the evolution of accounting regulations, both on international level and the European level.

Romania, through its regulatory body, must be connected to all these changes. From our point of view it is sure that we shall try to acquire “red points” for what the MOF shall achieve in the field of accounting regulations. It seemed that also the Minister of Public Finances Order 1752/2005 has represented a “red point” to which MOF presented before the Romanian accounting representatives. But is this really enough? Now really, is it not important to be recognized by those to which these regulations are intended to? As it can be noticed, the illusions that accounting profession has been made in the period 2000 – 2005 have dissipated very fast. However, the current trends are clearly outlined, and thus, Romania should circumscribes to these realities.

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<sup>379</sup> Sir David Tweedie – IASB Chairman Addresses European Parliament, April 10, 2007

But how to do this? Elaborating by your self accounting regulations which are not discuss with those who must apply them or with those which are the beneficiary of the accounting information drawn up with these norms? Now, when accounting is not so linked to fiscal matters why is so difficult to say from the MOF part: “it’s enough, the accounting rules, regulations or norms are not any more subject for my activity. I have other thinks on my mind!”

When we analyze the accounting changes in Europe and worldwide we so that the engine for all the progress are independent bodies. We know that every where the independence of these accounting bodies has a high price. But with tenacity and perseverance this goal can be achieved, even in Romania. The question is: Who is the most important “actor” of this process or who will take charge of it?

The accounting profession could be the most important “actor”. In actual context, the accounting profession is divided and we notice a lot of pressure from the MOF, so who is able to take charge? A body led by MOF or an independent body?

In Romania, we cannot find representatives from the accounting field which could be able to decide the path to be followed?

It is strange for me that the biggest entities from Romania do not make an efficient lobby in this direction. Are they satisfied about the accounting norms and regulations prepared by MOF? Or maybe, the questions must be put to the investors, banks, financial institutions, others users of the financial information’s.

If we are right or not, the future shall demonstrate it.

Regarding the accounting in international context, in 2006<sup>380</sup> I stated that we are just simple “viewers” of these anxieties, opinions, works, viewers who shall applause once as the “performance” is ending. But we could be some careful viewers, eager to acquire and take benefit of the participants’ achievements, participants who keep us in suspense until the end of the “show”. It is important to be connected with all this evolutions to keep the rhythm with the evolutions of accounting regulations on the European and international level. Who shall be the beneficiaries of these? The entities to which these regulations would be addressed and the users of information provided by financial statements.

For my point of view it is now the time to do more for the accounting regulation. We must learn from others. We must be consequent in what we do. Regarding behind, we see a lot of inconsistency in our actions. Now I think that we are able to provide a path to be followed in the future and to be willing to realize the proposed actions. But, again I would say, MOEF cannot realize all this thinks by himself. Maybe it the time for a change, a “wind of change” is waiting!

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<sup>380</sup> Neag Ramona – The Romanian Accounting regulation: what evolution, what perspectives?, International conference ICELM II, Tg. Mures, June 2006